

This Report will be made public on 7 November 2016

**Folkestone**

Hythe & Romney Marsh  
Shepway District Council



Report Number **C/16/75**

**To: Cabinet**  
**Date: 16 November 2016**  
**Status: Key Decision**  
**Head of Service: Pat Main, Head of Finance**  
**Cabinet Member: Councillor David Monk, Leader of the Council,  
Councillor Susan Carey, Finance.**

**SUBJECT: BUDGET STRATEGY 2017/18**

**SUMMARY:**

This Budget Strategy sets out the guidelines for preparing the 2017/18 Budget. The Strategy supports the Corporate Plan and aligns with the direction and objectives of the Medium Term Financial Strategy (MTFS).

The Budget Strategy takes account of current and future financial issues; sets out assumptions and initial proposals; and provides a timetable for delivering a balanced budget in 2017/18.

**REASONS FOR RECOMMENDATION:**

Cabinet is asked to agree the recommendations set out below because:-

- (a) The Budget Strategy will assist in providing the framework within which the detailed budget is compiled.
- (b) A Strategy needs to be agreed that will support the delivery of the MTFS.
- (c) The council's constitution requires approval of such a strategy at least two months in advance of the budget being set.

**RECOMMENDATIONS:**

- 1. To receive and note report C/16/75.
- 2. To approve the Budget Strategy for 2017/18 set out in this report.
- 3. To approve the General Fund revenue growth proposals for 2017/18 (Appendix 2).
- 4. To approve the General Fund revenue savings proposals for 2017/18 (Appendix 3).

- 5. To approve the General Fund capital growth proposals for 2017/18 (Appendix 4)**
- 6. To agree the proposed timetable for 2017/18 (Appendix 5).**

## 1. INTRODUCTION

- 1.1 The Constitution requires that 'no less than two months before any plan, strategy or budget that forms part of the Budget and Policy Framework needs to be adopted, the Cabinet will publish initial proposals and a timetable to council'.
- 1.2 This Budget Strategy covers those requirements, setting out the initial proposals and a timetable that will be used to inform the setting of the detailed budget for 2017/18. The Budget Strategy is consistent with the direction and objectives of the updated MTFS.
- 1.3 The MTFS and Budget Strategy are aligned with the council's strategic financial objectives, which are:

- To maintain a balanced General Fund budget such that expenditure matches income from Council Tax, Business Rates, fees and charges and government and other grants to maintain that position.
- To maximise the council's income by setting fees and charges, where it has the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs.
- To only incur additional spending when matched by increased income or identified budget savings.
- To set a rate for Council Tax which maximises income necessary for the council to deliver its strategic objectives but ensures that any government referendum limit is not exceeded. The % increase will be reviewed annually.
- To ensure resources are aligned with the council's strategic vision and corporate priorities.
- To actively engage local residents and other interested stakeholders in the financial choices facing the council.
- To maintain an adequate and prudent level of reserves.

## 2. CURRENT FINANCIAL POSITION

### 2015/16 Outturn

- 2.1 The final surplus to the General Fund Reserve for the year was £61k, which was £157k more than the budgeted withdrawal of £96k. The net transfer to Earmarked Reserves was £1.221m compared to a budgeted use of £1.271m. Overall, the addition to the General Fund Reserve was £61k.
- 2.2 Over recent years, Shepway has established a good track record of maintaining a healthy reserves position. This enables the council to have greater stability and resilience for dealing with current and future financial challenges and uncertainties.

- 2.3 In their Audit Findings Report 2015/16 to Audit and Governance Committee on 23 September 2016 Grant Thornton confirmed that the council has proper arrangements in place to secure value for money in its use of resources in addition to an unqualified statement of accounts.

