

This Report will be made public on 20 February 2018

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/17/83**

To: Cabinet
Date: 28 February 2018
Status: Key Decision
Head of Service: Charlotte Spendley, Head of Finance
Cabinet Member: Councillor David Monk, Leader and Councillor Malcolm Dearden, Cabinet Member for Finance

SUBJECT: GENERAL FUND BUDGET AND COUNCIL TAX 2018/19

SUMMARY: This report sets out the final General Fund budget and council tax requirement for 2018/19, including that part of the local tax covering district and parish services.

REASONS FOR RECOMMENDATIONS:

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

- a) The District Council's General Fund budget and council tax requirement must be approved to enable Full Council to set the budget and the council taxes for 2018/19 in accordance with the Local Government Finance Act 1992.

RECOMMENDATIONS:

1. To receive and note Report C/17/83.
2. To recommend to Council to approve the final 2018/19 General Fund budget, as set out at paragraph 4.
3. To recommend to Council to approve a council tax requirement for 2018/19 of £12,183,131.

1. BACKGROUND

- 1.1 This report sets out the final general fund budget and council tax requirement for 2018/19, including that part of the local tax covering district and parish services. The council tax requirement determines the transfer from the Collection Fund in accordance with the Local Government Finance Act 1988.
- 1.2 It follows on from previous reports approved by Cabinet:
- 11 October 2017 - Medium Term Financial Strategy for the period 2018/19 to 2021/22
 - 15 November 2017 - Budget Strategy 2018/19 and Fees & Charges 2018/19
 - 14 December 2017 - Draft General Fund Original Revenue Budget 2018/19
 - 17 January 2018 - Update to the General Fund Medium Term Capital Programme
- 1.3 Areas of the budget that remained to be confirmed when the Draft Budget was approved by Cabinet in December 2017 included:
- The Local Government Finance Settlement for 2018/19
 - The council's share of the Collection Fund surplus or deficit
 - Town and parish precepts, and
 - The council tax base and business rates income forecast.
- 1.4 Cabinet's budget recommendation for 2018/19 will be considered at a meeting of Full Council (also taking place on 28 February 2018) when it will set the 2018/19 council tax after taking into account:
- Precepts from Kent County Council, Kent Police & Crime Commissioner and Kent & Medway Fire & Rescue Service
 - The special expenses in respect of the Folkestone Parks and Pleasure Grounds Charity
 - Individual town and parish council precepts.
- 1.5 The budget proposals have been subject to public consultation during November and to review by Overview and Scrutiny Committee between September and January.

2. COUNCIL TAX 2018/19

- 2.1 The budget has been prepared on the basis that the District Council's element of council tax (including the special expenses for Folkestone Parks and Pleasure Grounds) is increased by 2.98%. This is the increase that is monitored by the Government when determining whether any increase in council tax is excessive, and would require a referendum.

3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19

- 3.1 The provisional 2018/19 settlement was announced on 19 December 2017. The announcement covered a range of proposals affecting both the short term (2018/19) and the medium term (to 2020/21). The main changes are outlined below.

Local Government Funding Reform

- 3.2 The government has published the first of several consultation papers on the “Fair Funding Review”. The focus of this consultation was “a review of relative needs and resources”. Other consultations are to follow and the results of this review will be introduced in 2020/21.

Shepway Core Spending Power

- 3.3 Core Spending Power is a headline figure used by Government to represent the key revenue resources available to local authorities; it includes an estimate of actual and potential council tax.

	2017/18	2018/19	2019/20
	£M	£M	£M
Core Spending Power	15.404	15.273	15.361
Comprising:			
Settlement Funding Assessment	4.334	3.896	3.369
Council Tax	9.392	9.941	10.522
Other Grants	1.678	1.436	1.470
Change in Core Spending Power			
Annual Change		-0.8%	0.6%
Cumulative Change		-0.8%	-0.3%

Shepway Settlement Funding Assessment

- 3.4 Settlement Funding Assessment (SFA) is the revenue received by local authorities in the form of (i) Revenue Support Grant from Government and (ii) the share of business rates retained locally.

