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Crawley Borough Council

Report to Overview and Scrutiny Commission
27 June 2016

Report to Cabinet
29 June 2016

Budget Strategy 2017/18 – 2021/22

Report of the Head of Finance, Revenues and Benefits**, FIN/386**

1. Purpose

1.1 The 2017/2018 General Fund and Housing Revenue Account Budgets and the updated capital programme will be determined by the Full Council in February 2017. This report sets out the projected financial position for 2017/18 to 2021/22 for the General Fund and the underlying assumptions. The report also sets the policy framework for the 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 work towards a balanced General Fund budget over a three year period.

1.2 A separate report on the Housing Revenue Account's capital investment programme will be considered by the Budget Advisory Group ahead of the Budget report to Cabinet and Full Council in February 2017.

2. Recommendations

2.1 To the Overview & Scrutiny Commission

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet:

The Cabinet is asked to recommend to Full Council the approval of the Budget Strategy 2017/18 to 2021/22 and to:

(a) Note, for the purpose of projections, the current a gap of £1.694m between projected General Fund income and expenditure for the three year period to 2019/20 on the basis of a Council tax freeze.

(b) Note the impact on the gap of any potential Council tax increase as shown in paragraph 6.3.

(c) Work towards balancing this over a three year period, including putting back into reserves when the Budget is in surplus.

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

(e) That the Council apply to the Government to accept a four year grant settlement from 1st April 2016 to 31st March 2020 and delegate approval of the Efficiency Plan to the Head of Finance, Revenues and Benefits in consultation with the Leader.

(f) Agree the allocation of £4.123m of capital reserves to an earmarked Investment Acquisition Reserve to provide a fund of £5m for the potential acquisition of commercial properties in accordance with the criteria set out in section 8 of this report.

(g) That items for the Capital Programme are driven by the need for the upkeep of council assets and environmental obligations and schemes will also be considered that are spend to save or spend to earn.

KAREN HAYES
Head of Finance, Revenues and Benefits

3. Reasons for the Recommendations

3.1 To set a Strategy for savings and income generation and working towards a balanced budget over three years.

3.2 To meet the requirements of the DCLG to publish an efficiency plan in order to accept a four year budget settlement.

3.3 To determine the criteria for capital programme bids.

4. Background

4.1 The local government finance system is becoming increasingly complex. The difficultly of predicting what factors such as interest rates, Grant funding and energy costs 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 retained business rates. It is however certain that the amount of money available to district and borough councils will continue to reduce over the next five years.

4.2 On 17 December 2015 the DCLG announced that councils would be able to achieve greater certainty and confidence from a DCLG 4 years Budget Settlement (this covers 1st April 2016 to 31st March 2020). The offer covers all councils that receive Revenue Support Grant (RSG), from 2016/17 to 2019/20. However the scope just covers the RSG element which is set to decline nationally from £7.4bn in 2016/17 to £2.3bn in 2019/20. The proposals show that Crawley will receive just £59,107 in RSG in 2019/20. This is compared to £4.9m received in 2013/14.

The statement however says that "In addition, tariffs and top-ups in 2017/18 to 2019/20 will not be altered for reasons related to the relative needs of local authorities".

The proposed settlement will impact on the Council's receipts of business rates. We collect almost £120m in business rates, of which we pay over 50% to the Government, 10% to West Sussex County Council and further sums in the way of a tariff to the Government. The Government has suggested that it will not alter the tariff if a four year settlement is adopted.

We are budgeted to receive £4.85m in retained business rates in the current financial year. To have more certainty over the amount of business rates that we retain is key. There is no guarantee of this if we do not accept the offer.

4.3 The only condition attached to the four-year offer is for authorities to publish an annual efficiency plan 'which should be as simple and straightforward as possible',

DCLG will be offering no guidance and do not appear to have a mechanism in place to accept or reject the plans, but the department says:

- **the plans show how the greater certainty can drive savings**
- **councils should consult locally on their proposals**

The guidance stated that if we wish to apply to accept the offer we need to inform the DCLG by 14th October 2016 and to include a link to the published efficiency plan.

