

From: Cabinet Member - Finance	Report Number: BCa/17/36
To: Cabinet	Date of meeting: 7 December 2017

2018/19 General Fund Budget – Early Indication**1. Purpose of Report**

- 1.1 This report provides an update on the work that has been undertaken so far on the 2018/19 General Fund budget, explains the budget process and the approach taken, the current budget shortfall or surplus across the Medium Term Financial Strategy (MTFS) period, and the changes from 2017/18 to 2018/19.
- 1.2 To enable Members to consider the impact that key aspects will have on the 2018/19 Budget, including Council Tax Base, Council Tax and the New Homes Bonus.
- 1.3 The MTFS summary at Appendix A shows that currently Babergh has a shortfall in funding of £932k in 2018/19, excluding any use of New Homes Bonus. The current New Homes Bonus forecast for 2018/19 is £833k, which leaves a current deficit of £99k. However, this amount could reduce depending on the Governments decision on the New Homes Bonus allocation, as mentioned in paragraph 13.2 below.

2. Recommendations

- 2.1 That the progress on developing the General Fund budget for the period 2018/19 to 2021/22 and the intention to increase Council Tax in 2018/19 be noted.

Reason:

To ensure that Members are aware of the progress being made to set the 2018/19 budgets.

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 Councils' Significant Business Risks no. 5f. If we do not understand our financial position and respond in a timely and effective way, then we will be unable to deliver the entirety of the Joint Strategic Plan. The key risk at this stage is outlined 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.	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.

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 the Senior Leadership Team 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 budget 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 2018/19 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 10.4 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. Encouraging and supporting both business and housing growth is essential to the financial future of the Council.
- 10.2 The government has not announced any timeframes for the implementation of 100% business rates retention, but is indicating that the Fair Funding Review may be implemented in 2020/21. They are looking for local authorities to participate in further 100% retention business rates pilots in 2018/19. Babergh and Mid Suffolk along with the other five district councils in Suffolk and Suffolk County Council, submitted a business case at the end of October 2017, setting out how 100% retention of business rates growth could work in Suffolk. The Councils are awaiting the outcome of their submission, early indications are that the volume of submissions was high.
- 10.3 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.
- 10.4 The strategic response to those challenges, to ensure long term financial sustainability, is set out in seven 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).
 - (g) Business and Housing growth

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 2018/19.

- 10.5 The future funding of New Homes Bonus continues to remain an uncertainty, as funds are being increasingly diverted to social care. With this in mind, the intention is to strive for a position where the Council is no longer reliant on New Homes Bonus to balance the core budget.

11. Financial Position – General Fund

- 11.1 Funding arrangements for councils have changed significantly with the Revenue Support Grant decreasing from £504k in 2017/18 to an estimated £204k in 2018/19, a 59% reduction, followed by a tariff payable to central government of £131k in 2019/20. Prior to this, the Council has seen a 65% cumulative cut in revenue support grant over the four years from 2013/14 to 2017/18.
- 11.2 In 2016/17 central government asked councils if they wanted to receive certainty over the settlement numbers for the next three years and if so, 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. A similar response was submitted by 97% of local authorities. The recent 2018/19 Local Government Finance Settlement Technical consultation, asked the question again. The Council responded to this consultation, details can be found via the following link:

<http://www.babergh.gov.uk/the-council/consultations/archived-consultations/the-2018-19-local-govt-finance-ettlement-technical-consultation-response-oct-2017/>

The issue with this is that certainty now only goes to 2019/20, so the two years beyond that in our MTFs are currently based upon our professional advice and in light of the previous direction of travel.

- 11.3 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. As indicated in paragraph 10.5 above the national total for NHB is reducing, so significant housing growth will need to be achieved to match historic income levels.
- 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, but this is a complex area and difficult to predict with any degree of certainty.

12. Budget Process

- 12.1 In order to address the budget gap, both in the short and medium term the budget process for 2018/19 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 2017/18 budget increased for the pension fund deficit, pay award, and increments, however the numbers will be updated for the draft budget report that will be presented to this Cabinet in January.

