Chichester District Council

CABINET **7 February 2017**

Budget Spending Plans 2017-18

1. Contacts

Report Author:
John Ward, Head of Finance and Governance Services
Tel: 01243 534805 E-mail: jward@chichester.gov.uk

David Cooper, Group Accountant
Tel: 01243 534733 E-mail: dcooper@chichester.gov.uk

Cabinet Member:
Philippa Hardwick, Cabinet Member for Finance and Governance Services
Tel: 01428 642464 E-mail: phardwick@chichester.gov.uk

2. Executive Summary

Full Council approved the 5 Year Financial Strategy in January. The key financial principles in the Financial Strategy offer guidelines for making financial decisions over the next few years, and will assist the Council in achieving balanced budgets over the medium term.

As agreed by members in September, a four year funding agreement has been secured for the period April 2016 to March 2020. A fully balanced budget is being presented for 2017-18 without the requirement to use reserves.

The government has announced that, as a low taxing authority, Chichester can raise its council tax by £5 or 2% whichever is greater. £5 equates to 3.43% and would generate an additional £260,000 per year. No council tax freeze grant is being offered for 2017-18. Any proposal to increase council tax by more than £5 would require a referendum.

Full Council will set the budget and Council Tax in March. This report concentrates on the Budget Spending Plans which are a robust financial estimate of the resources required to deliver Council services, and the Provisional Local Government Finance Settlement.

3. Recommendations:

3.1. That the Cabinet recommends to the Council:

(a) That a net budget requirement of £12,362,700 for 2017-18 be approved.

(b) That Council tax is increased by £5 from £145.81 to £150.81 for a band D equivalent in 2017-18.

(c) That the Investment Opportunities Reserve is increased by £470,600.

(d) That, should the final settlement differ from the provisional settlement, any increase or decrease be dealt with by adjusting the transfer to the Investment Opportunities Reserve above.

3.2. Cabinet further considers:

(a) The capital programme, including the asset renewal programme (Appendix 1c and 1d).

(b) The current resources position (Appendix 2).

(c) The budget variances included in the Draft Budget Spending Plan as set out in Appendix 1b including growth items.

4. Background

4.1. The report considers the position on the annual revenue budget within the context of the Financial Strategy which guides the management of the Council's finances during a period of reducing government financial support.

4.2. The draft budget preparation process is all-inclusive with the budget managers working with the accountants under the leadership of the Corporate Management Team (CMT). The result is a robust process of ensuring financial resources match service delivery priorities.

4.3. The Council's Overview and Scrutiny and Corporate Governance and Audit Committees also nominated members to review the process and progress on the draft budget.

5. Outcomes to be achieved

5.1. The draft spending plans are formulated in accordance with the financial principles of the Financial Strategy as adopted by Council. This results in a robust financial estimate of the resources needed to deliver Council Services in 2017-18.

5.2. To seek Cabinet approval on the draft spending plans, and to make appropriate recommendations to Council to determine the Council Tax at its meeting in March.

5.3. To set a balanced budget, which is a statutory requirement.

6. The Provisional Settlement

6.1. 2017-18 represents the seventh consecutive year of government funding cuts. Last year we reported that further, significant reductions in Revenue Support Grant (RSG) were expected, with the grant ending altogether after 2017-18. Once RSG has been phased out the government will achieve further reductions in funding via an adjustment to the Retained Business Rate Tariff from 2019-20. Other temporary funding in the form of “Rural Grant” and “RSG Transition grant” are also due to end.

6.2. In September, members agreed a deficit reduction plan, and delegated authority to the Head of Finance and Governance to take up the government’s multi-year funding offer. On 16 November the Council received confirmation from the Department for Communities and Local Government (DCLG) that the four year funding offer was agreed and that the Council *“can expect to receive the allocations published as part of the 2016-17 local government finance settlement in 2017-18, 2018-19 and 2019-20.”* The funding set out in the Council’s 5 year Financial Strategy is therefore not expected to change from that reported to cabinet in December. The funding expected is set out below:

