

ITEM 8 **2018/19 Budget Update**

Report of the Head of Finance (Portfolio: Finance)

Recommended:

- 1. That the savings options, income generation proposals and budget pressures, shown in Annexes 1 - 3, be endorsed.**
- 2. That the budget position for 2018/19 and Medium Term Financial Forecast, shown in Annex 4, be noted.**
- 3. That the feedback from businesses on the budget consultation, shown in Annex 5, be noted.**

SUMMARY:

- This report updates OSCOM on changes to the 2018/19 budget forecast since the budget strategy was presented to the OSCOM Budget Panel in October and Cabinet in November 2017. This includes; the provisional Local Government Finance Settlement, the Local Council Tax Support Scheme, New Homes' Bonus provisional allocations and changes to revenues savings and pressures.
- It also provides an updated Medium Term Financial Forecast covering 2019/20 and 2020/21.
- This report currently shows a balanced budget for 2018/19 but there is still work to be done before figures are finalised in February, 2018.

1 Introduction

- 1.1 The initial budget strategy and forecast for 2018/19 were presented to the OSCOM Budget Panel on 9 October, 2017 and to Cabinet on 15 November, 2017.
- 1.2 Since that time, work has been carried out to revise the current year estimates, prepare original estimates for 2018/19 and update the Medium Term Financial Forecast.
- 1.3 The purpose of this report is to;
 - Provide the latest available information on the provisional Local Government Finance Settlement and how it affects Test Valley.

- Provide an update on the latest savings options, income generation proposals and revenue pressures.
- Update the Medium Term Financial Forecast after considering the above.
- Outline the remaining stages of the budget process.

1.4 Assuming no changes to the figures presented in this report, the Council has achieved a balanced budget for 2018/19.

2 2017/18 Revised Forecasts

2.1 Work is progressing well in preparing the revised forecasts for 2017/18 but detailed figures are not ready at this stage. However, some of the more significant factors that are being considered in the preparation of the forecasts are explained below.

2.2 The original budget for 2017/18 assumed there would be no change in the level of general reserves. This remains the same and general reserves are expected to remain at £2M at the end of the year.

2.3 Cabinet received a mid-year budget report on 18 October that highlighted significant budget variances in the first half of the financial year. The report highlighted additional costs of £52,900 in Services offset by £59,000 additional investment income to the end of September.

2.4 It is anticipated that any further variances that are identified in setting the revised forecasts for 2017/18 will be shown as a transfer to earmarked reserves. The decision on how to allocate this will be taken at the end of the year once the outturn position is known.

3 2018/19 Budget Forecast

3.1 Savings Options, Income Generation Proposals and Budget Pressures

This report identifies a number of new increased income streams and additional pressures. These have been identified by Heads of Service, budget holders and Service Accountants as the estimates for next year have been progressed.

Annex 1 shows all the savings options that have been proposed. The annex contains two parts; the first shows the items considered by the OSCOM Budget Panel in October and Cabinet in November, with the second section showing further savings options of £15,500.

Annex 2 follows the same format as Annex 1 and shows all income generation proposals as at November and also includes some new items of additional income. The net additional income proposals identified in this report total £432,800.

Annex 3 details the budget pressures identified in November along with some new items. Net additional pressures of £312,200 have been included.

3.2 Budget Forecast 2018/19

As with the revised forecast figures for 2017/18, the original estimate figures for 2018/19 are also currently being worked on and there may be further changes.

When the budget forecast was presented in November there was a budget gap of £232,600. The current budget estimates include some major variances, but the gap has been reduced to zero. A reconciliation of the movement in this gap is shown in the table below.

	£'000
Budget gap per November report	233
Additional Council Tax income from increase in tax base	(101)
Reduction in business rates baseline funding – Paragraph 3.3	5
Additional savings options – Annex 1	(16)
Additional income generation proposals – Annex 2	(433)
Additional pressures – Annex 3	312
Current Budget gap	0

There are a number of factors that will impact on the completion of the estimates for 2018/19 that still retain a degree of uncertainty. These are discussed in the following paragraphs.