- 12.3 Finance has worked closely with Corporate Managers and reviewed each budget in detail and taken a zero based budget approach again for each service, challenging budgets and focussing on the service needs.
- 12.4 The Deputy Chief Executive along with the Assistant Director for Corporate Resources undertook a piece of work throughout the summer where they reviewed every budget, line by line with the Corporate Manager for Finance and the Senior Business Partner, challenging the budget and exploring opportunities for savings or income generating ideas. Senior Leadership Team provided further challenge and review to these suggestions, and this work along with detailed budget discussions with the Corporate Managers delivered savings for the 2018/19 budget and for future years. However, this review has also identified some cost pressures, a full list of the current changes from the 2017/18 budget to the 2018/19 budget can be found at Appendix B.
- 12.5 There is still some work to complete before the Council are in a position to present a full draft balanced budget for 2018/19 and a forecast medium term position.
- 12.6 Work continues across the councils on the capital investment strategy, public realm review, and the leisure strategy review. Work will also continue on staffing budgets, as mentioned in 12.2 above, PV panel, planning income budgets, business rates, capital financing, and capital budgets. The financial implications of all of these will be finalised over the coming weeks and will form part of the budget report presented to Cabinet in January.

13. MTFS Summary

- 13.1 The MTFS summary at Appendix A shows that currently Babergh has a shortfall in funding of £932k in 2018/19, excluding any use of New Homes Bonus. The current New Homes Bonus forecast for 2018/19 is £833k, which leaves a deficit of £99k.
- 13.2 There are several assumptions that can significantly impact on the Councils financial position as follows:

- New Homes Bonus

New Homes Bonus (NHB) allocation has reduced from 5 years in 2017/18, to 4 years in 2018/19 onwards, as shown in the table below. The current forecast growth as at Oct 2017 is 320 Band D equivalents, but with the baseline currently set at 0.4%, this equates to 152 band D Equivalents before any New Homes Bonus is awarded. Therefore, the total number of dwellings attracting New Homes Bonus equates to 168 band D Equivalents, or £205,935. Future years growth is based on the 2018/19 growth. The average 5 year delivery covering the period 2011/12 to 2016/17 equates to 213 new homes. These are dwellings that have been brought into use; there may be a delay in the time taken from granting planning permission to when the dwellings are brought into use.

Central government are again seeking views on further changes to New Homes Bonus allocation through the 2018/19 Local Government Finance Settlement Technical consultation. They are seeking views on not allowing New Homes Bonus on applications approved on appeal and a potential change to the current 0.4% baseline of growth before payments are received. The Council responded to this consultation, details can be found via the link mentioned in 11.2 above.

The Council are awaiting the outcome of this consultation, but further information may be contained within the Autumn Statement in November, if so, a verbal update will be provided at the meeting. The minimum that will be received is £626k based on years 5, 6 and 7 shown in the table below.

The table below shows the forecast New Homes Bonus allocation across the MTFS period. The minimum figure at the bottom of the table, (line 37 on Appendix A) assumes no growth beyond year 8.

	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22	2022 / 23
Cumulative Receipts	£	£	£	£	£	£
Receipts for Year 1						
Receipts for Year 2						
Receipts for Year 3	226,091					
Receipts for Year 4	359,558					
Receipts for Year 5	387,158	387,158				
Receipts for Year 6	176,600	176,600	176,600			
Receipts for Year 7	62,820	62,820	62,820	62,820		
Receipts for Year 8		205,935	205,935	205,935	205,935	
Receipts for Year 9			201,591	201,591	201,591	201,591
Receipts for Year 10				212,551	212,551	212,551
Receipts for Year 11					210,942	210,942
Receipts for Year 12						209,333
Total Receipts	1,212,228	832,513	646,947	682,897	831,019	834,417
Minimum Figs		832,513	445,356	268,755	205,935	0

There are two other New Homes Bonus calculations shown in the MTFS. One uses the 5-year average of the number of homes built, line 35 on Appendix A. This is calculated using the average delivery of housing growth from 2012 to 2017. The other New Homes Bonus calculation shown on line 36 on Appendix A, is the projected completions of homes built from the Planning Department.

- 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 assumption made within the MTFS reflects the current tax base for 2018/19 of 1.02% and equates to a reduction of £19k council tax income. Each year, for the period 2019/20 to 2021/22, a 1.5% increase to the tax base has been included.

- Council Tax Increase

The government have recently consulted on the continuation of the council tax referendum threshold at 2%, and for district councils £5, whichever is greater. Babergh's response to this consultation can be found via the link in 11.2 above. We are still awaiting the outcome of this consultation, but at this point in time, the MTFS assumes the Council will be looking to increase council tax by the maximum amount in 2018/19 without the need for a referendum. A 2% increase

would generate additional income of £100k and a £5 increase would generate an additional £235k.