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
RSG	830	190	-	-	-	-
Rural Grant	188	152	117	152	-	-
RSG transition Grant	93	93	-	-	-	-
Retained Business Rates (NDR)	3,013	2,100#	2,160#	2,230#	2,300#	2,370#
NDR Tariff adjustment	-	-	-	(620)	(620)	(620)
Total	4,124	2,535	2,277	1,762	1,680*	1,750*

(* the multi-year settlement only covers the period to March 2020)

(# the NDR projections are shown at “base line” levels. The actual amount retained in each year will vary due to changes in rating lists, appeals, collection rates etc)

6.3. Officers’ predictions for the collection of NNDR, when the 2016-17 budget was set was £3m. It is currently anticipated that the actual amount retained in the current year will be nearer £2.8m. With a new rating list coming into effect from April 2017 officers have reviewed the appeals provision i.e. the amount set aside from the NNDR collection fund to meet the cost of appeals. Currently 40% of the contribution to the provision is funded by this council. For 2017-18 a further £2m has been set aside for this purpose, thereby reducing the amount that the council retains by £0.8m. This explains the reduction in retained NDR shown in the table above from £3m in 2016-17 to £2.1m in 2017-18.

6.4. Localisation of Council Tax Support (CTS) also brings volatility to the Council’s funding. The Council has already taken the decision not to pass on this funding cut to some of the most vulnerable in our society, but to instead protect Council Tax benefit claimants. Additionally the Council has again agreed to protect the Parish Councils in 2017-18 by passing on part of our settlement. However, with the demise of RSG the council has had to take the decision to gradually phase out the parish CTR funding.

6.5. Chichester District Council has opted to form an NDR pool from 2015-16 along with West Sussex County Council and the other coastal West Sussex District and Borough Councils. The pool arrangement will remain for 2017-18 as previously agreed in the Financial Strategy. However the viability of the pool will be reviewed annually. Last year officers advised that the government were undertaking a review of the New Homes Bonus (NHB) scheme. The purpose of the review being to reduce the total expenditure by two thirds and to “sharpen the incentive” for development. The proposals included:

(a) Reducing the grant from 6 years to 4. This appears to have won favour and our allocation for 2017/18 represents a five year award, thus reducing the allocation by approximately £0.6m.

(b) Withholding payments where a local plan has not been submitted. Further detailed consultation on this is expected.

(c) Withholding payments for development that is permitted following an appeal. Further consultation is expected.

(d) Only rewarding development that exceeds a set base line. A base line of 0.4% has been set. Chichester has witnessed growth each year above the base line.

6.6. Resulting from the above changes, and particularly the reduction from 6 year grant payments to a five year scheme for 2017-18, has had the effect of reducing our NHB receipt from £3.7m in 2016-17 to £3.1m for 2017-18. It is currently anticipated that the NHB will reduce again in 2018-19 to approximately £2.5m when the scheme is reduced to a 4 year grant. Since Chichester has never relied on this source of funding to balance its revenue budgets, this does not have a direct impact on the revenue budget, but will instead reduce the amount available to fund one off projects.

7. Balancing the Revenue Budget

7.1. The Council has a statutory duty to prepare a balanced annual revenue budget. It is also good financial management to do so within the context of the 5 year Financial Strategy.

7.2. The key variables, in achieving a balanced financial position for 2017-18 are: reducing government funding, less predictable income from NDR, levels of income from fees and charges, levels of Council Tax and use of Council reserves. The 2017-18 provisional budget of £9.288m (excluding NHB) represents a 20.3% decrease on the 2016-17 base or £2.371m.

<u>Council Tax:</u>

7.3. The Financial Strategy objective is to set a realistic increase in council tax over the medium term, accepting that such an objective is linked to the continued withdrawal of annual Government grant.

7.4. The government have confirmed that the threshold for Council Tax increase for Chichester, before triggering a referendum, as £5 or 3.43%, and have also confirmed that a tax freeze grant will not be available for 2017-18.

7.5. Whilst the draft budget shows a contribution to the investment opportunities reserve of £0.471m for 2017-18, the four year settlement now means that the predicted requirement to achieve almost £4m in savings (deficit reduction report to Cabinet in September 2016 & Financial Strategy report December 2016) is now more crystallised. Those reports already assumed a £5 increase in Council Tax for 2017-18. It is not known whether we would be permitted to make such an increase in 2018 or beyond. It is therefore recommended that we do now increase the band D council tax by £5, thereby generating an extra £260,000 per year to avoid that savings target getting even larger over the financial planning period.

