

This report will be made public 12 December 2016

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report **C/16/86**

To: Cabinet
Date: 20 December 2016
Status: Key Decision
Head of Service: Pat Main, Head of Finance
Cabinet Member: Councillor Ms Susan Carey - Finance

SUBJECT: DRAFT GENERAL FUND BUDGET 2017/18

SUMMARY: This report sets out the Council's Draft General Fund budget for 2017/18.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because they form part of the budget-setting process which will culminate in Full Council approving the budget and council tax for 2017/18 on 22 February 2017, in accordance with the Local Government Finance Act 1992.

RECOMMENDATIONS:

1. To receive and note Report C/16/86.
2. To approve the budget estimates, as detailed in the report, as the basis for preparing the final 2017/18 budget and council tax recommendations for approval by Full Council in February 2017.

1. INTRODUCTION AND BACKGROUND

- 1.1 Council approved the Medium Term Financial Strategy 2017/18 to 2020/21 (MTFS) on 14 September 2016 and Cabinet agreed the Budget Strategy for 2017/18 on 16 November 2016. These reports considered the council's forecast budget position for 2017/18 from a strategic perspective. This report now sets out the detail for the draft General Fund budget, prior to Full Council approving the final budget proposals and the level of council tax at its meeting on 22 February 2017.
- 1.2 The budget proposals in this report been prepared assuming a 2.0% council tax increase in 2017/18. The final decision will not be confirmed until 22 February 2017. In addition, the following remain to be finalised:
- the forecast for council tax and net business rates income
 - this council's share of Collection Fund balances
 - the Local Government Finance Settlement, and
 - the budget implications of the revised Local Council Tax Reduction Scheme.
- These items will be confirmed in the final budget report.
- 1.3 The MTFS identified that the Council faced a budget shortfall of £1.504m in 2017/18. The Corporate Management Team and Heads of Service have reviewed and challenged current budget allocations and savings proposals amounting to £1.22m were approved by Cabinet on 16 November. The draft budget detailed in this report reflects the changes made as a result of this review.
- 1.4 The major reasons for changes to the budget are shown in section 3 below and in more detail at Appendix 1.

2. CONTEXT

- 2.1 The context and financial climate have previously been set out in the MTFS and Budget Strategy reports. The Council continues to face challenging times and tight financial restraint is expected to continue to be applied across the public sector well over the medium to longer term.

Chancellor's Autumn Statement 2016

- 2.2 The Chancellor's Autumn Statement was presented on 23 November. He announced that the Government has abandoned its commitment to reduce public sector net borrowing to a surplus by the end of this Parliament. It is now planning for a deficit of £21.9bn in 2019/20, compared to the surplus of £10.4bn planned for at Budget 2016, an increase in public sector net borrowing for 2019/20 of £32.3bn. He also stated that the Government is committed to the overall plans for departmental resource spending until 2019/20, which were set out at Spending Review 2015. Departmental resource spending will grow with inflation in 2020/21 and 2021/22.
- 2.3 The Chancellor announced that he was publishing a new draft Charter for Budget Responsibility, with three new fiscal rules:
- Borrowing should be below 2% by the end of this Parliament;

- Public sector net debt as a share of GDP must be falling by the end of this Parliament;
- Welfare spending must be within a cap, set by the Government at AS 2016 and monitored by the Office for Budget Responsibility (OBR).

2.4 This new fiscal framework is intended to provide the opportunity for additional investment in the productive capacity of the UK economy, the centrepiece of which is a new National Productivity Investment Fund (NPIF), which will provide for £23 billion of spending between 2017/18 and 2021/22. This fund will provide additional support in order to:

- Accelerate new housing supply;
- Tackle congestion on the roads;
- Support the market to roll out full-fibre connections and future 5G communications;
- Enhance the UK's position as a world leader in science and innovation.

2.5 A number of changes to business rates were announced:

- From April 2017, there will be 100% business rates relief on investment in new fibre;
- From April 2017, rural rate relief will be increased to 100%;

The projected costs of these two measures will be £10m in 2017/18, rising to an annual cost of £20m by 2020/21. The Government has also confirmed that the transitional relief cap under business rates revaluation will be lowered. There has not yet been confirmation whether local authorities will be provided with s31 grant to compensate for the rate relief reforms; but, on the basis of past decisions, it would be expected that they would do so.

