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ITEM Revenue Budget and Council Tax Proposals 2018/19

Report of the Finance Portfolio Holder

Recommended:

1. That the Revised Forecast for 2017/18 as set out in Column 3 of annex 1 to the report be approved.
2. That the Savings Options, Income Generation Proposals and Revenue Pressures as set out in annexes 2 - 4 to the report be approved.
3. That subject to recommendation 2 above and taking due regard of the Head of Finance's comments in annex 8 to the report, the budget for 2018/19 as set out in Column 6 of annex 1 to the report be approved.
4. That subject to recommendations 2 and 3 above, the revenue estimates for each Service contained in annex 7 to the report be approved.
5. That a Council Tax Requirement for 2018/19 of £8,604,218 be approved.
6. That a Special Expenses Levy of £296,627 be made in respect of the area of Andover to cover the cost of providing burial grounds, public halls, sports grounds and playgrounds.
7. That a general precept of £6,798,851 be levied for the year 2018/19.
8. That the Medium Term Forecast contained in annex 6 to the report be noted.
9. That a Band D Council Tax excluding Parishes and Special Expenses of £141.41 in 2018/19 be approved – representing an increase of £5, equivalent to less than 10p per week.
10. That the transfer to the Capital Receipts Reserve be increased by £1.123M in 2018/19.
11. That delegated authority be given to the Head of Finance in consultation with the Leader, Finance Portfolio Holder and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by Parish Councils or any late changes in the final Local Government Finance Settlement.

Recommendation to Council

SUMMARY:

- This report presents proposals for the final Revenue Budget and Council Tax for the financial year 2018/19.

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- The report takes into account the previous budget information and options for changes in service delivery that were presented to the Cabinet in November 2017 and January 2018.
- The headline financial figures in the report are :-
 - ◆ Band D Council Tax (excluding Parishes and Special Expenses) of £141.41 – representing an increase of £5, equivalent to less than 10p per week.
 - ◆ Revenue savings proposals totalling £368,140 – Annex 2
 - ◆ Income Generation proposals totalling £613,700 – Annex 3
 - ◆ Additional spending pressures on services of £1,405,450– Annex 4
 - ◆ Forecast additional growth in retained Business Rates income of £995,100.
- The final recommendations arising from this meeting for the Budget and Council Tax for 2018/19 will be considered by Council on 23rd February 2018.

1 Introduction

- 1.1 The Cabinet considered the Budget Strategy for 2018/19 in November 2017. The report showed a best, middle and worst case scenario of the budget gap the Council expected to face for 2018/19.
- 1.2 An update of the budget forecast was presented to Cabinet in January 2018 in light of the provisional Local Government Finance Settlement and further work that had been carried out to identify the savings necessary to balance the budget for 2018/19.
- 1.3 This report presents the proposals for the 2018/19 Revenue Budget and Council Tax to be considered at this meeting before a final recommendation is made to Council.

2 Background

- 2.1 This report deals with the overall revenue budget and council tax for the Borough for the 2018/19 financial year. The key issue that needs to be considered is how to set a balanced budget with due regard to:-
 - The estimated cost of providing existing services at their current levels
 - Managing service delivery where external grant funding is reducing considerably
 - Predictions of a sustained low level of investment income
 - The level of savings to be taken into account in setting the budget
 - The availability and use of balances to support revenue spending
 - The level of Council Tax to be set for the Borough of Test Valley, and

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- The impact on budget projections for the medium term.
- 2.2 It is impractical to examine every possible permutation of the seven items set out above and therefore, this report sets out a specific budget proposal for debate that incorporates all of these items and takes into account discussions that have been held with the Leader and Portfolio Holders.
- 2.3 The following sections provide more detailed information on the final budget proposals that have been put forward. They compare the figures to those presented to Cabinet on 17 January 2018.

3 2017/18 Revised Forecast

- 3.1 The original budget for 2017/18 included no draw from general reserves in the year. This continues to be the case and general reserves are expected to remain at £2M at the end of the year.
- 3.2 The budget monitoring report presented to Cabinet on 18 October 2017 identified additional costs of £52,900 in the cost of services offset by £59,000 additional investment income for the first six months of the year.
- 3.3 Savings made to date are reflected in the revised forecast shown in the annexes to this report.
- 3.4 No decisions will be taken on how to deploy any positive variance or cover any negative variance arising in 2017/18 until the outturn position is known. This is due to be reported to Cabinet in May 2018.

