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Crawley Borough Council

Report to Overview and Scrutiny Committee

30 June 2014

Report to Cabinet

2 July 2014

Budget Strategy 2015/16 – 2019/20

Report of the Deputy Head of Finance, FIN/339

1. Purpose

1.1 The 2015/16 General Fund and Housing Revenue Account budgets and the 2017/18 capital programme will be determined by Council in February 2015. This report sets out the projected financial position for 2015/16 to 2019/20 for the General Fund and the underlying assumptions. It sets the policy framework for the subsequent budget process recognising that there are a range of options for capital investment, income generation, savings and Council Tax levels, none of which can be considered in isolation. **The overall objective is to look to working towards a balanced General Fund budget over a three year period.**

1.2 A separate report on the Housing Revenue Account capital investment programme will be considered by the Crawley Homes Advisory Group ahead of the Budget report to Cabinet and Council in February 2015.

2. Recommendations

2.1 To the Cabinet:

The Cabinet is asked to recommend to Council the approval of the Budget Strategy and to:

(a) Include in projections a freeze in the Council Tax for 2015/16.

(b) Note that there is a gap of £1.1m between projected General Fund income and expenditure for the three year period to 2017/18 and work towards balancing this over a three year period, including putting back into reserves when the budget is in surplus.

(c) Instruct the Corporate Management Team to take action to address the budget gap and to identify policy options for consideration by Cabinet Members and the Budget Advisory Group.

(d) Approve an allocation of up to £2m for the 2017/18 Capital Programme.

(e) Agree the allocation of £5m of capital reserves to an earmarked Investment Acquisition Reserve to fund the potential acquisition of commercial properties in accordance with the criteria set out in section 7 of this report.

(f) Authorise the Director of Transformation and Housing to acquire suitable land and property for investment purposes in consultation with the Leader of the Council, Director of Development and Resources and the Head of Finance, Revenues and Benefits. All such purchases shall be subject to there being sufficient funds in the Investment acquisition reserve and in accordance with the guideline criteria.

3. Reasons for the Recommendations

3.1 To approve the budget projections and assumptions for 2015/16 to 2019/20.

3.2 To set a Strategy for savings and income generation; working towards a balanced budget over three years and aiming to freeze Council Tax levels.

3.3 To determine the level of funding for the 2017/18 capital programme.

4. Background

4.1 The Budget Strategy includes financial projections for the period until 2019/20 and the report contains information on the main assumptions. The local government finance system is becoming increasingly complex and the difficultly of predicting what factors such as interest rates, energy costs and pay will be in two to five years time is further complicated by uncertainty regarding the financial impact of the Government's welfare reform programme and future income from business rates . It is however almost certain that the amount of money available to district and borough councils will continue reduce over the next four years.

4.2 The 2015/16 General Fund and Housing Revenue Account budgets and the 2017/18 capital programme will be set by Council in February 2015. This will be informed by the recommendations of the Budget Advisory Group and Crawley Homes Advisory Group, and take into account the savings achieved through the transformation programme led by the Corporate Management Team which includes systems thinking and other reviews. The aim will also be to look at income generation as a major goal.

4.3 Many of the underlying financial assumptions in this report apply equally to the Housing Revenue Account as to the General Fund (for example inflation and interest rates). However, the financial position of the Housing Revenue Account (HRA) is heavily influenced by the new financing regime introduced in April 2012. Under this regime the Council has taken on debt of £260.325m and determined a repayment profile which gives it the capacity to spend capital sums to achieve some of it objectives for housing including a comprehensive stock investment programme and the building of new Council homes.

5. Key Assumptions

5.1 This report provides details of budget projections for a four year period, 2015/16 to 2019/20. There are a number of key assumptions affecting the projections. A summary table is shown in paragraph 5.12.

5.2 **External support**

In the 2014/15 local government finance settlement, there was a reduction for the Council of 22.56% in its Revenue Support Grant. At that time a provisional 2015/16 figure was given of £2,536,280 this is a further reduction of 31.56% from 2014/15. The aim is for Council's to become self supporting without the reliance upon this grant by growing their business rates.