#### 2016/17 Forecast Outturn

- 2.4 The 2016/17 Quarter 2 General Fund Revenue Budget Monitoring Report was reported to Cabinet on 19 October. Based on information to 31 August, 2016 there is a projected deficit of £2,827m against the latest approved estimated deficit of £2.588m. This represents a deterioration of £239k from Quarter 1.
- 2.5 The main reasons for the projected deficit were delays in implementing digital transformation of the Revenues and Benefits service and budgetary pressures arising from late payment of Housing Benefit subsidy which has been investigated further and is now anticipated to have been resolved by year end.
- 2.6 The Quarter 2 HRA Monitoring report to Cabinet on 18 October, set out the likely outturn for HRA revenue and capital expenditure for 2016/17. The projections, based on actual expenditure and income to 31 August 2016, show there is a projected decrease in net expenditure of £5.2m on the HRA and an underspend of £3.4m on the capital programme against the £12.4m capital programme.
- 2.7 The latest projection for the General Fund capital programme, also reported to Cabinet on 19 October, shows a reduction in planned capital expenditure of about £2.0m against the latest budget. The main reason for the reduction is the rephasing of the council's funding of Oportunitas Limited's phase 2 housing acquisitions programme to 2017/18 and beyond. The Quarter 2 projection is fully funded.

#### Government Funding

- 2.8 In February 2016, the Secretary of State for the Department for Communities and Local Government announced the final local government finance settlement 2016/17. This announcement followed on from consultation on the provisional settlement.
- 2.9 The main points of note from the settlement relevant for this Council are as follows:

| Settlement Funding                              | 2015/16<br>£'000 | 2016/17<br>£'000 | Change<br>£'000 |
|---|------------------|------------------|-----------------|
| Revenue support grant                           | 2,753            | 1,736            | <b>(1,017)</b>  |
| Baseline funding                                | 3,388            | 3,416            | 28              |
| 2015/16 Freeze Grant*                           | 100              | -                | (100)           |
| <b>Settlement funding assessment</b>            | <b>6,241</b>     | <b>5,152</b>     | <b>(1,089)</b>  |
| 2016/17 Estimate (December 2015)                | n/a              | 5,576            |                 |
| <b>Reduction in funding compared to 2015/16</b> | <b>n/a</b>       | <b>(1,089)</b>   | <b>(17.4%)</b>  |

\*2015/16 freeze grant is included within 2016/17 funding assessment

- 2.10 The table above shows that the Council's funding was reduced by £1.1m (17.4%) in 2016/17. This reduction was £0.4m more than originally expected. This was due to Government applying a new methodology for determining allocations. The approach takes into account individual authorities' council tax raising ability and the types of services provided. Overall, the change appears to have disadvantaged district councils. Whilst the budget for 2016/17 has been balanced, the impact of the reduced funding brought added pressure to future projections within the MTFS.
- 2.11 In December 2015 the Government issued a consultation on 'Sharpening the Incentive' which broadly proposed reducing New Homes Bonus by a third and using the savings to fund social care by moving from a six year to a four year payment cycle, along with reform of the scheme to better reflect local authorities' performance on housing growth. Shepway currently receives £1.9m in New Homes Bonus; half of this funding is used to support services with the remaining amounts being set aside within a reserve to fund the additional cost of services. The outcome of this consultation is still awaited.
- 2.12 The Government has also set out indicative figures to allow councils to apply for a four year settlement and make more flexible use of capital receipts. This offer is to the end of the current Parliament and permits councils to plan with greater certainty. In September 2016 the Council approved an efficiency plan within its MTFS that demonstrates that the Council can effectively manage its finances over this timeframe. The Government has been formally notified of the council's efficiency plan approval and intention to participate.
- 2.13 Local government overall currently retains a 50 per cent share of business rate income and the Government has recently consulted on a proposed to move to 100 per cent by 2020/21. The council has submitted its response to the consultation proposals and awaits further information about how this system will work, in particular what additional responsibilities will have to be taken over by local government under these new arrangements.
- 2.14 The Valuation Office Agency has now published the outcome of the 2017 business rates revaluation which increases the business tax base for Shepway district from £73.6m to £78.6m, an increase of 6.8% in rateable value. This revaluation is intended to be fiscally neutral; under rating statute the amount of revenue collected across England cannot increase as a result of revaluation. However there is some risk that the new rating list will lead to an increase in appeals activity; the Government is implementing changes to the appeals process to inhibit speculative appeals.
- 2.15 In September 2016 the Government published a technical consultation paper on the approach to the 2017/18 local government finance settlement. The consultation also reconfirms the Government's commitment to the 4-year settlement offer and seeks views on expanding

this offer. It also outlines a number of measures that are relevant to district councils:

- The approach to council tax referendum principles for 2017/18, including once again a core principle of 2%, and a continuation of the Adult Social Care precept of an additional 2%.
- A proposal for a referendum principle of 2% for the larger, higher-spending town and parish councils, with consideration being given to extending the principle to all local precepting authorities.