3.3 Local Government Finance Settlement

The provisional Local Government Finance Settlement (announced on 19 December) has provided the headline grant figures that the Council can expect to receive in core funding (Settlement Funding Assessment (SFA)) in 2018/19 and provides some indicative figures for 2019/20.

The cuts continue to be severe, with a reduction in SFA of 11.2% (£294,700) in 2018/19 and a further cut of 15% expected in 2019/20 (£353,000), giving an overall reduction of £647,736 over the next two years.

The Medium Term Financial Strategy presented to Cabinet on 15 November made assumptions about the Finance Settlement. These assumptions were reasonably accurate, but did not take account of the full impact of the way in which the Government has adjusted for the effect of the 2017 business rates revaluation. This has resulted in a reduction in the Council's retained business rates element of the SFA, giving less income than expected of £4,700 in 2018/19 and £35,578 in 2019/20.

3.4 Council Tax Increase – Referendum Threshold

When the Budget Strategy was presented in November, it was assumed that the Band D level of Council Tax would increase by £5 in 2018/19. The Government has now released its Referendum Principles Report for 2018/19 confirming that a £5 increase would be allowable and would not trigger a referendum.

When the Cabinet next meets on the 14 February, the final Local Government Finance Settlement figures will have been announced. Members will then have the opportunity to consider options for Council Tax levels to recommend to Full Council on the 23 February.

It should also be noted that Hampshire County Council will have the ability to increase its share of Council Tax by up to 6% (£67.98 at Band D) and the Hampshire Police and Crime Commissioner by up to £12 (7.25%) without triggering a referendum.

3.5 Local Council Tax Support Scheme

2017/18 is the fifth year that the Local Council Tax Support Scheme has been in operation. Although the gross cost of the Scheme has risen over time due to Council Tax increases, this has been offset by a reduction in caseloads which continue to fall in line with expectations, so the net cost of the scheme is still being contained within the approved budget.

This means that the 2017/18 scheme could continue into 2018/19 without additional cost to the Council.

A detailed report has been prepared for consideration at the Council meeting on 24 January 2018, to approve a final scheme for 2018/19.

The budget forecast has been prepared on the basis that the existing Local Council Tax Support Scheme continues as recommended in that report.

3.6 Localisation of Non-Domestic Rates (NDR)

2013 year saw the introduction of the Business Rate Retention Scheme. This was a significant change for local government that aimed to provide some incentive for local authorities that can achieve business growth, but also carried with it significantly more risk than the previous “pooling” arrangements.

Each year’s local government finance settlement builds upon the business rate retention starting position that was established in the 2013-14 local government finance settlement.

The table below shows this starting position compared with the provisional finance settlement figures for 2018/19:

	£	Comments
Area Business Rates	44,475,312	Average collectable over last 2 years
Less: Govt. share	(22,237,656)	Represents 50% of amount collectable
Local Business Rates Baseline	22,237,656	Represents 50% of amount collectable
TVBC BR Baseline	17,790,125	Represents 80% of above figure
Less: Tariff paid to Govt.	(15,709,857)	
TVBC Baseline Funding 2013/14	2,080,268	Retained share of Business Rates
TVBC Baseline Funding 2014/15	2,120,774	Retained share of Business Rates
TVBC Baseline Funding 2015/16	2,161,298	Retained share of Business Rates
TVBC Baseline Funding 2016/17	2,179,309	Retained share of Business Rates
TVBC Baseline Funding 2017/18	2,223,802	Retained share of Business Rates
TVBC Baseline Funding 2018/19	2,290,611	Provisional share of Business Rates

Work is still being carried out to estimate levels of income, appeals in the pipeline, likely future appeals, discounts and reliefs, etc. By the end of January 2018, it is hoped that the Council will have a better understanding of the likely financial position compared with the baseline funding announced by the Government shown above.