2.6 The Chancellor announced a number of measures relating to the regions, including:

- The Government will award £1.8bn to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals. £556m of this will go to the North of England, £392m to the Midlands, £151m to the East of England, £492m to London and the South East, and £191m to the South West. Awards to individual LEPs will be announced in the coming months;
- The Government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury;
- The Government will also consult on lending local authorities up to £1bn at a new local infrastructure rate of gilts + 60 basis points for three years, to support infrastructure projects that are high value for money;
- The Government has published a strategy setting out an overall approach to building the Northern Powerhouse, through addressing the key barriers to productivity that the region faces. The strategy is available here. The Government will also publish a Midlands Engine strategy shortly.

- 2.7 On housing, the Government announced:
- A Housing Infrastructure Fund – a new Housing Infrastructure Fund of £2.3bn by 2020-21, funded by the NPIF and allocated to local Government on a competitive basis. It is intended that this will deliver up to 100,000 new homes;
 - Affordable homes – the Government will relax restrictions on grant funding to allow providers to deliver a mix of homes for affordable rent and low cost ownership. The NPIF will provide an additional £1.4bn to deliver an additional 40,000 housing starts by 2020-21;
 - Right to Buy – The Government will fund a large-scale regional pilot of the Right to Buy for housing association tenants. Over 3,000 tenants will be able to buy their own home with Right to Buy discounts under the pilot.
- 2.8 The Government will also increase the National Living Wage (NLW) by 4.2% from £7.20 to £7.50 from April 2017.
- 2.9 The Chancellor announced that this would be the last Autumn Statement. From 2017, the Budget will be announced in the autumn and will be the only major fiscal event each year. From 2018, there will be a Spring Statement which will respond to the OBR's economic and public finance forecast. The Government will retain the option to make changes to fiscal policy at the Spring Statement if economic circumstances require it.

Local Government Finance Settlement

- 2.10 The provisional Local Government Finance Settlement for 2017/18 is expected to be published mid/late December. The council is anticipating to be notified in December 2016 of its grant allocation for the four year period commencing 2017/18 following formal notification from DCLG in November 2016 that its application has been accepted.

3. GENERAL FUND BUDGET 2017/18

- 3.1 The draft budget for 2017/18 is presented in detail at Appendix 1 compared to the original budget for 2016/17 and the outturn for 2015/16. It includes the Council's contribution to the Folkestone Parks and Pleasure Grounds Charity, the cost of which determines the special expense falling on Folkestone and Sandgate taxpayers.
- 3.2 The budget estimates are presented on a 'controllable' basis only; all inter service area recharges, capital charges and certain other technical accounting adjustments are excluded. Focus can therefore be on real changes in expenditure and income within a service area.

3.3 Table 1 below sets out a summary of the budget, including the outturn for 2015/16. Appendix 1 provides a more detailed breakdown of the budget across service areas.