The proposed approach for adjusting business rates retention tariffs and top ups to cancel out, as far as is practicable, the impact of the 2017 business rates revaluation on local authorities' income.

- The consultation also proposes measures to enable certain local authorities to pilot 100% business rates retention, designed to ensure that other authorities are not adversely affected by these pilots, together with measures covering the allocation of funding streams within devolution deal areas, if all affected councils agree.

### **3.0 2017/18 FINANCIAL FORECAST**

#### Medium Term Financial Strategy (MTFS)

- 3.1 The MTFS is the council's key financial planning document. It links the council's strategic priorities with the financial resources required to deliver them. The MTFS covers a four year period, providing the context and framework within which the Budget Strategy is prepared, and considers the implications of the council's approved priorities. It also takes in to account the uncertainty surrounding the financial climate that the council is working within. The MTFS is updated each year.
- 3.2 The MTFS 2017/18 to 2020/21 was approved by Council on 14 September and highlights some key issues which will need to be tackled. The overriding financial challenge facing the authority is the projected funding gap of £3.052m over the next four years. The main reasons for this are: the reduction in revenue support grant provided by central government; ongoing pressures from inflation; energy costs; legislative changes; and the general economic climate.
- 3.3 As explained above, there is also ongoing uncertainty around other central government funding sources, including new homes bonus and retained business rates.
- 3.4 The MTFS forecasts a deficit of £1.5m in 2017/18. This Budget Strategy explains the assumptions underlying this forecast (Section 4 below) and proposals for addressing next year's funding gap (Section 5 below).

#### Reserves

- 3.5 Total General Fund reserves at 31 March 2016 amounted to £16.7m, of which £5.7m is held within the General Reserve. The table below shows projected reserves before any application towards new growth.

**Table 2: General Fund Reserves**

| Description of Reserve             | Balance         | Projected                  | Projected                  |
|------------------------------------|-----------------|----------------------------|----------------------------|
|                                    | 31/3/16<br>£000 | Balance<br>31/3/17<br>£000 | Balance<br>31/3/18<br>£000 |
| <b>General Reserve</b>             | <b>5,707</b>    | <b>3,943</b>               | <b>3,973</b>               |
| <b>Earmarked Reserves:</b>         |                 |                            |                            |
| Business rates                     | 2,457           | 1,519                      | 1,054                      |
| Invest to save                     | 381             | 381                        | 366                        |
| Carry forwards                     | 1,650           | 257                        | 257                        |
| IFRS                               | 85              | 67                         | 49                         |
| Corporate Property                 | 20              | 0                          | 0                          |
| Vehicles, equipment and technology | 942             | 619                        | 640                        |
| New Homes Bonus initiatives        | 1,757           | 2,356                      | 2,384                      |
| Corporate plan initiatives         | 1,227           | 606                        | 345                        |
| Maintenance of Graves              | 12              | 0                          | 0                          |
| Leisure                            | 247             | 146                        | 196                        |
| Economic Development               | 2,251           | 487                        | 300                        |
| <b>Total Earmarked Reserves</b>    | <b>11,031</b>   | <b>6,438</b>               | <b>5,591</b>               |
| <b>Total General Fund Reserves</b> | <b>16,738</b>   | <b>10,381</b>              | <b>9,564</b>               |

#### 4.0 BUDGET ASSUMPTIONS

4.1 Appendix 1 summarises the changes between the 2016/17 and 2017/18 budgets that have been taken into account in the MTFS. These changes comprise:

|  | £'000        |
|--|--------------|
| <b>2016/17 Base</b>                                    | <b>0</b>     |
| Inflationary Pressures                                 | 348          |
| Corporate Funding Changes (Net)                        | (1,050)      |
| Approved Service Changes (Net)                         | 3            |
| Contributions To/(From) Reserves                       | 2,203        |
| <b>2017/18 Budget Deficit Before Savings Proposals</b> | <b>1,504</b> |

The key assumptions are listed below.