3.7 Revenue Support Grant

Revenue Support Grant (RSG) is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement.

The provisional local government finance settlement shows a continuing and expected reduction in the amounts of grant support given to local authorities. The Government's stated intention is to phase out RSG entirely by 2019/20. For this Council, the actual and provisional figures are as follows:

2013/14	£3.127m
2014/15	£2.445m = 21.8% reduction year on year
2015/16	£1.696m = 30.6% reduction year on year
2016/17	£1.012m = 40.3% reduction year on year
2017/18	£0.417m = 58.8% reduction year on year
2018/19	£0.056m = 86.6% provisional reduction year on year
2019/20	£NIL = 100% forecast reduction *

* When the multi-year settlements were announced, some authorities, including this Council, were given "negative RSG" allocations in 2019/20. This is where an authority's Baseline Funding Level (BFL) is

greater than its Settlement Funding Assessment (SFA) and, in order to ensure that these authorities were not “over-funded”, the authority’s tariff was adjusted. The adjustment is often referred to as “negative RSG”. In 2019/20, the Council’s negative RSG is forecast to be £347,856. However, in his statement on the Finance Settlement, the Secretary of State referred to the “strength of feeling” in the sector and said that the Government would review the negative RSG allocations in 2019/20.

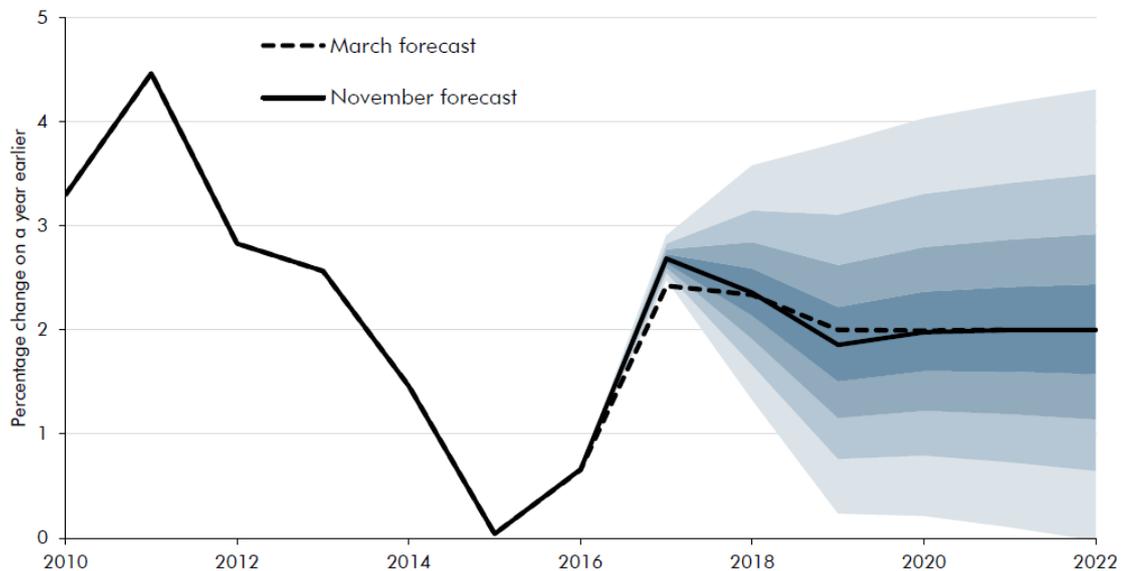
3.8 Inflation

The budget forecast assumes a general zero inflation allowance for all expenditure budgets except for contractual obligations and a possible staff pay award.

These figures are estimates of what may occur during the next financial year and may increase or decrease before the budget is set.

The Bank of England has said Brexit-fuelled inflation is “close to its peak” as it left interest rates on hold during December. The Office for Budget Responsibility supports this view and does not expect inflation to rise further. It expects the rate to decline gradually through 2018 and 2019 as the effects of the fall in the pound around the time of the referendum begin to fade. Inflation is expected to settle close to the 2% target around the middle of 2020.