Table 1: General Fund Summary

2015/16 Outturn		2016/17 Original Budget (based on outturn prices) £	2017/18 Original Budget (based on outturn prices) £
£			
	SUMMARY OF NET EXPENDITURE		
	Service Heads		
921,471	Leadership Support	812,540	823,170
378,786	Communications	256,490	237,390
4,767,002	Head of Democratic Services & Law	4,872,720	4,757,210
956,357	Head of HR	918,080	948,300
2,771,126	Head of Finance	4,365,660	4,333,520
3,330,870	Head of Communities	2,533,540	2,239,500
407,964	Head of Strategic Development Projects	329,240	354,220
997,102	Head of Economic Development	555,880	467,520
751,483	Head of Planning	764,890	904,960
2,275,363	Head of Commercial & Technical Services	2,481,060	2,510,630
-1,805,524	Recharges	-1,868,500	-1,947,510
-	Vacancy Target (not included above)	64,000	-224,000
15,752,000	TOTAL HEAD OF SERVICE NET EXPENDITURE	16,085,600	15,394,910
427,266	Internal Drainage Board Levies	435,830	444,490
1,118,854	Interest Payable and Similar Charges	576,230	526,000
-537,000	Interest and Investment Income	-604,510	-451,000
-99,559	Council Tax Freeze Grant	-	-
-1,602,551	New Homes Bonus Grant	-1,949,620	-1,259,910
-1,118,343	Other non-service related Government Grants	-762,650	-742,350
13,940,667	TOTAL GENERAL FUND NET OPERATING EXPENDITURE	13,780,880	13,912,140
1,220,314	Net Transfers to/(from) Earmarked Reserves	-1,707,800	-500,199
514,394	Minimum Revenue Provision	405,130	388,930
646,613	Financing of Fixed Assets	5,373,600	2,154,000
17,879,049	TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS	19,678,965	15,954,871
1,557,061	Town and Parish Council Precepts	1,827,160	1,873,820
-392,393	Transfer to/(from) the Collection Fund	-588,670	51,000
-4,680,014	Business Rates Income	-3,799,080	-3,905,890
-2,752,844	Revenue Support Grant	-1,736,220	-848,140
10,053,798	TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND AND GENERAL RESERVE	13,554,995	13,125,661
-10,112,921	Council Tax - Demand on Collection Fund	-10,838,830	-11,109,970
-59,123	(SURPLUS) / DEFICIT FOR YEAR	2,716,165	2,015,691

Service Budget Changes 2017/18 Compared to 2016/17

- 3.4 Forecast Head of Service net expenditure has reduced by £690,690 (4.3%):

	Budget £'000
Original 2016/17 General Fund Budget	16,085,600
Original 2017/18 General Fund Budget	<u>15,394,910</u>
Decrease	<u>(690,690)</u>

- 3.5 A summary of the most significant changes is provided below and service budget variances over £10,000 are explained at Appendix 1:

	£'000
Budget Strategy Approvals - October 2016	
Budget savings	- 1,222,150
Budget growth	251,290
MTFS Service Budget Reductions and Growth:	
Head of Democratic Services & Law	
Elections – budget growth	10,000
Democratic Services – deletion of time-limited budget	- 11,000
Head of Finance	
Deletion of Council Tax Reduction Scheme grant to town and parish councils	- 57,830
HRA contribution to employer pension costs	- 60,000
Deletion of Benefits administration subsidy grant	80,000
Head of Communities	
Contribution to Folkestone Triennial (2017)	150,000
Service restructure	- 163,720
Head of Planning	
Service restructure	88,000
Head of Commercial & Technical	
Contribution from reserves	- 7,000
Head of Strategic Development	
Deletion of time-limited budget	- 40,620
Head of Economic Development	
New development funding	250,000
Other MTFS Budget Reductions and Growth:	
General contract inflation	116,605
Recharges to non-General Fund accounts	- 79,451
Staff turnover provision	- 224,000
Staff pay award	111,000

Staff salaries - incremental increases	211,000
Apprenticeship Levy	35,000
Other budget reductions (various)	-127,814
	-690,690

4. RESERVES

4.1 The forecast balance on the General Reserve was reported in the Budget Strategy in November 2016 and will be updated to reflect planned use and 2016/17 outturn predictions for inclusion in the final budget reports to Cabinet and Council on 22 February 2017.

4.2 Estimates of changes to Earmarked Reserves are shown below:

Reserve	Balance 1/4/2016 £'000	2016/17 Movement £'000	Balance 1/4/2017 £'000	2017/18 Movement £'000	Balance 31/3/2018 £'000
Business Rates ¹	2,460	(190)	2,270	(215)	2,055
Carry Forward	1,650	(1,394)	256	(31)	225
Corporate Initiatives	1,226	(759)	467	(261)	206
Corporate Property	20	(20)	-	-	-
IFRS ² Reserve	84	(17)	67	(18)	49
Invest to Save	381	-	381	(15)	366
Leisure	246	(150)	96	-	96
New Homes Bonus (NHB) ¹	1,757	599	2,356	29	2,385
VET ³ Reserve	942	(316)	626	11	637
Economic Development Maintenance of Graves	2,251	(1,764)	487	-	487
	12	-	12	-	12
Total	11,029	(4,011)	7,018	(500)	6,518

Notes:

¹ To be confirmed in the final budget report to Cabinet and Council.