#### MTFS Funding Assumptions 2017/18

4.2 Revenue Support Grant lower tier funding, is assumed to reduce by 51% (£888k) from the 2016/17 grant.

- 4.3 Income from Business Rates has been based on last year's estimates, pending a full review. The MTFs shows a 2.8% increase compared to 2016/17 but this area remains volatile during the move towards 100% retention with potential additional cost burdens.
- 4.4 A council tax increase of 2% has been assumed (being the maximum without a referendum).
- 4.5 A projected Collection Fund net deficit recovery of £51k is taken into account for 2017/18, compared to a net surplus of £589k that was applied in 2016/17.

#### MTFS Cost Assumptions 2017/18

- 4.6 Unallocated net employee costs amount to £292k, covering the estimated costs of a salary award, salary increments, savings from unfilled vacancies, an estimate of the impacts of the local government pension fund valuation and the cost of the new apprenticeship levy.
- 4.7 Contract inflation of £116k has been included in the non-pay budget forecast.
- 4.8 An increase of 2% has been assumed in relation to the Internal Drainage Board levy.
- 4.9 Net Interest shows a cost of £113k compared to the 2016/17 projection.

### **5.0 2017/18 BUDGET PROPOSALS**

- 5.1 The council will continue to use a range of approaches to address the deficit in the short and medium term, including:
- Reviewing the level of council tax
  - An annual review of fees and charges
  - Pursuing alternative income streams
  - Continuing the use of digital technologies to transform services
  - Making the most of commercial opportunities
  - Growing the local economy
  - Reviewing all services to generate efficiencies
  - Containing new budget pressures within allocated resources, and
  - Considering the use of reserves to help manage year on year variations in income and expenditure.

#### Budget Savings and Efficiencies 2017/18

- 5.2 A rigorous review of the 2016/17 base budget and previous years' outturns was undertaken by the CMT with service heads commencing in April 2016. This review identified potential savings and efficiencies of £1.19m in total; these options were taken into account when preparing the MTFs. Further work has been carried out to refine the proposals resulting in some amendments to details of the original saving and efficiency options; the total value of proposals is now £1.27m (details at Appendix 3).

#### Fees and Charges 2017/18



- 5.3 A review of fees and charges has been undertaken and the outcome has been included in a separate Fees and Charges Report to this meeting. Consequent increases in income receivable have been taken into account in the budget proposals for 2017/18.

Budget Growth 2017/18

- 5.4 Service heads and budget holders were also asked to identify growth items that would help ensure future service sustainability and to identify unavoidable budget pressures. These total £311k and are detailed at Appendix 2.
- 5.5 Based on the work already undertaken, the current funding gap is set out below. Members should note that this position will change as more detail becomes available.

| <b>Table 4: Funding Gap 2017/18</b>    | £'000      |
|--|------------|
| Forecast deficit – September 2016 MTFS | 1,504      |
| Less: further savings and efficiencies | (1,272)    |
| Add: budget growth proposals           | 311        |
| Less: New Homes Bonus Funding 2016/17  | (347)      |
| <b>Latest projected deficit</b>        | <b>196</b> |

- 5.6 Options for addressing the £196k deficit for 2017/18 are now being considered in preparation for the detailed budget report to Cabinet on 20 December and will take into consideration:
- Any new factors affecting local government funding arising from the Chancellor's Autumn Statement on 23 November and the Government funding settlement announcements in December/early new year
  - The budget implications of the revised local Council Tax Reduction Scheme
  - Further use of New Homes Bonus resources
  - Collection Fund surplus/deficit assumptions, with reference to the latest in-year collection performance
  - The outcome of the actuarial valuation of the local government pension fund, and
  - The outcome of ongoing work to review the revenue budget savings and growth proposals at Appendices 2 and 3.