CPI Inflation fan chart



Source: ONS OBR November 2017

3.9 Investment Income

The income that the Council earns from its investment portfolio is dependent on three key factors; the prevailing base interest rate, the level above or below the base rate that the Council can invest at and the size of the investment portfolio.

The Council regularly receives interest rate forecasts from two external sources. An interest rate rise of 0.25% to 0.75% from the current base rate of 0.5% is currently forecast for the third quarter of 2018.

Investments of up to three months currently attract typical interest rates slightly lower than base rate at 0.45%. A one-year investment attracts an average return of around 0.65%.

The perceived risk in the banking sector has eased over the past five years and there are now more creditworthy counterparties with which investments for periods of up to one year can be placed. The over-riding priority continues to be the security of investments rather than the return on them.

The investment portfolio is estimated to be between £58M and £64M throughout the year. This comprises the Council's normal cash flow balances and both Capital and Revenue Reserves earmarked for specific purposes.

3.10 New Homes' Bonus

When the Budget Strategy was presented in November, the forecast income from the New Homes' Bonus (NHB) in 2018/19 was £3.887M. The provisional figures for 2018/19 have now been announced and the Council can expect to receive £3.837M – some £50,000 less than forecast.

This grant will be transferred into the New Homes' Bonus reserve where it will be used in accordance with the Budget Strategy.

The Government has decided not to implement any further changes to the way that New Homes Bonus (NHB) is calculated. It had been proposed in a recent consultation paper (September 2017) that NHB payments might be reduced where the authority had refused planning permission which was subsequently granted on appeal.

This condition would have been in addition to the threshold on payments that had been set at 0.4% in 2017/18. The threshold meant that NHB payments would only be made on increase in council tax base that exceeded 0.4%. It was expected that this threshold would be increased, partly to ensure that the total funding would remain within the control total of £938M in 2018/19 (down from £1Bn in 2017/18). Instead the Secretary of State has announced that the threshold will remain at 0.4% and no further changes will be made.

3.11 Homelessness Prevention

Councils are responsible for spending their resources according to local priorities and in the interests of their residents. None of the Settlement Funding Assessment received from Government is ring-fenced for specific purposes. However, as part of the Provisional Local Government Finance Settlement, the Government has provided the following indicative figures relating to what was previously paid as a separate grant for Homelessness Prevention:

2016/17	£86,332
2017/18	£86,478
2018/19	£86,667
2019/20	£86,581

This is not new, or additional money as it is included in amounts receivable in Revenue Support Grant (shown in paragraph 3.7) and in the retained share of Business Rates (shown in paragraph 3.6). It should be noted that these notional amounts have been provided “in order to signal the priority the Government attaches to this issue and to encourage local prioritisation of Homelessness Prevention”, but ultimately it is a matter for Full Council to decide on the allocation of scarce and reducing resources as it sets the 2018/19 budget at its meeting on 23 February.

3.12 Changes in local government funding in 2020/21

Two announcements were made that will affect the funding review that will be implemented in 2020/21:

- (a) A consultation on the [Fair Funding Review \(FFR\)](#) - In itself the consultation does not give much away about how the final results of the FFR will impact on the Council. It does, however, give an insight into how thinking is developing within the DCLG. The consultation paper focusses on three closely related strands of work:
- **Relative needs** (looking at cost drivers, including service specific costs such as Adult Social Care and Children’s Services, and how they should be weighted in any funding formula)
 - **Relative resources** (taking into account council tax income, redistributed business rate income and other potential sources of income available to councils), and
 - **Transitional arrangements** (recognising that there may be significant winners and losers in any redistribution of funding).

The Government is seeking to design a new relative needs assessment methodology that will deliver: simplicity, transparency, sustainability, robustness and stability and will be based on the most up-to-date data available.