- 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 full draft budget for 2018/19 and a forecast medium term position. Key items not yet included within the numbers presented in this report are:
- Business Rates forecasts
 - Planning Income budget review
 - PV Panel Income budget review
 - Capital Financing Charges
 - Public Realm Review
 - Leisure Review
 - Final salary costs
- 13.5 The forecast MTFs shows that beyond 2018/19 the financial position worsens, Appendix A (line 34). If the Council were to receive and utilise all of the forecast minimum New Homes Bonus, the cumulative shortfall would be £708k for 2019/20, £906k for 2020/21 and £1,007k by the time it reaches 2021/22.

14. Appendices

Title	Location
APPENDIX A – Medium Term Financial Strategy	Attached
APPENDIX B – Year on Year changes	Attached

15. Background Documents

The 2018-19 Local Government Finance Settlement

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APPENDIX A

BABERGH MTF5 SCENARIO - 18/19 ONWARDS

Line	Description	2017/18	2018/19	2019/20	2020/21	2021/22
		Budget £000	Budget £000	Forecast £000	Forecast £000	Forecast £000
1	Expenditure	36,811	36,552	36,866	37,281	37,675
2	Income (incl.S31 B/Rates Grant)	(26,238)	(26,446)	(26,257)	(26,320)	(26,386)
3	New Homes Bonus Income	(1,212)				
4	Capital Financing Charges	920	1,015	1,229	1,256	1,253
5	Investment Income	(922)	(1,204)	(1,717)	(1,788)	(1,785)
6	Charge to HRA	(1,138)	(1,160)	(1,184)	(1,207)	(1,231)
7	Charge to Capital	(407)	(415)	(423)	(432)	(441)
8	Transfers to Reserves					
9	New Homes Bonus	1,212				
10	S31 Business Rates Grant	650	788	788	788	788
11	Other	23	20	20	20	20
12	Net Service Cost	9,700	9,149	9,323	9,597	9,893
13	Funding:					
14	Other Earmarked Reserves					
15	Transformation Fund - DP Project (Staffing)	(484)				
16	New Homes Bonus	(713)				
17	S31 Business Rates Grant	(650)	(788)	(788)	(788)	(788)
18	Government Support					
19	(a) Baseline business rates	(1,997)	(2,123)	(2,123)	(2,123)	(2,123)
20	(b) B/Rates – growth/pooling benefit	(109)	(211)	(211)	(211)	(211)
21	(c) B/Rates Levy		475	475	475	475
22	(e) Revenue Support Grant	(504)	(204)	-	-	-
23	(f) RSG Tariff	-	-	131	131	131
24	(g) Rural Services Delivery Grant	(182)	(140)	(182)	(182)	(182)
25	(h) Transition Grant	(22)	-	-	-	-
26	Collection Fund surplus	(40)	(12)	(12)	(12)	(12)
27	Council Tax (£5 increase to Band D)	(4,929)	(5,163)	(5,381)	(5,630)	(5,884)
28	Growth in taxbase	(70)	(51)	(79)	(82)	(86)
29	Total Funding	(9,700)	(8,217)	(8,170)	(8,422)	(8,681)
30	2018/19	0	932	932	932	932
31	2019/20			220	220	220
32	2020/21				22	22
33	2021/22					38
34	Shortfall in funding / (Surplus Funds) - cumulative	0	932	1,153	1,175	1,213
35	Estimated New Homes Bonus (5 year average of No of houses built)		(843)	(517)	(414)	(423)
36	Estimated New Homes Bonus (projected completions)		(851)	(948)	(1,299)	(1,629)
37	Minimum New Homes Bonus		(833)	(445)	(269)	(206)
38	Council Taxbase	1.50%	1.02%	1.50%	1.50%	1.50%
39	Band D Council Tax	3.40%	3.25%	3.15%	3.05%	2.96%
40	Band D Council Tax	£153.86	£158.86	£163.86	£168.86	£173.86