5.3 **Retained Business Rates**

When the new system of Business Rates Retention was introduced it was thought that the Council would be a 'safety net' authority for some years. Later guidance however allowed local authorities to make provision in the 2103/14 accounts for the estimated costs of backdated rating appeals.

The 2014/15 budget approved by Council in February 2014 envisaged a neutral position (i.e. not in the safety net or the Levy). Latest projections show that the Council will move into a levy position; as a result every additional £1 that we receive above our set funding target we keep 40p. This will have a significant impact on the budget going forward, reducing the budget gap by £1.4m per annum.

Due to complexities around are accounting for business rates retention there will be transfers either to and from the General Fund reserves annually based on collection performance. These transfers have not been included in within the financial strategy. This is explained further in the outturn report.

5.4 **Approved savings**

Council in February 2014 agreed £505,000 savings for 2014/15. In addition to this there were further savings of identified in previous year of £18,000.

5.5 **Other savings / efficiencies.**

The Council has achieved additional income from the investment in Atlantic House, Henson Way Crawley; an investment property recently purchased which has a 7.4% return on investment. This has been factored into the financial projections.

5.6 **Investment Interest**

5.6.1 The Council has traditionally relied heavily on investment interest to support the revenue budget; however, the level of interest has reduced over recent years.

5.6.2 The expected increase in the Bank of England base rate has yet to materialise with the base rate remaining at 0.5% since March 2009; it appears likely that it will remain at this level until at least October 2015. Despite recent speculation of interest rates increasing, we are still seeing our investment rates going down.

5.6.3 An average investment rate of 0.97% has been assumed for 2015/16 increasing to 1.25% in 2016/17, 2.25% in 2017/18 and 3.25% in 2018/19. Interest rate projections will be kept under constant review during the year.

5.6.4 Looking forward the Council will become more reliant upon investment interest with income projected to rise from £735,000 in 2015/16 to £3.4m in 2018/19.

5.7 **Pay Award**

Local Government pay is negotiated nationally and the Council has no direct influence on the settlement. A provision of 1% has been included in the current year's budget. The Budget Strategy assumes a 1% award for 2015/16 and 1.5% per annum in 2016/17 and 2017/18 and 2% in 2018/19 and 2019/20. This is a financial projection and not an opinion on what the award should be or what is affordable.

5.8 **Pensions**

5.8.1 There are three aspects of pensions that have been factored into the financial projections.

5.8.2 The first of these is the Government plan to introduce a new national state pension from April 2016. One of the consequences of this is that the contracting out rate of national insurance will cease at the same time. As a result, both employees in the Local Government Superannuation Fund and employer's will face increased national insurance contributions. It is estimated that the increased cost of the Council's contributions will be £360,000.

5.8.3 The second impact relates to the actuarial revaluation of the pension fund managed by West Sussex County Council. This has resulted in a 1% increase in contributions in both 2015/16 and 2016/17.

5.8.4 Finally is 'auto enrolment', Government legislation that requires the automatic enrolment of all staff not in a pension scheme into a scheme. This will take place in 2017. The financial assumptions are based on half of staff currently not in the scheme joining, and not opting out of the scheme.

5.9 **General Inflation**

In recent years many budgets have been frozen or reduced which has compensated for those budgets that have increased by more than the base assumption (for example energy and fuel). The Budget Strategy assumes that contract costs linked to inflation indices will increase by 3.0% in 2015/16; this is based on the Bank of England projections of RPI. The assumptions for future years are 3.5% in 2016/17 and thereafter. No allowance has been made for inflation on other general running expenses.

5.10 **New Homes Bonus**

5.10.1 The Government introduced the New Homes Bonus to give local authorities additional money for each new residential property created in the area. Local authorities will receive a sum equivalent to the average national Council Tax for a property in that band for each of the following six years. For example, an additional band D property will result in £1,439 being paid for six successive years.