	2017/18	2018/19	2019/20
	£M	£M	£M
Settlement Funding Assessment	4.334	3.896	3.369
Comprising:			
Revenue Support Grant	0.848	0.000	0.000
Baseline Funding Level	3.486	3.896	3.670
Tariff/Top Up Adjustment ¹	0	0	-0.301
Change in Settlement Funding Assessment			
Annual Change		-10.1%	-13.5%
Cumulative Change		-10.1%	-22.3%

Nationally, a cumulative SFA decrease of 21.7% is forecast for district councils between 2017/18 and 2019/20.

Shepway Retained Business Rates

- 3.5 The Baseline Funding Level is the share of the Settlement Funding Assessment that Government intends to be funded via locally retained business rates. The remainder would have come through Revenue Support Grant which was anticipated to cease at the end of 2018/19, but will now cease for Kent Business Rates Pilots from the end of 2017/18. It is Government’s projection of the authority’s share of business rates assuming there has been no change in the taxbase since the start of the scheme. It increases each year in line with the small business rates multiplier.

The Provisional settlement announcement confirmed that there will be a business rates baseline reset in 2020/21, and from 2020/21 business rates retention will be at 75%. Additionally the settlement also confirmed a consultation will take place in Spring 2018 exploring fair & affordable options

to deal with the current £153 million nationally that remains in the 2019/20 funding allocations in respect of negative Revenue Support Grant. The outcome of that consultation will feed into the 2019/20 finance settlement.

	2017/18	2018/19	2019/20
Baseline Funding Level (£M)	3.486	3.896	3.670
Baseline Business Rates (£M)	9.575	9.557	9.769
Tariff/Top Up (£M)	-6.089	-5.365	-6.099
Levy Rate (pence in the pound)	50	0	50

* Includes £0.297m revaluation 2017 one-off adjustment

Kent Business Rates Pilots

- 3.6 The settlement announced that the Kent and Medway business rates pilot was one of 10 successful bids for 2018/19. The budget does not anticipate any additional funds that may be received as a consequence being in the pilot, the amount receivable is dependent on the level of economic growth, income received will be held in an earmarked reserve.

Shepway New Homes Bonus

- 3.7 The provisional settlement announcement included no changes to the New Homes Bonus scheme methodology or distribution. A prudent approach had been taken regarding this funding in the draft budget, so this announcement has had a positive impact on the budget for 2018/19, and will be incorporated in future medium term financial planning.

3.8 Planning Income

The settlement confirmed that the known increase to planning fees of 20% to facilitate the resourcing of that service, could be implemented from January 2018.

3.9 Council Tax

Local Authorities have been operating under the 2% or £5 increase referendum limit since capping was abolished. The settlement announced the limit would be increased to 3% or £5, whichever was the higher for the authority. This change sought to reflect current rates of inflation. No referendum principles were introduced for town or parish councils.

3.10 Flexible Capital Receipts

The existing scheme due to end in 2018/19 was confirmed through the settlement to be extended for a further three years. This was an encouraging announcement particularly for authorities such as Shepway exploring a transformation programme.

3.11 Final Local Government Finance Settlement 2018/19

The final local government finance settlement has recently been released and at the time of submitting this report for approval no significant changes have been identified from the provisional settlement position.

4. GENERAL FUND REVENUE BUDGET 2018/19

- 4.1 Cabinet considered and approved the Draft General Fund Original Revenue Budget for 2018/19 on 14 December 2017. This took into account the £593k

savings proposals, £112k from fees & charges and £313k growth as detailed in the Budget Strategy report that was approved in November 2017, along with the forecast 2018/19 budget changes from the Medium Term Financial Strategy.