APPENDIX B

BABERGH - MOVEMENT YEAR ON YEAR	17/18 to 18/19 £000	18/19 to 19/20 £000	19/20 to 20/21 £000	20/21 to 21/22 £000
Net Service Cost previous year	9,700	9,160	9,333	9,608
<u>Cost Pressures</u>				
<u>Inflation</u>				
Employees - cost of living	137	142	148	154
Employees - increments	137	142	148	154
Employees - deficit pension fund change	-	-	-	-
Other Employee costs	1	1	2	2
Contracts	60	84	85	87
Premises	-	-	-	-
Supplies & Services	8	8	9	10
Insurance Premiums	5	5	5	5
Business Rates	10	11	11	12
Sub total cost pressure	358	393	408	423
<u>Other increases to net service cost</u>				
<u>Communities and Public Access</u>				
Car Park income - revision of budgets (ECNs)	37			
<u>Corporate Resources</u>				
Staffing Costs - Commissioning & Procurement	9			
Reduction to income received for Credit Card charges.	6			
Phased reduction of general savings	20	20	20	20
Shared Revenues Partnership contract increase	20			
<u>Law & Governance</u>				
Staffing costs - Graduate Scheme	26	(13)		
<u>Environment and Projects</u>				
Staffing costs - Building Control	9			
Reduction to Building Control Income	22			
<u>Waste</u>				
Glass collection service	22			
Recycling Performance Payments		250		
<u>Investment and Commercial Delivery</u>				
Borehamgate - reduction in rental income	14			
<u>Law & Governance</u>				
Staffing costs - Internal Audit	20			
<u>Planning for Growth</u>				
Staffing costs - Environmental protection	10			
Staffing costs - Development Management (funded from 20% inc to planning fees)	112			
<u>Property Services</u>				
Belle Vue House - reduction in rental income	22			
Wenham Depot - reduction to rental income	10			
<u>Other Cost Pressures</u>				
Modern Apprentice Levy - net cost	12	1	1	1
SLT allowances	6			
Sub total other increases to net service cost	376	258	21	21

Actions to offset increases to net service cost				
Inflation - income	(60)	(61)	(63)	(65)
Recharge to HRA/Capital	(32)	(33)	(34)	(34)
<u>Communities and Public Access</u>				
Staff costs - Arboriculture	(8)			
Miscellaneous Supplies & Services	(2)			
Increase to fees for dog & litter bin emptying	(2)			
<u>Corporate Resources</u>				
Staff costs - Commissioning & Procurement	(26)			
Contracted services (Vertas)	(3)			
Stationery	(10)			
Staff costs - Finance	(2)			
Corporate Training	(10)			
I-Trent	(7)			
<u>Senior Leadership Team</u>				
Miscellaneous Supplies & Services	(1)			
<u>Environment and Projects</u>				
Energy Proficiency Certificates (SAPs) income	(7)			
Income for Food Hygiene Rating System rescore visits	(3)			
Reduction of payments to third parties for Bring sites - Glass & Textile recycling	(18)			
<u>Law and Governance</u>				
Course conference fees for members	(4)			
Impact of the Boundary Review		(20)		
Alignment of Chairmans expenses	(7)			
<u>Law & Governance</u>				
ICT - 4 vacant posts	(89)			
<u>Planning for Growth</u>				
Reduction of License costs for UNIFORM	(39)			
Planning fee income (20%)	(101)			
<u>Corporate Resources</u>				
Management Review Savings	(160)			
<u>Other Savings</u>				
Increase vacancy management contingency to 2.5%	(78)	(76)	(7)	(8)
Removal of TF funded posts	(415)			
Reduction of transfer to reserves	(3)			
Interest payable / receivable	6	-	-	-
Pooled Funds income (net of management fees)	6	4	4	4
CIFCO	(201)	(302)	(49)	(5)
Accommodation - All Together	(11)	11	(5)	(39)
Sub total actions	(1,285)	(478)	(154)	(147)
Total Net Service Cost movement	(551)	173	275	296
New Net Service Cost	9,150	9,323	9,598	9,894

APPENDIX B

BABERGH - MOVEMENT YEAR ON YEAR	17/18 to 18/19 £000	18/19 to 19/20 £000	19/20 to 20/21 £000	20/21 to 20/22 £000
Funding previous year	(9,700)	(8,217)	(8,170)	(8,422)
Cost Pressures				
Movement in Reserves	1,059	-	-	-
Business Rates - levy	475			
Reduction to Revenue Support Grant	300	204	-	-
Change to collection fund surplus	28			
Change to Transition Grant	22			
Change to Rural Services Support Grant	42	(42)	-	-
Sub total cost pressure	1,926	162	-	-
Savings / Actions to increase funding				
Business Rates - baseline	(17)	-	-	-
Business Rates - pooling benefit	(211)			
Business Rates - tariff	-	131	-	-
Business Rates - prior yr surplus/deficit				
Change to Transition Grant				
Council Tax - prior yr surplus/deficit	-	-	-	-
Council Tax (£5 increase to Band D)	(234)	(218)	(248)	(255)
Growth in taxbase	19	(28)	(4)	(4)
Sub total savings /actions to increase funding	(443)	(115)	(252)	(258)
New Year Funding	(8,217)	(8,170)	(8,422)	(8,681)
Annual Budget (surplus)/deficit	932	220	22	38
Total 4 year (surplus)/deficit				1,213