5.10.2 There is an additional payment of £350 for each year if the property falls into the definition of affordable housing. This additional element is paid a year in arrears. In two tier areas the District or Borough Council receives 80% of the bonus and the County Council 20%.

5.10.3 The New Homes Bonus for 2014/15 will be £1,316,776. It is projected that the 2015/16 bonus will be an additional £150,000

5.11 **Fees and Charges**

5.11.1 An average increase in income budgets of 2% is assumed for 2015/16.

5.12 **Summary of assumptions**

	15/16	16/17	17/18	18/19	19/20
Grant	-31.56%	-33%	-35%	-38%	-40%
Business rate income *	**+40.0%**	+2.5%	+2.5%	+2.5%	+2.5%
New Homes Bonus	+11%	+20%	-4%	-3%	-5%
Pay award	1.0%	1.5%	1.5%	2.0%	2.0%
Av. interest rate	1.11%	1.65%	2.25%	3.25%	4.00%
Running costs	0%	0%	0%	0%	0%
Contracts	2.5%	3.0%	3.5%	3.5%	3.5%
Customer receipts	2.0%	2.0%	2.0%	2.0%	2.0%
Tax base increase (excluding Forge Wood)	0.8%	0.8%	0.8%	0.8%	0.8%
Council Tax increase	0%	0%	0%	0%	0%

* As a result of coming out of the 'Safety net'

5.13 The budget Strategy makes no provision for the additional costs and income that will arise from the new Forge Wood development. Additional direct General Fund expenditure will be incurred in respect of services such as Streetscene, refuse collection and community facilities. For other Council services it will be necessary to consider a case-by-case basis whether additional resources are required. The Council will receive additional Government Grant, Retained Business Rates and New Homes Bonus (if it continues). Similarly, the Housing Revenue Account will incur additional expenditure in respect of Council owned properties but also receive rental income.

6. Budget Projections 2015/16 to 2019/20

6.1 The table below summarises the budget projections based on the assumptions in section 4.

	2015/16 £'000s	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s
Base budget	15,862	16,495	16,948	17,594	18,135
Investment interest	(735)	(1,017)	(2,117)	(3,361)	(3,400)
Net budget	15,127	15,478	14,831	14,233	14,735
Funded by:					
Council Tax	6,090	6,139	6,188	6,238	6,288
New Homes Bonus	1,467	1,767	1,690	1,635	1,724
Retained Business Rates	4,538	4,652	4,768	4,887	5,009
Revenue support Grant	2,569	1,674	1,088	675	405
Budget Gap (cumulative)	**463**	**1,246**	**1,097**	**798**	**1,309**

6.2 The budget gap identified for each year is cumulative; for example, if savings are identified for 2015/16, the budget gap for 2016/17 would reduce by these savings. Over a three year period the budget gap is £1.097m.

6.3 There has been a significant reduction in the budget gap since over the last year mainly comprising of the items below

	£000's
Retained Business Rates	1,400
Efficiencies and savings identified	2,088
Additional income from investment acquisition	0,236
Total	3,724

In addition a reduction in charges to the HRA in respect of support services and grounds maintenance has been factored into the projections.

6.4 The Corporate Management Team and Heads of Service will continue to work with staff and contractors to identify and implement improved ways of working and to focus on the aim of dealing with matters first time. The transformation programme of service improvements and efficiencies achieved through systems thinking and other types of review will continue with the aim of continual streamlining of internal of processes to reduced waste and duplication, and also to focus on the defined purpose of each service.

7. General Fund Reserve

7.1 The Council achieved a surplus General Fund budget for 2014/15 **before** accounting for the impact of business rates retention. The Housing Revenue Account is operating a planned significant revenue surplus. This will enable it to sustain its business plan, including the building of over 500 council houses in the next 10 years.

7.2 There are two purposes for holding reserves. The first is to have sufficient funds to be able to maintain services, both in the short and medium term. The second is to earmark funds for specific purposes. There should be plans to spend earmarked reserves, even if the amount and timing of that spending is uncertain.

