

REPORT TO THE EXECUTIVE



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PORTFOLIO	Resources & Performance Management
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Revenue Budget 2017/18

PURPOSE

1. To consider the estimates of revenue income and expenditure for 2017/18 and to make recommendations to full Council about next year's Revenue Budget.

RECOMMENDATION

2. The Executive is recommended to adopt the following resolution:

That full Council be recommended to:

- i) Endorse the approach that has been adopted in developing budget proposals that reflect the Council's Strategic Objectives for 2017/18;
- ii) Approve the proposals contained in this report;
- iii) Set a Council Tax Requirement of £6,390,760 for the financial year 2017/18;
- iv) Set a Net Budget Requirement of £14,595,648 for 2017/18;
- v) Receive and consider the statutory report issued by the Head of Finance under the Local Government Act, 2003;
- vi) Authorise the Chief Operating Officer/Heads of Service to progress action plans to deliver the 2017/18 budget;
- vii) Approve a Council Tax (Band D) figure of £283.04 for this Council for the year commencing 1st April 2017 and adopt the statutory resolution to set the full Council Tax for the year. This is equivalent to a 1.9% Council tax increase.

REASONS FOR RECOMMENDATION

3. To fulfil the Council's statutory obligation to calculate its Council Tax requirement as set out in Section 31A of the Local Government Act 1992 (as amended by section 74 of the Localism Act 2011).
4. To set a balanced budget for the financial year 2017/18 that ensures the viability of the Council and aligns resources to the Council's strategic priorities.

SUMMARY OF KEY POINTS

BACKGROUND

5. This report summarises the key issues that elected Members will need to consider when finalising the Revenue Budget 2017/18. Under the constitution, it is the Executive's duty to present detailed recommendations for full Council to consider. The following appendices are related to the report.

Appendix 1	General Fund Revenue Summary 2017/18
Appendix 2	Growth
Appendix 3	Further Savings/Additional Funding Requirements

6. The schedule of proposed fees & charges, which forms an integral part of the budget process, was approved at the meeting of full Council on 21st December 2016.
7. The proposals contained within this report have been developed as a result of discussions and presentations at various Member and officer forums.
8. The Local Government Act 2003 sets out the requirements for sound financial management. Section 25 is particularly relevant when the budget and Council Tax for the coming year are being set. It requires the Chief Finance Officer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report is contained elsewhere on your agenda.
9. This budget has been developed following the principles set out in the Council's Medium Term Financial Strategy. The strategy emphasises the need to focus on the use of the Council's resources towards achieving the Council's stated objectives.
10. The Council has adopted an approach to producing the budget based upon the relative priority of all the services. However, at the heart of the Council's financial planning is a savings plan aligned to strategic intent. In considering opportunities for future savings, four strategic themes have been considered:
 - i) Service transformation and digitisation – continuing the transformational change programme in the delivery of services to customers through greater use of self-serve and web-enabled technology and modernising systems and processes
 - ii) Empowerment – the way in which people work together in managing Council services with effective risk mitigation within an empowered autonomous structure

and a flexible scheme of delegation that supports a one-team approach

- iii) Commercial risk appetite – developing new innovative ways of raising revenue and strengthening commercial partnerships
- iv) Needs and priorities – consideration of the appropriateness of the service offer to the Borough's residents and aligning this to the Council's strategic vision

11. In view of the tight financial constraints within which the Council has operated in recent years, there is little scope for growth in service provision. Appendix 2 shows further limited growth proposals.

