Crawley Borough Council

1

Report to Overview & Scrutiny Commission

7 September 2015

Report to Cabinet

9 September 2015

Budget Strategy 2016/17 – 2020/21

Report of the Head of Finance, Revenues and Benefits FIN/368

1. Purpose

1.1 The 2016/2017 General Fund and Housing Revenue Account Budgets and the updated capital programme will be determined by Council in February 2016. This report sets out the projected financial position for 2016/17 to 2020/21 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 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 Budget Advisory Group ahead of the Budget report to Cabinet and Council in February 2016.

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 2016/2017 to 2020/2021 and to:

(a) Note the current a gap of £0.8m between projected General Fund income and expenditure for the three year period to 2018/2019 and work towards balancing this over a three year period, including putting back into reserves when the Budget is in surplus.

(b) Set up a separate Business Rates Equalisation reserve by transferring £5m from the General Fund Reserve. This reserve will be used to absorb in year fluctuations due to the complications of accounting for business rates.

(c) 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.

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

KAREN HAYES
Head of Finance, Revenues and Benefits

3. Reasons for the Recommendations

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

3.2 To give more in year certainty for business rates monitoring.

3.3 To determine the criteria for capital programme bids.

4. Background

4.1 The local government finance system is becoming increasingly complex and 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 business rates. It is however almost certain that the amount of money available to district and borough councils will continue to reduce over the next four years. The Government's spending review will take place on 25th November 2015 and the financial settlement will be some time after that. The assumptions below will therefore have to be refined as a result of these announcements.

4.2 The 2016/17 General Fund and Housing Revenue Account Budgets and the revised capital programme will be set by Full Council in February 2016. 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. 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 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 including a comprehensive stock investment programme and the building of new Council homes. However this has now been complicated by the announcement in the July 2015 Budget that rents are to be reduced by 1% reduction in rents for each of the next 4 years.

5. Key Assumptions

5.1 This report provides details of budget projections for a four year period, 2016/2017 to 2020/2021. 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 2015/2016 Local Government Finance settlement, there was a reduction for the Council of 29.16% in its Revenue Support Grant. The aim is for Councils to become self-supporting without the reliance upon this grant by growing their business rates, as a result the Budget Strategy assumes a 40% reduction in Revenue Support grant annually for the next three years then 30%.

5.3 **Retained Business Rates**

Although the Council will collect in excess of £117 million in business rates, the amount it retains is much smaller. One of the main reasons for this is that the Government retain 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 will is in a levy position; as a result every additional £1 that we receive above our funding target we keep 40p.

The consequence of the legislation (The Non-Domestic Rating (Levy and Safety Net) Regulations 2013 and The Non-Domestic Rating (Rates Retention) Regulations 2013) 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 from the Budget and the collection fund will have a surplus or deficit at year end. That surplus or deficit will be distributed in the following year however the amount it receives from the Government in safety net payments or pays to it in a levy will not be based on the budget but on the actual outturn. As a result if we collect more in year than budgeted the Council has to make a payment to the Government in that year but does not see the benefit in its own accounts until the following year.

Due to complexities around the way we have to account for business rates retention there will be transfers either to and from the General Fund reserve annually based on collection performance.

With the volatility of business rates income and the difficulties of making accurate forecasts, it is possible that there could be an unbudgeted charge to the General Fund annually in the order of £1.5 million, which is reversed in the following year. It is also possible that the Council could collect less than budgeted and the Council's reserves would increase; this time with a compensating loss the following year.

Due to the accounting arrangements above it is currently budgeted that in 2016/17 there will be a large increase in retained business rates (£2.9m) because performance was better than anticipated last year.

As a result of the in-year swings it is recommended that the projected surplus of £2.9m in business rates in 2016/17 is transferred to a business rates equalisation reserve. In addition that there is a transfer from the general fund reserve to take this new reserve to £5m.

An annual increase of 2.5% in business rates will be included in the Budget Strategy, this will be reviewed regularly. Any in year variations from this budget will transferred to and from this reserve. When the reserve exceeds £5m then any surplus is transferred to the capital programme reserve.

The General fund reserve will be capped at £4m with any surplus transferred to the capital programme reserve.

5.4 **Employers National Insurance contributions**

The Government plans 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 employers will face increased national insurance contributions. It is estimated that the increased cost of the Council's contributions will be £420,000. This equates to a 3.4% increase in costs to the General Fund.