4.2 Following the provisional settlement and final budget updates the revised Original Budget is set out below.

2017/18 Original Budget		2018/19 Draft Original Budget December 2017 £	2018/19 Updated Original Budget February 2018 £
SUMMARY OF NET EXPENDITURE			
Service Heads			
833,080	Leadership Support	909,620	912,620
	Corporate Director – Strategic	253,830	
0	Development		253,830
240,530	Communications	243,770	253,770
4,774,650	Head of Democratic Services & Law	4,882,470	4,882,470
962,390	Head of HR	2,459,240	2,459,240
4,227,010	Head of Finance	3,253,860	3,311,828
2,254,850	Head of Communities	2,181,620	2,181,620
359,600	Head of Strategic Development Projects	1,321,470	1,321,470
470,740	Head of Economic Development	336,540	298,540
923,150	Head of Planning	765,740	765,740
2,551,020	Head of Commercial & Technical Services	2,413,550	2,421,570
-1,980,500	Recharges	-1,980,500	-1,980,500
-224,000	Net employee adjustments	-6,000	-6000
15,392,520	TOTAL HEAD OF SERVICE NET EXPENDITURE	17,035,210	17,076,198
444,272	Internal Drainage Board Levies	453,160	452,770
526,000	Interest Payable and Similar Charges	452,210	452,210
-451,000	Interest and Investment Income	-578,430	-678,430
-1,571,779	New Homes Bonus Grant	-1,024,770	-1,361,666
-899,350	Other non-service related Government Grants	-788,350	-1,240,021
13,440,663	TOTAL GENERAL FUND NET OPERATING EXPENDITURE	15,549,030	14,701,061
-239,843	Net Transf. to/(from) Earmarked Reserves	-1,241,000	-906,650
388,930	Minimum Revenue Provision	373,370	373,370
2,190,000	Financing of Fixed Assets	197,000	197,000
15,779,750	TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS	14,878,400	14,364,781
2,052,914	Town and Parish Council Precepts	2,093,970	2,283,454
-203,378	Transfer to/(from) the Collection Fund	-100,000	-100,000
-3,747,186	Business Rates Income	-3,994,950	-4,244,104
-848,140	Revenue Support Grant	-305,130	-
13,033,960	TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND AND GENERAL RESERVE	12,572,290	12,304,131
-11,444,953	Council Tax - Demand on Collection Fund	-11,719,390	-12,183,131
1,589,007	(SURPLUS) / DEFICIT FOR YEAR	852,900	121,000

The deficit for the year represents a withdrawal from the General Reserve of £121k which will be a planned contribution to fund schemes in the approved Medium Term Capital Programme.

Final Budget Changes

4.3 Reasons for changes since the draft budget was reported in December 2017 include:

- (i) Head of Service Budgets - final updates, in the main comprising of notification of government grant, the impact of the decisions on the budget by the Folkestone Parks and Pleasure Grounds Charity for 2018/19 and emerging issues.
- (ii) New Homes Bonus income - updated for the provisional settlement notification
- (iii) Other non-service related Government Grants - updated for the provisional settlement notification and the latest business rates forecasts
- (iv) Updates for town and parish precepts which had not been confirmed when the December report was prepared
- (v) Net transfers to/from earmarked reserves have been amended for the revised reserve release for the Medium Term Capital Programme and a review of planned earmarked reserve use
- (vi) Financing of Fixed Assets – final amendments to align with the Medium Term Capital Programme
- (vii) Transfer to/from the Collection Fund and Business Rate Income - adjusted for latest revised business rates forecasts
- (viii) Council Tax Demand on the Collection Fund – updated for:
 - forecast income based on the council tax base for 2018/19 that was approved by Full Council on 17 January 2018
 - confirmation of the special expenses for the Folkestone Parks and Pleasure Grounds Charity and
 - a 2.98% increase in the district council’s council tax in 2018/19 to keep in line with current inflation rates.

Comparison with 2017/18

4.4 The general fund budget requirement for 2018/19 is £14.36m, £1.41m lower than the 2017/18 original estimate. This reduction is primarily due to:

	£000
Increase in Head of Service Net Expenditure	1,683
Increase in Drainage Board levy	9
Net decrease in treasury management costs	(300)
Reduction in New Homes Bonus income received	210
Net increase in Other Government Grants	(341)

Increased transfers from Earmarked Reserves	(667)
Reduced contribution to financing of Fixed Assets from revenue	(1,993)
Adjustment to MRP	(16)
Total Reduction	(1,415)

5. SHEPWAY BAND D EQUIVALENT COUNCIL TAX 2018/19

- 5.1 The Local Government Finance Act 1992 (as amended) requires the Council to determine its council tax requirement for 2018/19.
- 5.2 The legal determinations in respect of the budget and council tax setting are set out in the General Fund Budget and Council Tax 2018/19 Report that is being considered at the 28 February 2018 meeting of Full Council, following this Cabinet meeting.
- 5.3 The amount to be raised by this authority from council tax payers comprises the council tax - demand on collection fund of £12,183,131.
- 5.4 This is divided by the tax base (38,312.22 Band D equivalent properties) to calculate the average district council tax, including town and parish precepts. The council tax base was approved by Full Council on 17 January 2018.

$$£12,183,131 \div 38,312.22 = £317.99$$

- 5.5 The average District council tax for Band D properties, including an amount for town and parish councils, will be £317.99. This is an increase of £12.24 (4.00%) over 2017/18. This sum will vary by parish and only represents an average, there is no referendum limit placed on town or parish councils by central government.
- 5.6 The impact of town and parish precepts is excluded when comparing the increase against what the Government regards as an excessive increase.

