

Crawley Borough Council

Report to Overview and Scrutiny Commission 4 September 2017

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Report to Cabinet 6 September 2017

Budget Strategy 2018/19 – 2022/23

Report of the Head of Finance, Revenues and Benefits, **FIN/417**

1. Purpose

- 1.1 The 2018/2019 General Fund and Housing Revenue Account Budgets and the updated capital programme will be determined by the Full Council in February 2018. This report sets out the projected financial position for 2018/19 to 2022/23 for the General Fund and the underlying assumptions.
- 1.2 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.
- 1.3 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 2018.
- 1.4 At this stage any implications associated with providing the New Town Hall and the re-tendering of the K2 Crawley Leisure contract have been excluded from assumptions. Once decisions on these two projects are agreed the budget projections will be updated.

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 2018/19 to 2022/23 and to:

- (a) **Note, for the purpose of projections, the current budget deficit of £84,000 for 2018/19 on the basis of a Council tax increase of £4.95 on a Band D in 2018/19.**

- (b) **Work towards balancing this over a three year period, including putting back into reserves when the Budget is in surplus.**
- (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, this will include areas where additional resources need to be redirected.**
- (d) **Note 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.**

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. Including putting back into reserves when in surplus.
- 3.2 To determine the criteria for capital programme bids.

4. Background

- 4.1 The local government finance system has become increasingly complex. The difficulty 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 This Budget Strategy report has been delayed from June due to the General Election. On the 21 June 2017, the Queen's Speech outlined the Government's intention with regard to legislation for the coming parliament. There was no specific mention of the Local Government Finance Bill, which, amongst other things, was to lay down the arrangements for 100% business rates retention. However, the briefing paper which accompanied the speech states, under other measures, that "the programme will also include three finance bills to implement budget decisions." There are currently no other details available.

On [17 December 2015](#) the Department of Communities and Local Government (DCLG) announced that councils would be able to achieve greater certainty and confidence from a DCLG 4 years Budget Settlement (this covers 1 April 2016 to 31 March 2020). The offer covered 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.
- 4.3 The 2018/19 General Fund and Housing Revenue Account Budgets and the revised capital programme will be set by the Full Council in February 2018. This will be informed by the recommendations of the Budget Advisory Group and will take into account the efficiencies, increased income and savings achieved through a refreshed transformation programme and budget challenge process led by the Corporate Management Team. Work to address this has started and will continue over the summer and autumn.

- 4.4 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 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 was 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 2016/17. This reduced the Council's ability to invest in the provision of new housing. In addition inflation is at its highest level since 2013 and will impact on the costs of paying for goods and services.

5. Key Assumptions

- 5.1 This report provides details of budget projections for a five year period, 2017/2018 to 2022/2023. 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, the reductions for the Council's Revenue Support Grant 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 figures show that the Council 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 £116 million in business rates, the amount it retains is much smaller. One of the main reasons for this is that the Government retains 50% of the rates collected and West Sussex County Council retains 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 it collects above its funding target it keeps 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 in inflation to the business rates multiplier and an allowance for assumed growth in local business together with a provision for appeals from ratepayers.

Any in year variations from this budget will be 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.

5.4 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 2018/19, the table in 5.11 shows future assumptions. Pay is subject to national negotiations; a 1% increase in the pay award equates to £184,000.

5.5 Investment Interest

5.5.1 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.

5.5.2 The Bank of England reduced the base rate to 0.25% in August 2016. At this time it appears likely that it will remain at this level until Q1 2019. The state of political uncertainty remains in place and this, alongside Brexit negotiations weigh on the economy, household sentiment and thus interest rate outlook over the medium term.

5.5.3 An average investment rate of 0.55% has been assumed for 2018/19 increasing to 0.75% in 2019/20, and 1.00% in 2020/21. Interest rate projections will be kept under constant review during the year.

5.5.4 Expenditure on the capital programme results in reduced investment income as there are fewer resources available for investment, delays in the capital programme result in higher balances available than anticipated for investment.

5.6 Pensions

5.6.1 The actuarial revaluation of the pension fund managed by West Sussex County Council has resulted in a 0.5% increase in contributions annually in 2018/19 and 2019/20.

5.7 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 2018/19, increasing to 3.2% by 2022/23. These assumptions will be updated over the coming months. No allowance has been made for inflation on other general running expenses.

5.8 New Homes Bonus

5.8.1 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 £1,530 being paid for six successive years.

- 5.8.2 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%.
- 5.8.3 The New Homes Bonus was in the past paid each year for six years, this has been reduced to five in the current year and then to four from 2018/19. The bonus was also reduced in the current year to reflect estimates of 'deadweight'; this is where building would have taken place even if there had not been an incentive.
- 5.8.4 The New Homes Bonus for 2018/19 is projected to be £1.396m and is calculated to £0.850m by 2022/2023.

5.9 Fees and Charges

An average increase in income budgets of 2% is assumed for 2018/19 onwards.