7.6. Cabinet and the Senior Leadership Team of the council will continue to work on delivery of the current deficit reduction plan to ensure that the budget is balanced and minimise future council tax increases.

<u>Income from Fees, Charges and Rents:</u>

7.7. The Council currently receives some £16.6m of income each year from fees and charges for services e.g. car parking, trade waste, estates' rents, planning and building control fees. Some income streams have performed well during recent years. However, this area remains at risk due to the general economic situation, and some services have, in the past, struggled to pass on inflationary increases. This issue was also highlighted in the Financial Strategy, and a prudent estimate of these income streams has been built into the 2017-18 budget.

<u>Use of Reserves:</u>

7.8. The Financial Strategy seeks to avoid the use of reserves to support the Revenue Budget on a recurring basis. The current Financial Strategy and Resource Statement allocates a £1.3m reserve to support the revenue budget over the short term. The 2017-18 budget has been balanced without the need to use reserves, however, there is a very real risk that unless the deficit reduction plan is delivered or further action taken to both reduce costs and increase income over the medium term the Council will struggle to balance its budget without the use of reserves.

7.9. The proactive financial management of the council's medium term financial position, efficiencies made during the year, and progress with the deficit reduction programme, have placed the Council in the position of once again being able to balance the forthcoming financial year's budget. This is another major step towards the objective of securing the Council's financial stability over the medium term. It is recommended that should there be a change in the final settlement this be dealt with by adjusting the amount transferred to the Investment Opportunities Reserve.

Spending:

7.10. The draft budget requirement for 2017-18 totals £12.363m (£9.288m excluding the NHB) which is based on revised service levels following the detailed budget process, and approved commitments.

7.11. The draft budget requirement is calculated after deducting income from fees and charges. It has to be financed from Council Tax, Retained Business Rates, Revenue Support Grant and other Government Grants.

8. Council Spending – Budget for 2017-18

8.1. The revenue estimates for 2017-18 are shown in the summarised Comprehensive Income and Expenditure statement in Appendix 1a. This summary provides the net cost of each Cabinet portfolio and also for the main services within each portfolio area.

8.2. The 2017-18 budget has the Corporate Plan as a central focus. The fact that the budget has again been balanced without use of reserves or the NHB, is a credit to the members, staff and management team in, what has proved again to be, a challenging budget round, and a particularly challenging settlement.

8.3. The Council's estimated budget requirement for 2017-18, as shown in Appendix 1a, is £12.363m (£9.288m excluding NHB). This represents a spending decrease of 19.3% (or a 20.3% decrease when excluding the NHB) over the base budget for 2016-17. An analysis of the major movements can be found in Appendix 1b.

9. Council Spending – Forecast outturn for 2016-17

9.1. At this point in time, the forecast for 2016-17 suggests there will be an overspend of approximately £0.4m against the original budget. This is primarily due to a shortfall in income from services such as Planning, Building Control and car parking (£443k), an increase in the net cost of Housing Benefit payments after the receipt of government subsidy (£118k), and the impact of the Q1 2016-17 Recycling Credits being transferred back to 2015-16 in error (£174k).

This shortfall is reduced by £360k due to the additional income derived from the Council investing in the Local Property Fund as per the approved Treasury Management Strategy.

9.2. The Council has a good track record of managing its finances and controlling budgets.

10. Capital Programme

10.1. The current Capital Programme is set out in Appendix 1c. This is based upon approved schemes as previously reported to Cabinet.

10.2. Appendix 1d sets out the next 5 years asset renewal projects. These are funded via contributions from the Council's revenue budget into a reserve set up for this purpose. This ensures the Council is able to fund its replacement assets on a recurring basis. The annual contribution to this fund is now £1.254m. This is in line with the Financial Strategy. All schemes funded from this source will be subject to approval in the normal way as defined in the constitution and in the Council's project management process i.e. those over £50,000 will be subject to a Project Initiation Document (PID).