² IFRS = International Financial Reporting Standards

³ VET = Vehicles, equipment and technology

5. BUDGET PREPARATION – NEXT STEPS

5.1 The following items remain subject to confirmation:

- Final Local Government Finance Settlement.
- The council's share of the Collection Fund surplus or deficit.
- Town and parish precepts.
- Business rates income forecast.

5.2 These will be covered in the final budget reports to Cabinet and Council on 22 February 2017, along with details of the special expense charged to Folkestone and Sandgate taxpayers.

6. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 6.1 The Local Government Act 2003 requires the Council's Chief Finance Officer to formally give an opinion on the robustness of the budget and adequacy of reserves.
- 6.2 The Chief Finance Officer's statement will be presented to Council when it considers the budget for 2017/18 on 22 February 2017; it will set out the assumptions used to arrive at the final budget recommendations.

7. BUDGET CONSULTATION

- 7.1 The objectives for consultation on the 2017/18 budget proposals were 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

- 7.2 The target audience and communication channels included:

Group	Channel
Residents	<ul style="list-style-type: none">• Council website and social media• Online survey• Dedicated e-mail address• Option to receive/submit information by post
Business Community	<ul style="list-style-type: none">• Attendance at Shepway Business Advisory Board
Other Community Groups	Direct engagement with: <ul style="list-style-type: none">• 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.

Budget Consultation Responses

- 7.3 Budget consultation closed as planned on 30 November 2016. The results from the online survey are currently being analysed and will be reported to Cabinet on 21 December.
- 7.4 In addition feedback was noted following a presentation on the Council's financial strategy to members of the Shepway Business Advisory Board on 17 November. Questions were raised about:
- The reasons for reduced Government funding support and what the Council is doing in response
 - How the council manages payroll and pension cost pressures
 - Whether service efficiency measures are being implemented
 - The impacts of changes to business rates
 - Whether action is being taken to address empty properties
 - Adequacy of the Council's reserves and their planned use

7.5 Parish councils were also briefed and invited to participate in the consultation at the meeting of Shepway District and Parish Councils Joint Committee on 17 November.

7.6 The outcome of this consultation will be considered by Cabinet when making the final budget recommendations to Council in February 2017.

8. CONCLUSION

8.1 Cabinet is asked to approve the budget estimates, as detailed in this report, as the basis for preparing the final 2017/18 budget and council tax recommendations for approval by Council in February 2016.

9. RISK MANAGEMENT ISSUES

9.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Deteriorating economic climate	Medium	Medium	Setting of a prudential budget and continuing strong financial control in the Council's decision making.
Council Tax Reduction Scheme adversely impacting upon collection rates	Medium	Medium	Efficient management of the scheme and close monitoring of trends. Tax base setting allows for prudent non-collection experience.
Business Rates Localisation Scheme	High	Medium	Significant degree of uncertainty means close monitoring and modeling of the impact will be required. Budget to be reviewed in light of final NNDR1 claim in January.
Reduction in Government grant	High	High	Monitor closely Government announcements and identify early action to address any shortfall. Proactive work including revenue streams that the Council is pursuing in anticipation of further reduction in Government grant.
Budget strategy not achieved.	High	Low-medium	Close control of the budget making process and a prompt and decisive response to addressing budget

Perceived risk	Seriousness	Likelihood	Preventative action
			issues. Stringent budget monitoring and reporting during 2016/17 and future years.
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.
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.

10. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

10.1 Legal Officer's Comments (DK)

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

10.2 Finance Officer's Comments (PM)

The Budget for 2017/18 will be submitted for approval by Cabinet and Full Council in February 2017. This report is the latest stage in the detailed budget process and will be used to inform the preparation of the final budget proposals.

10.3 Diversities and Equalities Implications (PM)

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

11. 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

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

- Medium Term Financial Strategy 2017/18 to 2020/21
- Budget Strategy 2017/18

Appendices:

Appendix 1 – General Fund Budget Estimates (detail)