5.10 Cost of homelessness

The Government has recently announced that The Homelessness Reduction Act 2017 will be implemented on 1 April 2018. This will place increased duties and service demands on the Council. These include a duty to start assessing and providing advice to someone at risk of being made homeless 56 days before losing their home rather than at the current 28 day trigger point. Demand on the service is expected to increase by 30-50%. There will be limited funding from the Government to support the implementation of the new duties. The funding formula, detailed code of guidance and IT systems to support the new ways of working are still being developed. Consequently the full impact on the budget is not yet known so has not been included in these projections.

5.11 Summary of assumptions

	<u>18/19</u>	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>	<u>22/23</u>
Business rate income*	+2.5%	+2.5%	+2.0%	+2.0%	+2.0%
New Homes Bonus	-£35k	-£43k	-£57k	-£233k	-£300k
Pay award	1.0%	1.0%	1.5%	2.0%	2.0%
Av. interest rate	0.55%	0.75%	1.00%	1.25%	1.75%
Running costs	0%	0%	0%	0%	0%
Contracts (RPI)	3.0%	3.5%	3.6%	3.2%	3.2%
Customer receipts	2.0%	2.0%	2.0%	2.0%	2.0%
Tax base increase (percentage of new properties for Council tax)	1.5%	1.5%	1.5%	1.0%	1.0%
Council Tax increase (for estimating purposes)	2.6%	2.4%	2.4%	2.3%	2.3%

*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.

6. Budget Projections 2018/19 to 2022/23

6.1 The table below summarises the budget projections based on the assumptions above.

	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s
Base budget	14,814	14,980	15,300	15,645	16,124
Investment interest	(508)	(687)	(932)	(1,134)	(1,310)
Net budget	14,306	14,293	14,368	14,511	14,814
Funded by:					
Council Tax	6,933	7,030	7,200	7,346	7,516
New Homes Bonus	1,396	1,440	1,383	1,150	850
Retained Business Rates	4,681	4,798	4,918	5,016	5,116
Section 31 Grant*	637	653	669	683	696
Revenue support Grant	575	59	0	0	0
Budget Gap	84	313	198	316	636

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

6.2 There is a budgeted shortfall in 2018/19 of £84,000, increasing to £636,000 by 2022/23. 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. These figures however do not include any savings from re-tendering the K2 Crawley Leisure contract or the New Town Hall proposals at this stage. The gap is smaller than previously projected as some savings, increased income and efficiencies identified as part of the outturn report have been included in these projections.

6.3 The assumptions above include a provision for a Council Tax increase close to £5 (£4.95 in 2018/19) per annum on a Band D property, this is less than 10p per week. The aim is to work to keep council tax low without compromising local services. As part of the settlement announcement in February 2016 the Government will allow Councils to increase their Council tax by £5 per year for three years.

6.4 Budget pressures

The Government following the General Election has confirmed its continued commitment to a fair funding review; as a way of addressing concerns about the fairness of current funding distributions to local authorities; however details of this are not yet available so have not been included in the projections.

Although the budget gap above is small there are some pressures on future budgets. These include

- Data and information management and IT staffing levels
- Economic development team running costs
- NASB team.

7. General Fund Reserves

7.1 The Council achieved a surplus General Fund in 2016/17 of £2.115m 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 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.
- 7.6 During 2016/17 a review of earmarked reserves took place by the Corporate Management team to ensure that there are still plans for each reserve. Any considered excess reserves were to be transferred to the capital programme reserve. These transfers were reported in the Financial Outturn Report.

8. Investment Acquisitions

- 8.1 The Council purchased three investment properties which has a return on average of 6.6% per annum as compared to interest projections as shown in paragraph 5.11. Recent acquisitions of investment properties by other Local authorities are seeing the return on investments in the region of 5.2%; this is still significantly higher than interest projections.
- 8.2 As at 31 March 2017, a total of £14.2m had been spent on investment properties compared to £114m Treasury management investments at the end of the financial year. In the Budget strategy 2017/18 (FIN/386) the sum available was increased to £5m. No suitable properties have become available within this £5m limit since April 2016.
- 8.3 Officers would use 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 £20.0m of capital resources uncommitted.

- 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 HRA 30 year plan is constantly being updated, and is reported to the affordable housing group. This takes both revenue and capital budget projections and shows resources available in for future investment in housing

11. Budget Process

- 11.1 The Budget Advisory Group will be meeting over the coming months to assess the policy implications of savings measures, future growth bids 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 7 February 2018. The 2018/19 Budget will be set by Council on 21 February 2018.
- 11.3 Where budgetary proposals identify the need for the reduction of, or closure or discontinuance of a service, appropriate consultation will need to be carried out. The Council will also have to have due regard to the public sector equality duty under section 149 of the Equality Act 2010 in making their decisions. The equalities impact will be addressed on proposals as they are developed.

12. Background Papers

2017/18 Budget and Council Tax FIN/401
Budget Strategy 2017/18 - 2021/22 FIN/386
Treasury Management Strategy 2017/18 FIN/404
Financial Outturn 2016/2017 FIN/411
Treasury Management Outturn 2016/17 FIN/412
Financial Outturn 2014/15 Fin 362