4 2018/19 Budget Proposals

- 4.1 Annex 1 sets out the proposed budget for 2018/19. The figures shown take into account changes in the detailed estimates arising from the budget process together with the savings options and budget pressures set out in the annexes to this report.
- 4.2 The Net Cost of Services shown in Annex 1 includes some items of expenditure, such as depreciation and capital grants, that do not form part of the Council Tax calculation. These charges can vary significantly and distort the figures shown against each Service. Annex 5 shows the same figures as Annex 1 with these items removed.
- 4.3 Annex 7 sets out a summary of the estimates by main service area. The figures in Annex 7 exclude capital financing charges and are reconciled to the summary shown in Annex 5.

Overall Budget

- 4.4 All of the changes outlined in this report are reflected in the figures shown in Annex 1 which represents the proposed budget before the Cabinet. The Net General Fund Requirement is £12.908M and the Council Tax Requirement is

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£8.604M.

The budget gap shown in the January budget update was zero. Since then, there have been a number of movements, but the gap remains closed. A summary of the movements is shown in the following table.

	£'000
Budget Gap per January report	0
Additional savings (see Annex 2)	(49)
Additional income (see Annex 3)	(53)
Net reduction in pressures (see Annex 4)	(1)
Forecast additional growth in retained Business Rates Income (see para. 4.5)	(995)
Other budget changes	(25)
Transfer to Capital Receipts Reserve (see para 4.7)	1,123
Final Budget Position	0

- 4.5 Work has continued during January to calculate the impact of the Business Rates Retention Scheme. The budget for 2018/19 now includes an estimate of additional income from this source totalling £995,100 (see paragraphs 4.18 – 4.23 for further details). However, whilst this is clearly beneficial in the short term, these levels of income cannot be relied upon to be generated in the future due to the Government's reset of the Business Rates Retention Scheme in 2020 and a number of other variables outside the Council's control.
- 4.6 During the detailed budget work, a number of small adjustments have been identified and included in this budget update. These have reduced the budget gap by £25,000.
- 4.7 The total additional income since the January budget update is £1.123M. It is recommended to transfer this to the Capital Receipts Reserve in 2018/19 as an additional contribution towards the cost of the capital programme as discussed in the Capital Programme Update report elsewhere on this agenda.

Savings made to set a balanced budget

- 4.8 Annexes 2 and 3 show that the Council has identified a number of areas to reduce its net expenditure in 2018/19. This combination of reduced expenditure and increased income streams is estimated to reduce net costs by £981,800 next year; however, this is just one piece of a much larger budget savings' jigsaw.

The following table shows the savings delivered and additional income generated in recent years in the context of the Council's net budget

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requirement. It also shows the budget reductions in comparison to the increase in Council Tax over the same period.

Year	Net Budget Requirement £'000	Savings Made £'000	Savings as % of Budget Requirement	Council Tax Band D	Council Tax Increase in Year
2008/09	12,325	669	5.43%	£113.31	4.48%
2009/10	12,504	1,729	13.83%	£118.44	4.53%
2010/11	12,966	614	4.74%	£121.41	2.51%
2011/12	11,606	957	8.25%	£121.41	0.00%
2012/13	11,063	1,229	11.11%	£121.41	0.00%
2013/14	11,062	1,249	11.29%	£126.41	4.12%
2014/15	10,452	1,165	11.15%	£126.41	0.00%
2015/16	9,030	905	10.02%	£126.41	0.00%
2016/17	12,064	839	6.95%	£131.41	3.96%
2017/18	12,379	1,419	11.46%	£136.41	3.80%
2018/19	12,908	982	7.61%	£141.41	3.67%

- 4.9 In each of the last ten years the reductions to net expenditure identified by the Council during its budget setting, most notably as part of the 'Corporate Challenge' process, have considerably outstripped the additional income demanded through Council Tax increases.
- 4.10 During the period from 2008/09 to present the Council has delivered budget reductions totalling £11.757M, equivalent to more than £1M per year. This includes additional income generated by Project Enterprise (see paragraphs 4.12 – 4.16).
- 4.11 This clearly demonstrates the efforts the Council has made in recent years to control expenditure and keep Council Tax increases to a minimum.

