

This Report will be made public on 12 February 2019

Report Number **C/18/74**

To: Cabinet
Date: 20 February 2019
Status: Key Decision
Head of Service: Charlotte Spendley, Assistant Director – Finance, Customer & Support Services
Cabinet Member: Councillor David Monk, Leader and Councillor
Malcolm Dearden, Cabinet Member for Finance

SUBJECT: GENERAL FUND BUDGET AND COUNCIL TAX 2019/20

SUMMARY: This report sets out the final General Fund budget and council tax requirement for 2019/20, 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 2019/20 in accordance with the Local Government Finance Act 1992.

RECOMMENDATIONS:

1. To receive and note Report C/18/74.
2. To recommend to Council to approve the final 2019/20 General Fund budget, as set out at paragraph 4.
3. To recommend to Council to approve a council tax requirement for 2019/20 of £12,605,380.
4. To approve growth of 3 Area Officer posts funded through savings identified on existing budgets, as outlined in section 4.3.

1. BACKGROUND

- 1.1 This report sets out the final general fund budget and council tax requirement for 2019/20, 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:
- 17 October 2018 - Medium Term Financial Strategy for the period 2019 /20 to 2022/23
 - 14 November 2018 - Budget Strategy 2019/20 and Fees & Charges 2019/20
 - 12 December 2018 - Draft General Fund Original Revenue Budget 2019/20
 - 20 February 2019 - 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 2018 included:
- The Local Government Finance Settlement for 2019/20
 - 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 2019/20 will be considered at a meeting of Full Council (also taking place on 20 February 2019) when it will set the 2019/20 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 and review by Overview and Scrutiny Committee.

2. COUNCIL TAX 2019/20

- 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 1.92%. 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. The maximum increase permitted for the financial year 2019/20 without referendum is 2.99%, therefore the proposed increase of 1.92% is well below this threshold.

3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2019/20

- 3.1 The provisional 2019/20 settlement was announced on 13 December 2018. The announcement covered a range of proposals affecting both the short term (2019/20) and the medium term (to 2020/21). The main changes are outlined below.

Local Government Funding Reform

- 3.2 The government has published a further consultation paper on the “Fair Funding Review” seeking views on the approach to measuring the relative needs and resources of local authorities. Other consultations are to follow and the results of this review will be introduced in 2020/21.

Folkestone & Hythe 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.

	2018/19 £M	2019/20 £M
Core Spending Power	15.239	15.807
Comprising:		
Settlement Funding Assessment	3.896	3.673
Council Tax	9.899	10.472
Other Grants	1.444	1.662
Change in Core Spending Power		
Annual Change		3.7%
Other (not part of Core Spending Power)		
Levy Surplus Returned		0.056

Folkestone & Hythe 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.

	2018/19 £M	2019/20 £M
Settlement Funding Assessment	3.896	3.673
Comprising:		
Revenue Support Grant	0.000	0.000
Baseline Funding Level	3.896	3.673
Change in Settlement Funding Assessment		
Annual Change		-5.7%

Nationally, the cumulative SFA decrease for district councils between 2015/16 and 2019/20 is 38.8%.

Folkestone & Hythe 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 ceased at the end of 2017/18 for Kent Business Rates Pilots. 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 reconfirmed that there will be a business rates baseline reset in 2020/21, and from 2020/21 business rates retention will be at 75%. The settlement also confirmed £180 million additional funding nationally from the surplus on the Business Rates Retention levy/safety net account.

	2018/19	2019/20
Baseline Funding Level (£M)	3.896	3.673
Baseline Business Rates (£M)	9.264	9.777
Tariff/Top Up (£M)	-5.368	-6.105
Levy Rate (pence in the pound)	0	50
Levy Surplus Returned (£M)		0.056

Kent Business Rates Pilots

- 3.6 The settlement announced that the Kent and Medway business rates pilot application for 2019/20 was unsuccessful meaning the Kent and Medway Business Rates Pool will revert to the 50% retention scheme. The budget does not anticipate any additional funds that may have been received as a consequence of being in the pilot so this announcement has no financial impact on the 2019/20 budget for Folkestone & Hythe.

Folkestone & Hythe 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 2019/20, and will be incorporated in future medium term financial planning.

Council Tax

Local Authorities were able to apply an increase of less than 3% or up to £5, whichever was higher for the authority, in 2018/19. The settlement announced that this referendum limit would be maintained for 2019/20. The government also announced that it will continue to defer the setting of referendum principles for town and parish councils.

Negative Revenue Support Grant

The Government has provided additional funding to remove negative Revenue Support Grant in 2019/20. Folkestone & Hythe are not directly impacted by this.

3.10 Final Local Government Finance Settlement 2019/20

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 2019/20

4.1 Cabinet considered and approved the Draft General Fund Original Revenue Budget for 2019/20 on 12 December 2018. This took into account the £556k savings proposals, £27k from fees & charges, £594k growth and use of Reserves for one-off growth items of £440k as detailed in the Budget Strategy report that was approved in November 2018, along with the forecast 2019/20 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.