This budget strategy including the savings and efficiencies already identified (as shown in paragraph 5.12 below), together with the Transformation Plan, will form part of our published efficiency plan. Any response to the plan will be considered before the final efficiency plan is published.

4.4 The 2017/18 General Fund and Housing Revenue Account Budgets and the revised capital programme will be set by the Full Council in February 2017. This will be informed by the recommendations of the Budget 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. Income generation is also a major goal.

4.5 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 employee related costs). 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 its objectives for housing. This includes a comprehensive stock investment programme and the building of new Council homes. However this has been complicated by the Government's announcement in the July 2015 Budget that rents are to be reduced by 1% per annum for 4 years from the current financial year. In addition, the recently approved Housing and Planning Bill includes the sale of high value assets to fund Right To Buy for Housing Associations. The Government has not to date defined how this will be handled, which means that we are unable to calculate the financial impact on the HRA. The impact may result in some of the planned build schemes being deferred.

5. Key Assumptions

5.1 This report provides details of budget projections for a five year period, 2017/2018 to 2021/2022. There are a number of key assumptions affecting the projections. A summary table is shown in paragraph 5.11.

5.2 **External support**

In the 2016/2017 Local Government Finance settlement, there was a reduction for the Council of 32.35% in its Revenue Support Grant. Provisional figures given by the DCLG if we accept the four year budget settlement are shown in the table below

	2016/17	**2017/18**	**2018/19**	**2019/20**
Provisional RSG	£1.76m	£1.04m	£0.57m	£0.06m
Percentage reduction	-32.35%	-41.64%	-44.54%	-89.72%

The 2019/20 provisional figures show that we will receive £59,107 in Revenue Support Grant and no grant thereafter.

5.3 **Retained Business Rates**

Although the Council will collect in excess of £118 million in business rates, the amount it retains is much smaller. One of the main reasons for this, and as referred to earlier, is that the Government retains 50% of the rates collected and West Sussex County Council retain 10%. The second main reason is that the Council also has to pay a significant tariff to the Government.

There are further complications in that the Council's retained share can be added to by a safety net payment, or suffer a further levy. These are applied if the Council's retained share is more than 7.5% below a Government set figure (safety net) or above it (a levy of 50%).

The Council is in a levy position, so as a result every additional £1 that we collect above our funding target we keep 40p.

An annual increase of 2.5% in business rates is included in the Budget Strategy.. This will be reviewed regularly. This will allow for annual increases of RPI to the business rates multiplier and an allowance for assumed growth in local business.

Any in year variations from this budget will transferred to/from the business rates equalisation reserve. When the reserve exceeds £5m the surplus is transferred to the capital programme reserve.

The March 2016 budget saw that the increase in the Business rates multiplier will be switched from RPI to CPI from 2020. The multiplier is the annual increase in business rates determined by the Government. CPI tends to go up more slowly than RPI so this change is likely to reduce the buoyancy in the Business rates yield. Over time this will make a significant impact on the resources that are available to local government as a sector. This coincides with the Government's reforms to transfer 100% Business rates retention to local government.

The Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) have launched a Steering Group, made up of representatives from across local government, to oversee the development of these reforms.

5.4 **Additional cost of homelessness**

Based on the outturn report there has been increased demands and costs within the homelessness service. The service overspent by £129,000 in 2015/2016. As a result, an allowance of £129,000 has been included in future budgets. This service will be closely monitored during the current financial year and this provision will be revised. The impact of the benefit cap will come into place later this year and will affect 333 Crawley residents. Currently a couple or lone parent are allowed up to £26,000 per annum for the total amount of any kind of benefit claimed; this will reduce to £20,000.

All local housing authorities have an absolute duty to provide affordable temporary accommodation to homeless households. The reduction in the amount of affordable accommodation in the private rented and social rented sector to those affected by welfare reforms and the Local Housing Allowance rate freeze will mean that discharging the homelessness duty will be more difficult. This means that homeless households are likely to remain in temporary accommodation for longer.

5.5 **Pay Award**

Local Government pay is negotiated nationally and the Council has no direct influence on the settlement. The Budget Strategy assumes a 1% award for 2017/18 to 2019/2020 rising to 1.5% the following year and 2% in 2021/22.