Project Enterprise

- 4.12 Project Enterprise was established in 2014 to increase the income generated by the Council from its investments and reduce its reliance on the Government's Revenue Support Grant.
- 4.13 Since 2014, the Council has invested in a number of properties that have sought to generate additional revenue income. This additional income has been generated by investing the cash reserves held by the Council in projects that will yield greater returns than the current investment portfolio.

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The amount of investment in completed projects is currently £26.817M. Net rental income from these investments is forecast to be £1.905M in 2018/19. This represents an average return on investment of 7.1%.

- 4.14 In contrast, the Council's cash investment portfolio is forecast to generate an average return of 0.73% in 2018/19. Had the Council not purchased the additional properties and left the investment in cash reserves, this would be expected to generate £196,000 in 2018/19.
- 4.15 Income from Project Enterprise investments is therefore, expected to be £1.709M greater than would have been achieved by retaining the balances in cash.
- 4.16 Some of the income generated from the completed investments is used to replenish the Capital Receipts Reserve over the lifetime of the investment. For 2018/19, £412,800 is included within the Transfer to Capital Balances line in Annex 1 for this purpose. The remainder of the income will be used to support Council services.

Business Rates Retention Scheme

- 4.17 The Government introduced the Business Rates Retention Scheme in 2013. It is a complex scheme with baseline assessments, top ups and tariffs, levy payments and safety nets.
- 4.18 If this was not complicated enough, the Government has introduced a further layer of complexity in awarding S31 grants to offset the impact of policies aimed at protecting small businesses. This can create apparent surpluses or deficits on the Council's Collection Fund and corresponding deficits or surpluses in the General Fund and volatility in yearly cashflows.
- 4.19 The Head of Revenues has delegated authority (in consultation with the Head of Finance and the Economic Portfolio Holder) to approve the annual National Non Domestic Rates returns to Central Government. In so doing, this effectively sets the initial shares of income to be allocated to the main preceptors and the Government from the Collection Fund.
- 4.20 The Head of Finance has consulted with the Acting Head of Revenues (Local Taxation) and reviewed his budget working papers. In the early years of the rates retention scheme, the Council adopted a cautious approach of budgeting for the settlement figure only. However, following the business rates revaluation exercise which was implemented from April 2017, it is estimated that income due to the Council in each of the next 3 years will be as per the following table:

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	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s
Business rates income	5,237	4,606	2,393
Section 31 grants	1,422	1,413	1,406
2017/18 surplus on collection fund	408	0	0
Provision for levy payable to government	(1,932)	(1,591)	0
Renewable energy rates 100% retained	454	454	454
Total income from business rates retention scheme	5,589	4,882	4,253
Less income from business rates retention scheme included in January report	4,594	4,033	3,602
Growth in retained income from business rates retention scheme	995	849	651

4.21 This additional income has now been built into the Medium Term Forecast. However, this additional income is extremely vulnerable to the level of appeals that may occur as a result of the 2017 revaluation exercise and the Council maintains a Collection Fund Equalisation Reserve in case the level of appeals is higher than estimated. In addition, the Government maintains the power to take away all of the accumulated growth in income generated since 2013 in the reset of the Business Rates Retention Scheme in 2020. Therefore the estimates for 2020/21 exclude any growth in income above the baseline settlement figure.

4.22 The final settlement for 2018/19 was announced on 6 February and is in line with the Medium Term Financial Strategy at £2.29M (£2.22M in 2017/18).

Draws from Reserves

4.23 Draws from reserves are expected to be for one-off or specific expenditure. No further general draws from reserves are budgeted in 2018/19 to close the overall budget gap.

Local Government Finance Settlement

4.24 Full details of the *Provisional* Local Government Finance Settlement were given in the Budget Update report to Cabinet on 17 January and are not repeated here. The *Final* Local Government Finance Settlement was announced on 6 February. The main Settlement Funding Assessment including the Revenue Support Grant was unchanged from the provisional

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figures supplied earlier in the year. However, the Government made changes to tariffs and top-ups to reflect an issue with the VOA data used in the provisional settlement. The Council's tariff payment to the Government has therefore reduced from £16,497,651 to £16,444,561 and this lower figure has been included in the final budget for 2018/19.