10.3. The anticipated spend on infrastructure projects in accordance with the approved Infrastructure Business Plan (IBP) are contained within Appendix 1c. These projects will be subject to approval in accordance with the CIL governance arrangements agreed with the Corporate Governance and Audit Committee and the Council's Constitution, i.e. projects under £50,000 approved by the relevant Head of Service and Cabinet member, between £50,000 and £100,000 as agreed at Cabinet, and over £100,000 by Full Council.

11. Reserves

11.1. At Appendix 2 is the current Resources Statement. This indicates that the Capital Programme and Asset Replacement Programmes remain fully funded. This can be read in conjunction with Appendix 3 which is a position statement of the reserves at 31st March 2016. This statement sets out the different reserves held by the council, their purpose and the authorisation required to spend against those reserves.

12. Financial Administration

12.1. Section 25 of the Local Government Act 2003 requires the Head of Finance and Governance to report to members on the robustness of the estimates and the adequacy of reserves when considering the budget and council tax. This is so that members have authoritative advice available to them when making decisions on a budget that sets out estimates of what they plan to spend on each of the services. It is the view of the Head of Finance and Governance that the processes followed are sound and well established, the resultant estimates are robust, and reserves are at an adequate level. Regular monitoring reports are brought to members covering revenue budgets and the capital programme, and updates to the financial strategy and plan include analysis of resources and the affordability of the capital programme.

12.2. The Head of Finance and Governance is satisfied that the estimates used for Business Rates (the NNDR1) are robust and prudent. This annual return is required by the end of January and therefore will have been submitted to government by the date of the Cabinet meeting. As in previous years this return is required by DCLG to be authorised by the Council's S151 officer, i.e. the Head of Finance and Governance.

13. Summary

13.1. The primary objective of the report is to determine budget spending plans for 2017-18 against a background of ever-tightening financial constraints on public services. The estimates represent robust financial projections for the provision of Council services.

14. Resource and legal implications

14.1. Finance: The purpose of the report is to approve draft budget spending plans ahead of the Council meeting in March when the council tax and budget will be set for the forthcoming year. The plans, if adopted, will set the spending parameters of services and officers for 2017-18.

14.2. In opting for a Council Tax increase of £5 per band D property, the Council will generate an additional £260,000 per year. This will assist the Council to meet its long term objectives of protecting public services.

15. Consultation

15.1. As with last year's budget, the revenue budget spending plans were considered by a task and finish group set up by the Overview and Scrutiny and Corporate Governance and Audit Committees. This enabled earlier involvement with variance reports in December. The debate was very useful in terms of testing the changes in budget from base 2016-17 to draft 2017-18 and issues surrounding the budgets and government funding were explored.

15.2. The Draft Budget Spending Plan has been made available via the Council's website at http://www.chichester.gov.uk/annualbudget to encourage feedback on the budget and the balance of spending against taxation. This gives an opportunity for any interested party to state their opinion on priorities and resource allocation. Any comments received will be made available to members either at Cabinet, or at Council before the Council Tax and budget are set.

16. Community impact and corporate risks

16.1. Where services have been reduced through the council's change agenda, those services will have assessed the community impact and that will have been reported separately as part of the cabinet consideration at that time. This report represents the culmination of those previous decisions.

16.2. The resources statement currently indicates a surplus of resource after taking into account all commitments. However this statement includes a number of assumed capital receipts that are not yet secured. These receipts are subject to certain conditions, and therefore there is a risk that they may not be received, or be received at their forecast amount.

17. Other Implications

Crime & Disorder:	None
Climate Change:	None
Human Rights and Equality Impact:	None
Safeguarding and Early Help:	None

18. Appendices

18.1. Appendix 1 Draft Budget Spending Plan 2017-18
(incorporating Appendix 1a to 1d)

Appendix 1a Draft Summarised Income and Expenditure Account.

Appendix 1b Analysis of major budget variations

Appendix 1c Capital and Projects Programme 2017-18 to 2021-22

Appendix 1d Asset Replacement Forecast 2017-18 to 2021-22

18.2. Appendix 2 Capital Programme Resource Statement

18.3. Appendix 3 Reserves Statement

19. Background Papers

19.1. None