7.3 The level of reserves should be regularly reviewed. This is particularly true in the current situation. Local government has had reduced financial resources from the Government and it is clear that this is going to continue for several years. Other Government changes (for example the localisation of Council Tax Benefit and of Business Rates) have transferred significant risks to local authorities.

7.4 For both the Housing Revenue Account and the General Fund, the Council needs sufficient funds to be able to sustain services. In the case of the Housing Revenue Account the reserves are sufficient and no changes are proposed.

7.5 The 2014/15 Budget Strategy increased the General Fund reserve from just under £7m to £8.5m million. The prime reason for the proposed increase is to accommodate additional risks and volatility associated with the new financing arrangements and business rates retention. In part these risks arise from the accounting arrangements that the Government have legislated for.

7.6 The consequence of the legislation is counter intuitive. The income collected from business rates goes into the collection fund. The amount distributed to the Government, West Sussex County Council and the Council in the year is the amount that is budgeted. There will be variances and the collection fund will have a surplus or deficit. That surplus or deficit will be distributed in the following year, in 2013/14 a surplus resulted in a charge to the reserve of £589,180 (returned safety net payment to the Government). This is then reversed in 2015/16 as explained in the Outturn Report. The balance of the General Fund Reserve is currently sufficient for both the impact of business rates retention and for ensuring working towards a balanced budget over 3 years.

8 Investment Acquistions

8.1 In the Budget Strategy 2014/15 £5 million was set aside for investment in property. The rational behind this was with interest rates forecast to remain low it may be possible to generate a higher level of income by acquiring an additional property or properties. We have purchased a property which has a return in excess of 7% per annum as compared to interest projections as show in paragraph 5.12.

8.2 As a result it is proposed that a further £5m of useable capital receipts are transferred to an earmarked investment acquisition reserve. It must be emphasised that by allocating money the Council is not committed to acquiring any properties and a purchase would only be made when there is a sound business case and no undue risk. Council could in the future decide to return unused money back to general capital reserves.

8.3 Officers would use to the criteria approved by Council in July 2013.

9. Capital Funding

9.1 The Capital Strategy approved by Cabinet in March 2009 identified that an annual provision of £1 million would be available for the non-Housing Revenue Account capital programme from 2011/12 onwards. This was subsequently increased to £5m per year until 2015/16.

9.2 It is recommended that up to £2m is made available for investment in capital schemes for 2017/18 for the **core** programme and proposals will be presented to the Budget Advisory Group later this year.

9.3 Any other specific bids including additional resources required for a new Cemetery will be presented to later meetings of the Cabinet.

10. Housing Revenue Account

10.1 Council on 22 February 2012 approved the payment of £260.325m to the Department for Communities and Local Government as part of the Government's abolition of the previous housing subsidy regime. The money was borrowed via a series of loans from the Public Works Loan Board. The repayment dates vary between 2022/23 and 2037/38.

10.2 The net effect of these changes is that the HRA has a significant surplus over the coming years. This will enable the Council to make capital investments that will help it achieve its corporate housing objectives, investments already approved include the provision of housing at Breezehurst Drive and Brunel Place. Further proposals for that investment are currently being worked on, and will be presented to Members at a later date, initially through the Crawley Homes Advisory Group.

10.3 As a 'ring fenced' account savings that have been or will be achieved in the current year are reinvested in the service. It is anticipated that the savings will continue to come primarily from systems thinking interventions. This would be reported through the normal budget process.

11. Budget Process

11.1 The Budget Advisory Group will be meeting over the coming months to assess the policy implications of savings measures, business cases put forward to support proposals for capital investment and any growth proposals. The report of the Chair of the Budget Advisory Group will be considered by the Cabinet in the New Year.

11.2 The Budget and Council Tax report will be considered by the Cabinet on 11 February 2015. The 2015/16 Budget will be set by Council on 25 February 2015.

12. Background Papers

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