5.6 **Investment Interest**

5.6.1 The Council has traditionally relied heavily on investment interest to support the revenue budget. However, interest rates remain low and the level of interest received 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 Q1 2017. Despite recent speculation of interest rates increasing, the Council is still seeing its investment rates going down.

5.6.3 An average investment rate of 1.65% has been assumed for 2017/18 increasing to 2.15% in 2018/19, and 2.5% in 2021/22. Interest rate projections will be kept under constant review during the year.

5.6.4 Expenditure on the capital programme results in reduced investment income as there are fewer resources available for investment.

5.7 **Pensions**

5.7.1 The actuarial revaluation of the pension fund managed by West Sussex County Council has resulted in a 1% increase in contributions annually from 2017/18 to 2019/20.

5.8 **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 1.3% in 2017/18, increasing to 2.5% by 2021/22. No allowance has been made for inflation on other general running expenses.

5.9 **New Homes Bonus**

5.9.1 The Government introduced the New Homes Bonus to give local authorities additional money for each new residential property created in the area. Local authorities would 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 £1,484 being paid for six successive years.

5.9.2 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%.

5.9.3 The Government consultation "sharpening the incentive" was launched in December 2015. The options included: withholding the Bonus from areas where an authority does not have a Local Plan in place; abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal; and adjusting the Bonus to reflect estimates of deadweight; this is where building would have taken place even if there had not been an incentive.

The consultation also set out proposals for reductions in the number of years for which the Bonus is paid from the current six years to four years. There is also consideration of moving to further reduce payments to 3 or 2 years. The consultation closed on 10th March 2016, no response has been received.

The strategy assumes four years of New Homes Bonus and a reduction of a third for deadweight, based on examples given as part of the consultation.

5.9.4 The New Homes Bonus for 2016/17 will be £1.88m and is calculated to £0.55m by 2021/2022.

5.10 **Fees and Charges**

An average increase in income budgets of 2% is assumed for 2016/17 onwards.

5.11 **Summary of assumptions**

	17/18	18/19	19/20	20/21	21/22
Business rate income*	+2.5%	+2.5%	+2.5%	+2.0%	+2.0%
New Homes Bonus	£637k	-£185k	-£204k	-£81k	-£132k
Pay award	1.0%	1.0%	1.0%	1.5%	2.0%
Av. interest rate	1.65%	2.15%	2.40%	2.45%	2.50%
Running costs	0%	0%	0%	0%	0%
Contracts (RPI)	1.3%	2.0%	2.5%	2.5%	2.5%
Customer receipts	2.0%	2.0%	2.0%	2.0%	2.0%
Tax base increase (percentage of new properties for Council tax)	2.0%	2.0%	1.8%	1.8%	1.5%
Council Tax increase (for estimating purposes)	0%	0%	0%	0%	0%

*Business rates equalisation reserve will be used to absorb any fluctuations from the 2.5%.

The tax base increase assumes the number of Band D properties in Crawley has increased due to the current building programme including Forge Wood.

5.12 **Savings and efficiencies**

As part of the transformation programme increased income, savings and efficiencies have already identified for future years have been included in the budget projections in section 6 below and will form part of the published efficiency plan.

Savings / Efficiencies	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Investment property	-507	-507	-507	-507	-507
Members Allowances	-10	-10	-10	-10	-10
Green Garden Waste additional income	-20	-20	-20	-20	-20
Recycling support	-30	-30	-30	-30	-30
Building control	-40	-40	-40	-40	-40
Property rental – town hall	-30	-30	-26	0	0
Benefits restructure – systems thinking review	-100	-100	-100	-100	-100
Recycling education officer	-14	-14	-14	-14	-14
Democratic Services admin	-5	-5	-5	-5	-5
Interest receivable of shared equity properties	-96	-104	-113	-122	-132
Mobile phone contract savings	-30	-30	-30	-30	-30
Stationery contract savings	-10	-10	-10	-10	-10
Commercial property income	-75	-75	-75	-75	-75
Feed-in Tariff income	-40	-40	-40	-40	-40
Total identified to date	-1,007	-1,015	-1,020	-1,003	-1,013

Investment property
The Council set aside £8.8m to purchase investment properties, in April 2016 we purchased a property with an annual income of £506,920.

