

This report will be made public 4 December 2018

Report number **C/18/51**

To: Cabinet
Date: 12 December 2018
Status: Key Decision
Head of Service: Charlotte Spendley, Assistant Director – Finance, Customer & Support Services
Cabinet Member: Councillor Malcolm Dearden – Portfolio Holder for Finance

SUBJECT: DRAFT GENERAL FUND BUDGET 2019/20

SUMMARY: This report sets out the Council's Draft General Fund budget for 2019/20.

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 2019/20 on 20 February 2019, in accordance with the Local Government Finance Act 1992.

RECOMMENDATIONS:

1. To receive and note report C/18/51.
2. To approve the budget estimates, as detailed in the report, as the basis for preparing the final 2019/20 budget and council tax recommendations for approval by Full Council in February 2019.

1. INTRODUCTION AND BACKGROUND

- 1.1 Council approved the Medium Term Financial Strategy 2019/20 to 2022/23 (MTFS) on 31 October 2018 and Cabinet agreed the Budget Strategy for 2019/20 on 14 November 2018. These reports considered the council's forecast budget position for 2019/20 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 20 February 2019.
- 1.2 The budget proposals in this report been prepared assuming a 2.0% council tax increase in 2019/20. The final decision will not be confirmed until 20 February 2019. In addition, the following remain to be finalised:
- the forecast for council tax and net business rates income
 - the council tax base position
 - this council's share of Collection Fund balances
 - the Local Government Finance Settlement
- These items will be confirmed in the final budget report.
- 1.3 The MTFS identified that the Council faced a budget shortfall of £721k in 2019/20. The Corporate Leadership Team and Heads of Service have reviewed current budget allocations and savings proposals amounting to £56k were approved by Cabinet on 14 November. In addition the review of fees & charges resulted in additional income of £27k being identified, and unavoidable growth of £594k was also identified through the Budget Strategy process. Furthermore, agreed use of reserves of £440k to fund one-off growth, and transformation programme savings of £500k were agreed. The draft budget detailed in this report reflects the changes made as a result of these reviews.
- 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 Budget 2018

- 2.2 The Chancellor announced his Autumn budget proposals on 30 October, which contained relatively few significant changes for Local Government, however a summary of the changes and the impact resulting will be built into the final budget due to be presented to Cabinet in February.

Local Government Finance Settlement

- 2.3 The provisional Local Government Finance Settlement for 2019/20 is expected to on 6 December.

3. GENERAL FUND BUDGET 2019/20

- 3.1 The draft budget for 2019/20 is presented in detail at Appendix 1 compared to the original budget for 2018/19 and the outturn for 2017/18. 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 2017/18. Appendix 1 provides a more detailed breakdown of the budget across service areas.

Table 1: General Fund Summary

2017/18		2018/19	2019/20
Actual		Original Budget	Original
£		£	£
SUMMARY OF NET EXPENDITURE			
Service Heads			
735,196	Corporate Director - Strategy	759,060	639,630
4,354,058	Governance, Law & Regulatory Services	4,745,080	5,084,900
555,251	Human Resources	569,930	597,040
5,449,502	Finance, Customer & Support Services	5,800,490	6,358,120
2,472,069	Strategy, Performance & Communications	2,402,100	2,170,070
1,085,643	Strategic Development	1,321,470	925,840
437,774	Economic Development	293,540	588,040
647,715	Planning	687,860	825,200
1,662,250	Environment & Corporate Assets	2,483,170	2,437,720
(1,761,705)	Recharges	(1,980,500)	(1,980,500)
-	Vacancy & Savings Target	(6,000)	(340,000)
<u>15,637,753</u>	TOTAL HEAD OF SERVICE NET EXPENDITURE	<u>17,076,200</u>	<u>17,306,060</u>
444,273	Internal Drainage Board Levies	452,770	461,830
758,114	Interest Payable and Similar Charges	452,210	431,000
(608,318)	Interest and Investment Income	(678,430)	(848,000)
(1,571,614)	New Homes Bonus Grant	(1,361,670)	(1,349,460)
(1,674,707)	Other non-service related Government Grants	(1,240,020)	(1,240,020)
2,052,914	Town and Parish Council Precepts	2,283,450	2,329,130
<u>15,038,415</u>	TOTAL GENERAL FUND OPERATING NET EXP	<u>16,984,510</u>	<u>17,090,540</u>
569,306	Net Transfers to/(from) Earmarked Reserves	(906,650)	(800,440)
388,929	Minimum Revenue Provision	373,370	373,370
971,008	Financing of Fixed Assets	197,000	138,000
	TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS		
<u>16,967,658</u>		<u>16,648,230</u>	<u>16,801,470</u>
310,032	Transfer to/(from) the Collection Fund	(100,000)	-
(4,992,263)	Business Rates Income	(4,244,100)	(4,015,400)
(848,144)	Revenue Support Grant	-	-
<u>11,437,283</u>	TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND & GENERAL RESERVE	<u>12,304,130</u>	<u>12,786,070</u>
	Council Tax-Demand on Collection Fund		
<u>(11,821,000)</u>		<u>(12,183,130)</u>	<u>(12,578,070)</u>
(383,717)	(SURPLUS)/DEFICIT FOR YEAR	121,000	208,000