	2018/19 £	2017/18 £	Increase / (Decrease) %
Band D Council Tax - including town and parish precepts	317.99	305.75	4.00%
Band D equivalent of town and parish precepts	(59.60)	(54.84)	8.67%
Band D Council Tax - excluding town and parish precepts	258.39	250.91	2.98%

The average council tax to finance Shepway's net spending plans in 2018/19, including special expenses, is proposed to be increased by 2.98% to £258.39. The Council is therefore not at risk of having to hold a referendum because the increase falls within the Government threshold.

Excluding the special expenses, Shepway's council tax rate is £244.53; an increase of 3.17% from the 2017/18 rate.

6. SPECIAL EXPENSES – FOLKESTONE PARKS AND PLEASURE GROUNDS CHARITY

- 6.1 The average 2018/19 council tax for Shepway District Council of £258.39 includes an amount that the Council has identified is in respect of special expenses i.e. the Folkestone Parks and Pleasure Grounds Charity.
- 6.2 When council tax bills are issued, the council tax (and % change in tax) for special expenses is disclosed separately from the council tax (and % change in tax) for Shepway District Council excluding special expenses.
- 6.3 Subject to Full Council's consideration and final approval of the budget and council tax, the following amounts will be disclosed separately on the council tax bill for a Band D property.

Based on a Band D average	Council Tax 2018/19 (Band D) £	Increase (Band D) £	Increase + /Decrease ()	Council Tax payers that receive this information
Shepway District Council element of Council Tax - excluding Special Expenses	244.53	7.52	+3.17%	All Shepway District council tax payers
Special Expenses - Folkestone Parks and Pleasure Ground Charity	33.04	(0.21)	(0.63)%	Folkestone and Sandgate council tax payers only

7. MAJOR PRECEPTS

- 7.1 Local taxpayers will also receive information in their council tax bill regarding the amount payable in respect of:
- their town or parish council
 - Kent County Council
 - Kent Police & Crime Commissioner, and
 - Kent & Medway Fire and Rescue Service.
- 7.2 The Adult Social Care precept levied by Kent County Council will be itemised separately on council tax bills.
- 7.3 Precept details are set out in the General Fund Budget and Council Tax 2018/19 report to Full Council on 28 February 2018.

8. GENERAL FUND RESERVES

8.1 The forecast reserves position for 2017/18 and 2018/19 is shown below:

Reserve	1/4/2017 Balance £000	2017/18 Movement £000	31/3/2018 Balance £000	2018/19 Movement £000	31/3/2019 Balance £000
Earmarked Reserves:					
VET ¹ Reserve	876	(236)	640	28	668
IFRS ² Reserve	67	(18)	49	(11)	38
Corporate Initiatives	754	(439)	315	0	315
New Homes Bonus	2,431	283	2,714	(189)	2,525
Otterpool	1,989	(970)	1,019	(1,019)	0
Carry Forward	1,117	(890)	227	(50)	177
Business Rates	2,682	0	2,682	335	3,017
Economic					
Development	2,027	(150)	1,877	0	1,877
Invest to Save	366	0	366	0	366
Leisure	146	50	196	0	196
Grave Maintenance	12	0	12	0	12
Total Earmarked Reserves	12,467	(2,370)	10,097	(906)	9,191
General Reserve	4,902	(537)	4,365	(121)	4,244
Total General Fund Reserves	17,369	(2,907)	14,462	(1,027)	13,435

¹ VET = vehicles, equipment and technology

² IFRS = International Financial Reporting Standards

8.2 The General Reserve is forecast to be £4.2m by 31 March 2019 on the assumption that in-year budget variances are contained within the overall approved 2018/19 budget. Total General Fund Reserves (General Reserve plus Earmarked Reserves) are forecast to be £13.4m at 31 March 2019

9. BUDGET CONSULTATION

9.1 The objectives for consultation on the 2018/19 budget proposals were to:

- (i) Engage with key stakeholder groups and local residents;
- (ii) Seek feedback on specific budget proposals for 2018/19; and
- (iii) Seek feedback on general spending and income generation priorities

9.2 The target audience and communication channels included:

Group	Channel
Residents	<ul style="list-style-type: none"> • Council website • 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 Employment and Training Forum • Voluntary and Community Sector Forum • Youth Advisory Group

Town and Parish Councils.