- (b) An announcement that the local share in the Business Rate Retention Scheme (BRRS) will increase from 50% to 75% in 2020/21 - The increase in local share will be fiscally neutral and will be matched by transfers of Revenue Support Grant, public health grant and other grants. Without further details it is again difficult to gauge the impact on the Council’s finances as the BRRS will be reset and business rates will be redistributed according to the outcome of the new needs assessment.

3.13 Department for Work and Pensions (DWP) Grants

The budget forecast assumes that the Council will receive £568,000 in respect of Local Council Tax Support Admin Subsidy Grant and Housing Benefit Admin Subsidy Grant over the next two years. A letter was received from the DWP on 19 December, 2017, informing the Council that there would be a delay in issuing grant allocations and that it would “issue indicative allocations for 2018/19 early in January 2018, with final allocations at the end of that month”.

3.14 Other risks affecting the budget process

There are a number of other factors that will affect the budget process to a lesser extent. These include items such as: fee and other income streams that are largely outside the control of the Council, and staff vacancy rates.

In light of the variances identified in 2017/18 to date, Heads of Service have continued to be more optimistic in their approach to setting budgets for fee income. In the event that the actual income does not reach budgeted levels it will be possible to draw from the Income Equalisation Reserve at the end of the year to ensure that there is no negative impact on the General Fund balance.

4 Medium Term Financial Forecast

4.1 The Medium Term Financial Forecast has been updated to reflect the above changes and the latest version is shown in Annex 4. The position in respect of 2018/19 is addressed in section 3 above.

4.2 The figures for 2019/20 and 2020/21 assume that all savings to close the budget gap for 2018/19 are sustainable and will continue in the medium term.

4.3 In order to maintain a balanced budget, current forecasts indicate savings of £787,100 need to be found in 2019/20. This amount reduces by £434,100 to £353,000 to close the forecast budget gap for 2020/21.

5 External Consultation on the Budget

Consultation with local business

5.1 In previous years, the Finance Portfolio Holder, Head of Finance and Economic Development Officer have met with representatives from local businesses. This consultation has produced very few comments or queries on the Council’s budget strategy.

5.2 In view of this, this year the Economic Development Officer sent copies of the Council’s Medium Term Financial Strategy and budget forecast to the Hampshire Chamber of Commerce: Andover & Romsey committees, Stockbridge Business Association, Andover Mutual Business Group, Andover and Romsey Town Centre Managers and to the Federation of Small Businesses (FSB) inviting their (and their members) responses by the 5

January 2018. The comments received are generally positive, especially in relation to: the control of the Council's budget, support for businesses, street cleaning and associated works and freezing car parking charges. All comments received are detailed in Annex 5.

6 The Next Steps in the Budget Process

- 6.1 The Overview & Scrutiny Committee will review the latest budget forecast at its meeting on 22 January 2018. Any recommendations from this meeting will be considered by Cabinet on 14 February when the final budget report will be presented.
- 6.2 The final budget report will be presented to Cabinet on 14 February 2018 for recommendation to Council on 23 February.

7 Risk Management

- 7.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified some significant (red and amber risks). These are detailed in the Medium Term Financial Strategy report presented to Cabinet on 15 November 2017.

8 Resource Implications

- 8.1 The resource implications of the 2018/19 budget process and the Medium Term Financial Forecast have been discussed throughout the report.

9 Equality Issues

- 9.1 This report is for information purposes, so the Council's EQIA process does not need to be applied.

10 Conclusion and reasons for recommendation

- 10.1 This report provides an update on the budget strategy that was approved in November. It takes into account the latest developments that will affect the budget process and forecasts a balanced budget for 2018/19.
- 10.2 The final budget report will be presented to Cabinet on 14 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
4. "100% Business Rates Retention: Further consultation on the design of a new system" – 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:	5	File Ref:	
(Portfolio: Finance) Councillor Giddings			
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Report to:	OSCOM	Date:	22 January 2018