2018/19		2019/20 Draft	2019/20 Updated
Original Budget £		Original Budget December 2018 £	Original Budget February 2019 £
SUMMARY OF NET EXPENDITURE			
Service Heads			
759,060	Corporate Director – Strategy	639,630	616,140
4,745,080	Governance, Law & Regulatory Services	5,084,900	5,107,600
569,930	Human Resources	597,040	597,040
5,800,490	Finance, Customer & Support Services	6,358,120	6,358,120
2,402,100	Strategy, Performance & Communications	2,170,070	2,141,020
1,321,470	Strategic Development	925,840	925,840
293,540	Economic Development	588,040	588,040
687,860	Planning	825,200	915,200
2,483,170	Environment & Corporate Assets	2,437,720	2,544,140
-1,980,500	Recharges	-1,980,500	-1,980,500
-6,000	Vacancy Target (not included above)	-340,000	-340,000
17,076,200	TOTAL HEAD OF SERVICE NET EXPENDITURE	17,306,060	17,472,640
452,770	Internal Drainage Board Levies	461,830	461,830
452,210	Interest Payable and Similar Charges	431,000	431,000
-678,430	Interest and Investment Income	-848,000	-848,000
-1,361,670	New Homes Bonus Grant	-1,349,460	-1,542,740
-1,240,020	Other non-service related Government Grants	-1,240,020	-1,815,160
14,701,060	TOTAL GENERAL FUND NET OPERATING EXPENDITURE	14,761,410	14,159,570
-906,650	Net Transfers to/(from) Earmarked Reserves	-800,440	-889,753
373,370	Minimum Revenue Provision	373,370	373,370
197,000	Financing of Fixed Assets	138,000	138,000
14,364,780	TOTAL TO BE MET FROM REVENUE SUPPORT GRANT AND LOCAL TAXPAYERS	14,472,340	13,781,187
2,283,450	Town and Parish Council Precepts	2,329,130	2,313,103
-100,000	Transfer to/(from) the Collection Fund	0	0
-4,244,100	Business Rates Income	-4,015,400	-3,495,940
0	Revenue Support Grant	0	-

12,304,130	TOTAL TO BE MET FROM DEMAND ON THE COLLECTION FUND AND GENERAL RESERVE	12,786,070	12,598,350
-12,183,130	Council Tax - Demand on Collection Fund	-12,578,070	-12,598,350
<u>121,000</u>	(SURPLUS) / DEFICIT FOR YEAR	<u>208,000</u>	<u>0</u>

Final Budget Changes

4.3 Reasons for changes since the draft budget was reported in December 2018 include:

- (i) Head of Service Budgets - final updates, the impact of the decisions on the budget by the Folkestone Parks & Pleasure Grounds Charity for 2019/20 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) Transfer to/from the Collection Fund and Business Rate Income - adjusted for latest revised business rates forecasts
- (vii) Council Tax Demand on the Collection Fund – updated for:
 - forecast income based on the council tax base for 2019/20
 - confirmation of the special expenses for the Folkestone Parks and Pleasure Grounds Charity and
 - a 1.92% increase in the district council's council tax in 2019/20 to keep in line with current inflation rates.
- (viii) Following the successful pilot it is proposed that the Area Officer posts are added to the base budget on a permanent basis from 2019/20 at a cost of £98k which has been funded through re-prioritisation and therefore has a net nil effect on the proposed budget for 2019/20.

Comparison with 2018/19

4.4 The general fund budget requirement for 2019/20 is £13.781m, £0.584m lower than the 2018/19 original estimate. This reduction is primarily due to:

	£000
Increase in Head of Service Net Expenditure	397
Increase in Drainage Board levy	9

Net decrease in treasury management costs	(192)
Increase in New Homes Bonus income received	(181)
Net increase in Other Government Grants	(575)
Increased transfers from Earmarked Reserves	17
Reduced contribution to financing of Fixed Assets from revenue	(59)

Total Reduction	(584)
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5. FOLKESTONE & HYTHE BAND D EQUIVALENT COUNCIL TAX 2019/20

- 5.1 The Local Government Finance Act 1992 (as amended) requires the Council to determine its council tax requirement for 2019/20.
- 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 2019/20 Report that is being considered at the 20 February 2019 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 £12,598,350.
- 5.4 This is divided by the tax base (39,057.21 Band D equivalent properties) to calculate the average district council tax, including town and parish precepts. The council tax base was approved by Corporate Director – Customers, Support and Specialist Services on 11 December 2018 via delegated authority through the constitution and is recommended to Full Council as part of the General Fund Budget and Council Tax 2019/20 Report that is being considered on 20 February 2019, following this Cabinet meeting.
- $£12,598,350 \div 39,057.21 = £322.56$
- 5.5 The average District council tax for Band D properties, including an amount for town and parish councils, will be £322.56. This is an increase of £4.57 (1.44%) over 2018/19. 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.

	2019/20 £	2018/19 £	Increase / (Decrease) %
Band D Council Tax - including town and parish precepts	322.56	317.99	1.44%
Band D equivalent of town and parish precepts	(59.22)	(59.60)	0.63%
Band D Council Tax - excluding town and parish precepts	263.34	258.39	1.92%

The average council tax to finance Folkestone & Hythe's net spending plans in 2019/20, including special expenses, is proposed to be increased by 1.92% to £263.34. The Council is therefore not at risk of having to hold a referendum because the increase falls well below the Government threshold.