**6.0 HOUSING REVENUE ACCOUNT (HRA)**

- 6.1 This Budget Strategy does not explore the Housing Revenue Account further as the council approved on 23 March 2016 a HRA business plan for the period 2016 to 2046. This includes the impact of the 1% housing rent reduction which was announced by the Chancellor in July 2015 budget as well as the continuation of the new build capital programme.
- 6.2 The detailed 2017/18 HRA revenue and capital budgets that will be submitted to Cabinet in December 2016 will be consistent with the agreed business plan.

## 7.0 CAPITAL PROGRAMME

- 7.1 As part of the Budget Strategy, Cabinet is asked to consider the proposals for new capital schemes to be included in the council's General Fund Capital Programme for 2017/18. Any new capital scheme to be included in the programme will need to contribute to the objectives set out in section 1.3 of this report. New General Fund capital scheme proposals of £136k for 2017/18 are shown in Appendix 4 to this report. Additionally the council's General Fund Medium Term Capital Programme (MTCP) will need to be updated to include recurring schemes planned to continue over the 5 year period to 2021/22. The council's other major capital investment initiatives, such as Otterpool Park and Princes Parade, remain to be reported in detail to Members for approval. The capital programme implications of these schemes will be included in budget reports following this approval.
- 7.2 All proposed changes to the council's General Fund MTCP are required to be approved by full Council as part of the budget setting process.
- 7.3 Capital Receipts – The existing MTFS states that a minimum of £0.5m in capital receipts must be retained as a contingency to meet urgent or unforeseen capital expenditure. The council's general policy is that only capital receipts received should be earmarked to fund capital projects. The only departure from this is ring-fencing the use of future repaid decent homes loans and home safe loans receipts to be reinvested in further private sector housing improvement loans. The latest position regarding the council's available capital receipts to fund capital expenditure, based on the 2<sup>nd</sup> quarter's capital budget monitoring for 2016/17, is shown in the following table:

| <b>Capital Receipts Position Statement</b>                  | <b>£'000</b> |
|---|--------------|
| Receipts in hand at 31 August 2016                          | (7,452)      |
| Less:   |              |
| Committed towards General Fund capital expenditure          | 1,859        |
| Committed towards HRA capital expenditure                   | 3,011        |
| Ring-fenced for specific purposes                           | 1,694        |
| Contingency for urgent or unforeseen capital expenditure    | 500          |
| <b>Balance available to support new capital expenditure</b> | <b>(388)</b> |

- 7.4 Over the term of the MTFS the council expects to receive approximately £3m in capital receipts which it could choose to use to fund its future capital expenditure plans or retain for investment purposes. This excludes 'Right to Buy' disposals of council dwellings where the retained element of capital receipts are required to be reinvested directly in local social housing initiatives. This also currently excludes any potential future capital receipts that may be generated through the council's current 'invest to save' initiatives.
- 7.5 Other Capital Funding Sources - In addition to the available capital receipts, the council can choose to use its revenue resources (earmarked revenue reserves and balances) or consider prudential borrowing to fund its General Fund capital expenditure plans. Prudential borrowing will incur a revenue cost to the General Fund in terms of interest and a minimum

revenue provision charge (MRP). Therefore, prudential borrowing is best suited to capital ‘invest to save’ projects, such as Otterpool Park and Princes Parade, that will provide a net long term financial return to the council allowing for these costs.

- 7.6 Any capital scheme included in the approved capital programme requiring external grant funding to support it will only be allowed to commence once a formal funding agreement has been established between the council and the relevant funding body.

## 8.0 THE BUDGET TIMETABLE

- 8.1 By early March each year the council is required by law to approve its Budget (revenue, capital and HRA) and Council Tax levels for the forthcoming year. The council meets in February to do this. Advance notice is given in the publication of key decisions to be made.
- 8.2 Detailed guidance on the annual budget preparation process was circulated to officers on 17 August 2016. This guidance covered roles and responsibilities; the links between finance and service planning; expected standards and approach; and the timetable for preparing the 2017/18 Budget.
- 8.3 The 2017/18 Budget timetable is attached at Appendix 5.