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 2016/17 for 4 years, increasing to 2% in the fifth year. This is based on the announcement in the July Budget.

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, the Council is still seeing its investment rates going down.

5.6.3 An average investment rate of 1.22% has been assumed for 2016/17 increasing to 1.85% in 2017/18, 2.35% in 2018/19 and 3.10% in 2019/20. 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 in 2016/17.

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 1.5% in 2016/17, increasing to 3.1% by 2020/21. 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 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.

5.9.2 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 New Homes Bonus for 2015/16 will be £1.58. It is assumed that this funding stream will continue, it is budgeted for 2016/2016 £1.8m.

5.10 **Fees and Charges**

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

5.11 **Budget Monitoring variations**

Included in the strategy is a provision for reduced income due to changes in demand at the Airport (imported food), pest control and licensing. The Budget for external audit fees has also been reduced.

5.12 **Summary of assumptions**

	16/17	17/18	18/19	19/20	20/21
Grant	-40%	-40%	-40%	-30%	-30%
Business rate income *	+2.5%	+2.5%	+2.5%	+2.5%	+2.5%
New Homes Bonus	+£245K	-£227K	-£204K	-£211K	-£174K
Pay award	1.0%	1.0%	1.0%	1.0%	2.0%
Av. interest rate	1.23%	1.60%	2.10%	2.85%	3.50%
Running costs	0%	0%	0%	0%	0%
Contracts	1.5%	2.2%	3.0%	3.1%	3.1%
Customer receipts	2.0%	2.0%	2.0%	2.0%	2.0%
Tax base increase	1.5%	1.5%	1.5%	0.8%	0.8%
Council Tax increase	0.7%	1.2%	1.5%	1.6%	1.7%

* any variations from this 2.5% would be protected by the ‘business rates equalisation reserve’

There is a large projected increase on the New Homes Bonus because of build programmes such as Forge Wood, this assumes around £250,000 per annum for each of 6 years.

The tax base increase assumes the number of Band D properties in Crawley increase by 1.5% for the next 3 years then reduces to 0.8%, this is due to the current building programme including Forge Wood.

The Strategy assumes that any increase in Council Tax would not be above inflation.

6. Budget Projections 2016/17 to 2020/21

6.1 The table below summarises the budget projections based on the assumptions in section 4, these will be updated after the July budget.

	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s
Base budget	16,102	16,604	17,051	17,366	17,840
Investment interest	(1,078)	(1,698)	(2,319)	(3,001)	(3,004)
Net budget	15,024	14,906	14,732	14,365	14,836
Funded by:					
Council Tax	6,327	6,498	6,693	6,803	6,974
New Homes Bonus	1,818	1,591	1,387	1,176	1,002
Retained Business Rates	5,090	5,192	5,296	5,402	5,510
Revenue support Grant	1,575	945	567	397	278
Budget Gap (surplus)	**214**	**680**	**789**	**587**	**1,072**

6.2 There is a budgeted shortfall in 2016/17 of £214,000, increasing to £789,000 by 2018/19, the aim is to have a balanced budget over a three year period and when there is an in year surplus this would be transferred to reserves.

6.3 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 of processes to reduced waste and duplication, and also to focus on the defined purpose and measures of each service.

7. General Fund Reserve

7.1 The Council achieved a surplus General Fund budget for 2015/16 as a result of the delay in accounting for the business rates surplus in previous years as outlined above.

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. It is recommended that a separate reserve is set up for business rates equalisation as outlined above and that the General Fund reserve of £4m is set. Any reserves available in excess of these sums are transferred to the Capital programme reserve.

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. The Council purchased two properties which has a return in excess of 7% per annum as compared to interest projections as show in paragraph 5.12.

8.2 The Budget Outturn report approved at Cabinet in July 2015 (FIN/362) set aside a further £5m for future acquisitions, this gives £8.8m available for investment. The Council could in the future decide to return unused money back to general capital reserves.

8.3 A total of £13.8m has been earmarked for investment properties compared to £112m Treasury management investments as at 31st March 2015.

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.

9.2 Any other specific bids will be presented 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 that rents will decrease by 1% per annum for the next 4 years results in fewer resources available to meet all aspirations.

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. 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 10 February 2016. The 2016/17 Budget will be set by Council on 24 February 2016.

12. Background Papers

Budget and Council Tax 2015/16 Fin 365
Financial Outturn 2014/15 Fin 362
2012/13 Budget and Council Tax Fin 257