Members Allowances
A review of the scheme has resulted in annual savings of £10,000.

Green Garden Waste
Increased demand for the scheme will result in net additional income of £20,000.

Recycling Support
The West Sussex wide review of the recycling support scheme has resulted in additional income of £30,000 per annum.

Building Control
The joint service with Horsham District council for building control has been successful with additional income being achieved of £40,000.

Property Rental
Rooms at the Town Hall have been rented out on a fixed term basis to achieve additional income.

Benefits
The systems thinking review of the benefits service has resulted in a better service for our customers at reduced costs.

Minor Restructures
There have been some minor restructures in the environment and democratic services teams resulting in savings.

Shared Equity
As part of development the Forge Wood development, the Council has rights to 29 shared equity loans. These loans are the 20% discount received by the buyers of the shared equity homes. The 20% discount is payable to the Council by the original buyer when they sell the property, or after certain other events. The value of the shared equity loans at 31 March is estimated to be £1.4m, but as this is not receivable until the property is sold. The Council has recognised a deferred capital receipt of £1.0m in 2015/16, and will recognise an estimated income of £88,000 in 2016/17.

Contracts
There have been savings due to the retender of the mobile phones and stationary contracts.

Commercial Property
The commercial property portfolio is now almost completely let, as a result there will be additional income in future years.

Energy Efficiency
As a result of investment in Solar PV panels on Council buildings we will receive income of £40,000 per annum Feed In Tariff.

6. Budget Projections 2017/18 to 2021/22

6.1 The table below summarises the budget projections based on the assumptions, savings and efficiencies identified in section 5.

	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s
Base budget	15,586	16,103	16,492	16,892	17,283
Investment interest	(1,356)	(1,593)	(1,818)	(1,996)	(2,174)
Net budget	14,230	14,510	14,674	14,896	15,109
Funded by:					
Council Tax	6,502	6,605	6,709	6,819	6,911
New Homes Bonus	1,244	1,059	977	845	550
Retained Business Rates	4,386	4,495	4,608	4,700	4,794
Section 31 Grant*	597	612	627	640	653
Revenue support Grant	1,036	575	59	0	0
Budget Gap	**465**	**1,164**	**1,694**	**1,892**	**2,201**

***** Section 31 Grant is payable by the Government when they give business rate discounts for small businesses.

With regard to Council Tax, the table above assumes no increase in Council Tax payable. The additional Council Tax income is due to the increase in properties.

6.2 There is a budgeted shortfall in 2017/18 of £465,000, increasing to £1.694m by 2019/20. The aim is to have a balanced budget over a three year period. In the event of an in year surplus this will be transferred to reserves.

6.3 The assumptions above include a provision for a Council Tax freeze. The aim is to work to keep council tax low without compromising local services. As part of the settlement announcement in February the Government will allow Councils to increase their Council tax by £5 per year for the next three years. A £5 increase would be equivalent 2.64% in 2017/18. The table below shows the additional income receivable from different levels of Council Tax increases.

Increase	2017/18	2018/19	2019/20	2020/21	2020/22	Band D Cost per annum	Band D Cost week
1%	64,079	131,723	202,325	276,122	352,183	£1.89	£0.04
1.5%	96,289	198,250	305,182	417,478	533,771	£2.42	£0.05
2%	128,499	265,107	409,058	560,939	718,973	£3.78	£0.07
2.5%	160,709	332,291	513,956	706,525	907,842	£4.73	£0.09
£5	170,179	347,166	530,122	719,553	921,395	£5.00	£0.10

The table below shows the impact of the increase in Council Tax upon the budget gap

Increase	Budget Gap with the above increases in Council Tax 2017/18	2018/19	2019/20	2020/21	2020/22
	£000's	£000's	£000's	£000's	£000's
0%	465	1,164	1,694	1,892	2,201
1%	401	1,032	1,492	1,616	1,849
1.5%	369	966	1,389	1,475	1,667
2%	337	899	1,285	1,331	1,482
2.5%	304	832	1,180	1,185	1,293
£5	295	817	1,164	1,172	1,280

6.4 Corporate Management Team will continue to work with staff and contractors to identify and implement improved ways of working. 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 processes to reduce waste and duplication, and also to focus on the defined purpose and measures of each service.