- Attendance at Shepway Joint Parish Council Committee

Budget Consultation Responses

- 9.3 Public budget consultation ran online during December and January. No direct feedback was received through these means. It is understood that whilst some responses were received last year, no responses had been received in previous years. Further consideration will be given to how to increase participation in consultation activities ready for 2019/20 budget setting, including options for seeking the views of a more representative sample of residents.
- 9.4 Specific feedback was sought from the groups named above. The Voluntary and Community Sector Forum provided feedback, acknowledging that they understood the tight financial constraints local authorities were operating within, but noted concerns regarding the withdrawal of funding in respect of the Community Chest grants.
- 9.5 In addition, in order to meet statutory responsibilities for consulting on the budget with the business community, feedback was noted following a presentation on the Council's financial strategy to members of the Shepway Business Advisory Board on 18 January. Questions and observations were raised about:
- Adequacy of the Council's reserves and their planned use
 - How the council communicated the message regarding the medium term financial pressures to the community
- 9.6 Parish councils were also briefed and invited to participate in the consultation at the meeting of Shepway District and Parish Councils Joint Committee on 11 January 2018.

10. BUDGET SCRUTINY

- 10.1 The 2018/19 budget reports that have been approved by Cabinet have been subject to review by the Overview and Scrutiny Committee at the following meetings:
- 10 October 2017 - Medium Term Financial Strategy for the period 2018/19 to 2021/22
 - 14 November 2017 - Budget Strategy 2018/19 and Fees & Charges 2018/19
 - 12 December 2017 - Draft General Fund Original Revenue Budget 2018/19
 - 16 January 2018 - Update to the General Fund Medium Term Capital Programme

Minutes of these discussions have been made available to Cabinet when considering the reports.

11. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

11.1 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.

11.2 The Chief Finance Officer's statement will be presented in the General Fund Budget and Council Tax 2018/19 report to Council on 28 February 2018.

12. CONCLUSION

12.1 Cabinet is asked to recommend to Full Council the approval of the final General Fund budget for 2018/19 and to determine the District Council's council tax requirement as £12,183,131.

13. RISK MANAGEMENT ISSUES

13.1 The risks in respect of the General Fund Budget 2018/19 have already been set out in detail in Report C/17/69 to Cabinet 14 December 2017 but are repeated below (and updated where applicable).

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.
Business Rates Localisation Scheme	High	Medium	Significant degree of uncertainty means close monitoring and modeling of the impact will be required. Budget has been reviewed in light of final NNDR1 and will continue to be reviewed
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 issues. Stringent budget monitoring and reporting during 2018/19 and future years.
MTFS becomes out of date.	High	Low	The MTFS is reviewed annually through the budget process.

14. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

14.1 Legal Officer's Comments (DK)

The Council must consistently comply with the Local Government Finance Act 1992 (as amended) and associated legislation. All the legal issues have been covered in the body of this report.

14.2 Finance Officer's Comments (CS)

The Financial implications are detailed in the report.

14.3 Diversities and Equalities Implications (CS)

The Equality Impact Assessment will be presented in the 28 February 2018 Budget and Council Tax 2018/19 report to Council.

15. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Charlotte Spendley – Head of Finance

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07935 517986

Email charlotte.spendley@shepway.gov.uk

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

- Budget working papers
- 11 October 2017 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2018/19 to 2021/22
- 15 November 2017 - Reports to Cabinet - Budget Strategy 2018/19 and Fees & Charges 2018/19
- 14 December 2017 - Report to Cabinet - Draft General Fund Original Revenue Budget 2018/19
- 17 January 2018 - Report to Cabinet - Update to the General Fund Medium Term Capital Programme