Service Budget Changes 2018/19 Compared to 2017/18

3.4 Forecast Head of Service net expenditure has increased by £229,860 (1.35%):

	Budget £
Original 2017/18 General Fund Budget	17,076,200
Original 2018/19 General Fund Budget	<u>17,306,060</u>
Increase	<u>229,860</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:

	£
Budget Strategy Approvals – November 2018	
Budget savings	- 56,000
Budget growth	594,000
Increase in income being generated	-27,000
Transformation Programme Savings	-500,000
Use of Reserves for one-off growth items	-440,000
	-429,000
MTFS Service Budget Reductions and Growth:	
Governance, Law & Regulatory Services	
Elections – budget growth	140,000
Other MTFS Budget Reductions and Growth:	
General contract inflation	147,000
Staff pay award	421,000
Staff salaries - incremental increases	135,000
Pension Scheme revaluation 2016	2,000
	845,000

In addition costs of £1.019 million over the base budget were built into the net costs of services in respect of the anticipated costs of Otterpool Park for 2018/19. These costs were identified through the MTFS as having concluded and therefore will not be reflected in the 2019/20 base budget.

4. RESERVES

4.1 The forecast balance on the General Reserve was reported in the Budget Strategy in November 2018 and will be updated to reflect planned use and 2018/19 outturn predictions for inclusion in the final budget reports to Cabinet and Council on 20 February 2019.

4.2 Estimates of changes to Earmarked Reserves are shown below:

Reserve	Balance 1/4/2018 £'000	2018/19 Movement £'000	Balance 1/4/2019 £'000	2019/20 Movement £'000	Balance 31/3/2020 £'000
Business Rates ¹	3,160	335	3,495	(30)	3,465
Carry Forward	420	(218)	202	0	202
Corporate Initiatives	379	(64)	315	0	315
IFRS ¹ Reserve	49	(12)	37	(7)	30
Invest to Save	366	0	366	0	366
Leisure	197	0	197	0	197
New Homes Bonus (NHB)	2,713	(189)	2,524	(165)	2,359
VET ² Reserve	654	17	671	50	721
Otterpool	2,232	(2,141)	91	(150)	(59) ³
Economic Development	2,194	(23)	2,171	(300)	1,871
Community Led Housing	437	0	437	0	437
Lydd Airport	9	0	9	0	9
Homelessness Prevention	215	0	215	0	215
Maintenance of Graves	12	0	12	0	12
Total	13,037	(2,295)	10,742	(602)	10,140

Notes:

¹ IFRS = International Financial Reporting Standards

² VET = Vehicles, equipment and technology

³ Further external funding anticipated during 2019/20 to offset anticipated year end reserves position.

5. BUDGET PREPARATION – NEXT STEPS

5.1 The following items remain subject to confirmation:

- Final Local Government Finance Settlement.
- Council Tax Base position
- The council's share of the Collection Fund surplus or deficit.
- Town and parish precepts.
- Business rates income forecast
- Notification of 100% Business Rates pilot reapplication for 2019/20.

5.2 These will be covered in the final budget reports to Cabinet and Council on 20 February 2019, 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 2019/20 on 20 February 2019; 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 2019/20 budget proposals will be to:
- (i) Engage with key stakeholder groups and local residents;
 - (ii) Seek feedback on specific budget proposals for 2019/20; and
 - (iii) Seek feedback on general spending and income generation priorities

- 7.2 The target audience and communication channels will include:

Group	Channel
Residents	<ul style="list-style-type: none">• Council website and social media• Dedicated e-mail address• Option to 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.

- 7.3 Consultation feedback responses will be summarised and reported to Cabinet in the New Year, along with any feedback received from the Parish Councils who will also be contacted.
- 7.4 In addition, in order to meet statutory responsibilities for consulting on the budget with the business community a presentation on the Council's financial strategy was made to members of the Shepway Business Advisory Board in November.
- 7.6 The outcome of this consultation will be considered by Cabinet when making the final budget recommendations to Council in February 2019.

8. CONCLUSION

8.1 Cabinet is asked to approve the budget estimates, as detailed in this report, as the basis for preparing the final 2019/20 budget and council tax recommendations for approval by Council in February 2019.

9. RISK MANAGEMENT ISSUES

9.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Deteriorating economic climate including impact of Brexit	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 to be reviewed in light of final NNDR1 claim in January.
Reduction in Government grant	High	Medium	Monitor closely Government announcements and identify early action to address any shortfall. Risk has been partially mitigated due shift away from reliance on government grants
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 2019/20 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	High	Low	Current position is based on known information. Position will be updated

Perceived risk	Seriousness	Likelihood	Preventative action
Government Finance Settlement impact.			before February report is presented.

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 (CS)

The Budget for 2019/20 will be submitted for approval by Cabinet and Full Council in February 2019. 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 (CS)

The budget report to Council in February 2019 will include an Equality Impact Assessment of the budget recommendations for 2019/20.

11. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

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

- Medium Term Financial Strategy 2019/20 to 2022/23
- Budget Strategy 2019/20

Appendices:

Appendix 1 – General Fund Budget Estimates (detail)