7. General Fund Reserves

7.1 The Council achieved a surplus General Fund in 2016/17 of £806,000, this was transferred to the capital programme reserve.

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 2016/17 Budget Strategy reduced the General Fund reserve from £8.5m million to £4m and set up a separate business rates equalisation reserve for £5m . Any reserves available in excess of these sums are transferred to the Capital programme reserve, in 2015/16 the surplus in the year was transferred to this reserve.

7.6 During 2016/17 a full review of earmarked reserves will take place by the Corporate Management team to ensure that there are still plans for each reserve. Any considered excess reserves will be transferred specifically to the capital programme reserve.

8. Investment Acquistions

8.1 In the Budget Strategy 2014/15, as approved by Cabinet on 10 July 2013 (Fin/306), £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 a property or properties. The Council purchased two properties which has a return in excess of 7% per annum as compared to interest projections as show in paragraph 5.11.

8.2 The Budget Outturn report approved at Cabinet in July 2015 (FIN/362), set aside a further £5m for future acquisitions. This gave £8.8m available for investment. In April 2016 the council purchased a further property with a return of over 6.4%. This leaves a balance available of £877,000.

8.3 As at 31st March 2016, a total of £14.2m had been spent on investment properties compared to £118m Treasury management investments. It is proposed to increase the budget by £4.123m to £5m.

8.4 The Council could in the future decide to return unused money back to general capital reserves.

8.5 Officers would use to the following criteria to assess potential purchases. It is expected that proposals should meet all of these criteria unless there are sound reasons not to.

- i purchase price of less than £5m (unless more funds are made available).
- ii preferably freehold, but if leasehold then at least 125 years left on lease, or the ability to purchase an extension to the lease length.
- iii an income flow of 5 years duration, before either a lease renewal or tenant's option to break.
- iv a covenant check of the tenant confirms the ability to perform the conditions of the lease, including payment of rent.
- v the investment should be in such a condition that any further short term capital investment would be limited unless this could be met within the capital available.
- vi whilst Crawley may be a preferable location, other locations within the South East will be considered.

9. Capital Funding

9.1 Future bids for capital should be based on expenditure required to maintain the Council's assets, for environmental obligations such as flood prevention and for disabled facilities grants. In addition bids will be for spend to save projects or spend to earn investment income. Schemes will be presented to the Budget Advisory Group later in the year for prioritisation. There is currently estimated £22.3m of capital resources uncommitted after allowing for the increase in the investment acquisition reserve shown in 8.3.

9.2 Any other specific bids will be presented directly to later meetings of the Cabinet.

10. Housing Revenue Account

10.1 Council on 22 February 2012 (FIN/257) 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 2022/2023 and 2037/2038.

10.2 The net effect of these changes was that the HRA had budgeted for significant surplus over the coming years. This was to 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 and Forge Wood. Changes to Right to Buy discounts and the announcement in the July 2015 budget that rents will decrease by 1% per annum for 4 years from 2016/17, resulted in fewer resources available to meet all aspirations.

10.3 The existing investment programme for the HRA is affordable. However there are some unknowns that will need to be factored into the projections that have been approved as part of the Housing and Planning Bill, including the sale of high value assets to fund Right to Buy for Housing Associations. This may take us back into housing subsidy. The impact of this could result in some of the planned build schemes being deferred once we calculate the impact. We are awaiting for the first determination from the Government to be issued.

11. Budget Process

11.1 The Budget Advisory Group will be meeting over the coming months to assess the policy implications of savings measures and business cases put forward to support proposals for capital investment including Crawley Homes. 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 8 February 2017. The 2017/18 Budget will be set by Council on 22 February 2017.

12. Background Papers

Budget and Council Tax 2016/17 Fin 380
Financial Outturn – Fin 385 (elsewhere on this Agenda)
Budget Strategy 2014-15 – 2018-19 Fin 306
2012/13 Budget and Council Tax Fin 257