Excluding the special expenses, Folkestone & Hythe's council tax rate is £249.21; an increase of 1.91% from the 2018/19 rate.

6. SPECIAL EXPENSES – FOLKESTONE PARKS AND PLEASURE GROUNDS CHARITY

- 6.1 The average 2019/20 council tax for Folkestone & Hythe District Council of £263.34 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 Folkestone & Hythe 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
Folkestone & Hythe District Council element of Council Tax - excluding Special Expenses	249.21	4.68	+1.91%	All Folkestone & Hythe District council tax payers
Special Expenses - Folkestone Parks and Pleasure Ground Charity	33.57	0.53	+1.60%	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 2019/20 report to Full Council on 20 February 2019.

8. GENERAL FUND RESERVES

- 8.1 The forecast reserves position for 2018/19 and 2019/20 is shown below:

Reserve	1/4/2018 Balance £000	2018/19 Movement £000	31/3/2019 Balance £000	2019/20 Movement £000	31/3/2020 Balance £000
Earmarked Reserves:					
Business Rates	3,160	391	3,551	59	3,610
Carry Forward	420	(181)	239	(40)	199
Corporate Initiatives	379	26	405	260	665
IFRS ¹ Reserve	49	(11)	38	(7)	31
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	(13)	641	24	665
Economic Development	2,194	(23)	2,171	(742)	1,429
Otterpool	2,232	(1,388)	844	(278)	566
Maintenance of Graves	12	0	12	0	12
Community Led Housing	437	0	437	0	437
Lydd Airport	9	0	9	0	9
Homelessness Prevention	215	0	215	0	215
Total Earmarked Reserves	13,037	(1,388)	11,649	(889)	10,760
General Reserve	5,862	1,155	7,017	0	7,017
Total General Fund Reserves	18,899	(233)	18,666	(889)	17,777

¹ IFRS = International Financial Reporting Standards

²VET = vehicles, equipment and technology

- 8.2 The General Reserve is forecast to be £7.0m by 31 March 2020 on the assumption that in-year budget variances are contained within the overall approved 2019/20 budget. Total General Fund Reserves (General Reserve plus Earmarked Reserves) are forecast to be £17.8m at 31 March 2020

9. BUDGET CONSULTATION

- 9.1 The objectives for consultation on the 2019/20 budget proposals were 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
- 9.2 Information was placed on the website and feedback through email encouraged. Additionally some specific groups such as the Business Advisory Board and Joint Parish Council Committee received presentations.
- Budget Consultation Responses
- 9.3 Public budget consultation ran online during December and January. No direct feedback was received through these means. We will seek to explore over the coming year how other authorities undertake their

consultation with the public to explore options to obtain a more representative sample of residents' views.

- 9.4 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 Business Advisory Board 22 November. The board felt that they would be able to more constructively contribute if they were consulted at an earlier stage in the process and officers have therefore undertaken to engage with the group during the budget strategy phase of the process to gain that early input for 2020/21.
- 9.5 Parish councils were also briefed and invited to participate in the consultation at the meeting of Folkestone & Hythe District and Parish Councils Joint Committee on 17 January 2019.

10. BUDGET SCRUTINY

- 10.1 The 2019/20 budget reports that have been approved by Cabinet have been subject to review by the Overview and Scrutiny Committee at the following meetings:
- 16 October 2018 - Medium Term Financial Strategy for the period 2019/20 to 2022/23
 - 13 November 2017 - Budget Strategy 2019/20 and Fees & Charges 2019/20
 - 11 December 2018 - Draft General Fund Original Revenue Budget 2019/20
 - 19 February 2019 - 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 2019/20 report to Council on 20 February 2019.

12. CONCLUSION

- 12.1 Cabinet is asked to recommend to Full Council the approval of the final General Fund budget for 2019/20 and to determine the District Council's council tax requirement as £12,598,350.

13. RISK MANAGEMENT ISSUES

- 13.1 The risks in respect of the General Fund Budget 2019/20 have already been set out in detail in Report C/18/51 to Cabinet 12 December 2018 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 claim in January.
Reduction in Government grant	High	High	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 Government Finance Settlement impact.	High	Low	Current position is based on known information. Position will be updated before February report is presented.

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 20 February 2019 Budget and Council Tax 2019/20 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 – Assistant Director – Finance, Customer & Support Services

*Telephone: 01303 853420
07935 517986*

Email charlotte.spendley@folkestone-hythe.gov.uk

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

- Budget working papers
- 17 October 2018 - Report to Cabinet and Council - Medium Term Financial Strategy for the period 2019/20 to 2022/23
- 14 November 2018 - Reports to Cabinet - Budget Strategy 2019/20 and Fees & Charges 2019/20
- 12 December 2018 - Report to Cabinet - Draft General Fund Original Revenue Budget 2019/20
- 20 February 2019 - Report to Cabinet - Update to the General Fund Medium Term Capital Programme