Robustness of Estimates and Adequacy of Revenue Reserves

- 4.25 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Head of Finance) to report on the robustness of the budget estimates and adequacy of reserves at the time the Council is deciding the level of Budget Requirement and Council Tax for the forthcoming year. This is shown in full detail in Annex 8.

Council Tax

- 4.26 Under delegated authority the Head of Revenues, in consultation with the Head of Finance, sets the Council Tax base for the forthcoming financial year. The Council Tax resolution is reported directly to Council for consideration with the budget proposals. This report assumes that the figure prepared for the Council Tax Resolution does not change.
- 4.27 Should the tax base change, the resultant change in income to the Council will be met by an adjustment to/from the Budget Equalisation Reserve rather than amending the proposed Council Tax charge.
- 4.28 The Government has implemented a clear shift in council tax policy and has assumed that local authorities will put up their council tax by the maximum they are allowed each year. This Council has received verification that an increase to Council tax of £5 will be allowable without triggering a referendum. The Government has automatically included this increase and the additional income that it generates in its calculations of the spending power of the Council as part of the settlement process. With no Council Tax Freeze Grant on offer from the Government and taking into account proposed changes in Council finances (i.e. the loss of Revenue Support Grant and reduction in New Homes Bonus), this report recommends that the Council duly implements this £5 increase.
- 4.29 For 2018/19 it is recommended that Council Tax is increased by £5 from £136.41 to £141.41.
- 4.30 The Andover Special Expenses Levy is reduced slightly from 2017/18 levels (from £21.88 per band D property to £21.75). This will enable the Council to stay within the Council Tax Referendum threshold.

5 Medium Term Forecast and Beyond

- 5.1 Annex 6 sets out the Medium Term Forecast for the General Fund budget up to the 2020/21 financial year. The figures shown in Annex 6 are reconciled to the revenue summary shown in Annex 5.

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- 5.2 In order to maintain a balanced budget, current forecasts indicate savings of £670,200 need to be found in 2019/20. This amount decreases by £447,700 to £222,500 which is the level of cumulative savings needed to close the forecast budget gap for 2020/21.
- 5.3 Work to identify options for Councillors to consider meeting these savings targets will flow from the annual Corporate Challenge process which will commence in May 2018. An initial forecast for 2019/20 based on a best, middle and worst case scenario will be presented to Cabinet in October 2018.
- 5.4 Looking further ahead, financial forecasts become less certain, but it is inevitable that, with the loss of Revenue Support Grant and fewer opportunities to make savings and efficiencies, pressure will increase on the Council to use its reserves to ensure financial stability.
- 5.5 Clearly, other factors will come into play, e.g. a move to 75% retention of Business Rates, an expected recovery in interest rates, Government policy and finance changes, but Cabinet is encouraged to keep this longer term uncertainty in mind when recommending a sustainable level of Council Tax for 2018/19 to Council.

6 Corporate Objectives and Priorities

- 6.1 The Budget encompasses all elements of the Council's activities and therefore contributes to all the Council's Corporate Objectives and Priorities.

7 Consultations

- 7.1 Consultation on the Budget has been carried out with the Leader, Deputy Leader, individual Portfolio Holders, Overview & Scrutiny Committee, Local Business groups (as detailed in the report to Cabinet in January 2018) and Heads of Service.

8 Risk Management

- 8.1 A risk assessment has been completed in accordance with the Council's Risk Management Methodology and has identified significant (Red or Amber) risks as detailed in paragraph 2.4 of Annex 8.

9 Equality Issues

- 9.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or negative impact have been identified, therefore a full EQIA has not been carried out.

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10 Conclusion and reasons for recommendation

- 10.1 This report is the culmination of a process that started in May 2017. It shows the savings and additional income that have been identified to enable the Council to propose a balanced budget for 2018/19.
- 10.2 If approved, the recommendations of this report will be considered by Council on 23 February 2018.

Background Papers (Local Government Act 1972 Section 100D)

- 1. "Provisional local government finance settlement 2018 to 2019" - DCLG Consultation December 2017
- 2. "The Referendums Relating to Council Tax Increases (Principles)(England) Report 2018/19" – DCLG December 2017
- 3. "Fair Funding Review: A review of relative needs and resources" - DCLG December 2017

Confidentiality

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

No of Annexes:	8	File Ref:	
(Portfolio: Finance) Councillor Giddings			
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Report to:	Cabinet	Date:	14 February 2018