## 9.0 BUDGET CONSULTATION

- 9.1 The objectives for consultation on the 2017/18 budget proposals are to:
- (i) Engage with key stakeholder groups and local residents;
  - (ii) Seek feedback on specific budget proposals for 2017/8; and
  - (iii) Seek feedback on general spending and income generation priorities

### Consultation Timetable and Approach

| <b>Date</b>     | <b>Activity</b>   | <b>Objectives</b>  |
|-----------------|---|--|
| Mon 7 November  | Launch consultation on SDC website<br>Social Media<br>Press release | <ul style="list-style-type: none"> <li>• Raise awareness of budget challenges and opportunities</li> <li>• Invite feedback and publicise ways to provide it</li> </ul> |
| During November | Engagement at meetings with Business and Community Groups           | <ul style="list-style-type: none"> <li>• Raise awareness of budget challenges and opportunities</li> <li>• Invite feedback</li> </ul>                                  |
| Tues 6 December | Informal Cabinet consider feedback received                         | <ul style="list-style-type: none"> <li>• Demonstrate willingness to consider options</li> </ul>  |
| Wed 14 December | Cabinet approve final budget recommendations                        | <ul style="list-style-type: none"> <li>• Informed choices</li> </ul>   |

### Target audience

| <b>Group</b> | <b>Channel</b>  |
|--------------|---|
| Residents    | <ul style="list-style-type: none"> <li>• Council website and social media</li> <li>• Online survey</li> </ul> |

- Dedicated e-mail address
- Option to receive/submit information by post

Business Community

- Attendance at Shepway Business Advisory Board

Other Community Groups

Direct engagement with:

- Community Safety Partnership
- Shepway Homelessness Forum
- Shepway Older Person's Forum
- Shepway Employment and Training Forum
- Voluntary and Community Sector Forum
- Youth Advisory Group

Town and Parish Councils.

Direct communication to invite feedback.

## 10.0 RISK MANAGEMENT ISSUES

10.1 A summary of the perceived risks follows:

| Perceived risk  | Seriousness | Likelihood | Preventative action  |
|---|-------------|------------|--|
| MTFS becomes out of date.   | High        | Low        | The MTFS is reviewed annually through the budget process.  |
| Assumptions may be inaccurate.                                      | High        | Medium     | Budget monitoring is undertaken regularly and financial developments nationally are tracked. Assumptions are regularly reviewed. |
| Budget strategy not achieved.                                       | High        | Low        | The budget making process is controlled closely with regular reconciliations against projections.                                |
| Incorrect assessment of Local Government Finance Settlement impact. | High        | Low        | Figures provided by Central Government have been used. The December Autumn Statement will inform latest forecast.                |

## 11.0 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

### 11.1 Legal Officer's Comments (DK)

Subject to Cabinet ensuring best value and having regard to its general fiduciary duties and those relating to equality, there are no legal implications arising directly out of this report

### 11.2 Finance Officer's Comments (PM)

The Budget for 2017/18 will be submitted to council in February 2017. This Budget Strategy is the first stage in the detailed budget process and will be used to inform the preparation of estimates.

### 11.3 **Diversities and Equalities Implications (PM)**

The budget report to Full Council in February 2017 will include an Equality Impact Assessment of the budget recommendations for 2017/18.

## 12.0 **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Pat Main, Head of Finance  
Tel: 01303 853387  
E-mail: [pat.main@shepway.gov.uk](mailto:pat.main@shepway.gov.uk)

The following background documents have been relied upon in the preparation of this report:

None

### **Appendices:**

- Appendix 1 – Change from 2016/17 base to 2017/18
- Appendix 2 – General Fund Revenue Growth Proposals
- Appendix 3 – General Fund Revenue Savings Proposals
- Appendix 4 – Capital Programme Growth Proposals
- Appendix 5 – Budget Timetable