SUMMARY OF THE REVENUE BUDGET POSITION 2017/18

12. The proposed net revenue budget for 2017/18 is as set out in the table below:

	£'000	£'000
Net Revenue budget - original 2016/17		15,223
Add Spending pressures reported September 2016	394	
Less Savings approved September 2016	<u>(1,546)</u>	(1,152)
Add Reversal of Reserves utilised in 2016/17 (general support)		250
Add Growth - approved September 2016	30	
Add Proposed Growth - Appendix 2	<u>132</u>	162
Add Further spending pressures (Corporate items) 2017/18		233
Less Further savings proposed - Appendix 3		(67)
Add Mayoral Referendum & Associated Costs		240
Less Use of Business Rates Volatility Reserve		(53)
Less Use of Reserves 2017/18 (Mayoral Referendum & Associated Costs)		<u>(240)</u>
Net Budget requirement		14,596
Financed from:		
<u>Government Settlement Funding Assessment</u>		
Business rates baseline	3,982	
Revenue support grant	<u>2,777</u>	6,759
New Homes Bonus		970
Council Tax Yield		6,391
<u>Business Rates in addition to Baseline Funding</u>		
Additional business rates above baseline	161	
Renewable energy	<u>233</u>	394
Collection fund surplus - Burnley share		82
		14,596

Recap on Budget decisions taken September 2016

13. Members at Executive and Council in September 2016 approved budget savings of £1,546k for 2017/18, following receipt of the initial budget report that outlined a savings requirement of £1,359k. The information presented to Members at that time is shown below:

Position Approved September 2016:

	£'000
<u>Net Spending Increases/(Decreases)</u>	
Pay awards and increments	152
General inflation	204
Pensions Costs	60
Cost share agreement	15
Earmarked Reserves - balancing the 2016/17 budget	250
Redundancy Costs	-
Borrowing costs	-
Other net continuation budget changes	-
Fees and charges increases	(38)
Growth	30
	673
<u>Net Funding (Increases)/Decreases</u>	
Revenue Support Grant	883
Business Rates	(77)
New Homes Bonus	(5)
Council Tax - indicative 1.9% increase	(115)
	686
<u>Savings and Funding Increases</u>	
Net savings	(1,546)
<u>Contribution to Earmarked Reserves</u>	
Budget Gap Remaining - September 2016	(187)

14.

LOCAL GOVERNMENT SETTLEMENT

Spending Power

In previous years, Spending Power reductions between financial years were limited by the Government to a maximum reduction. This maximum reduction was 8.8% for 2011/12, 2012/13 and 2013/14 budgets, 6.9% for 2014/15 and 6.4% for 2015/16. Additional grant was provided to ensure that losses were no greater than the prescribed maximum reduction. For 2016/17 onwards, the calculation of Spending Power only includes Revenue Support Grant, Business Rates, New Homes Bonus and Council Tax. The Council's Spending Power will reduce by 4.3% in 2017/18 (4.39% in 2016/17) but there is no prescribed maximum limit and no additional grant to offset this reduction.

15. **Settlement Funding Assessment (SFA)**

SFA is set by the Government and comprises Revenue Support Grant (RSG - the general grant funding to local authorities) and the Baseline Funding Level for business rates income. It was estimated in the September Council report that RSG would reduce by 24.1% which was confirmed in the provisional settlement figure for 2017/18.

16. **New Homes Bonus**

In the provisional finance settlement the Government has reduced the funding period for

NHB from the current six years to five years in 2017/18 and then to four years in 2018/19 onwards for existing and new awards commencing in 2017/18 which will accelerate the rate at which this grant reduces. The impact on the amount that the Council will receive as a result of the change from 6 years to 4 years is a reduction of £1.599m between 2017/18 and 2022/23 on existing year 1 to 6 allocations.

17. In addition, from 2017/18 the Government has set a baseline for housing growth of 0.4% of a Council's existing taxbase below which no NHB grant is payable. For this Council it means that the first 121 additional band D equivalent properties do not attract New Homes Bonus. For the 2017/18 (year 7) allocation, the Council identified that an additional 140 band D equivalent properties had been added to the Council's taxbase which would have previously attracted NHB funding of £171k per annum. After deducting the first 121 band D properties this results in a provisional allocation of £23k per annum for the year 7 allocation, resulting in an annual loss of £148k starting in 2017/18, with an overall loss of funding of £592k over the reduced 4 year period.

FURTHER BUDGET PRESSURES AND SAVINGS IDENTIFIED

18. Further budget pressures and savings have, as is usual, been identified since the September Council meeting and the announcement of the local government finance settlement for 2017/18. Appendix 3 shows the residual budget gap as at September 2016 and the identified additional pressures and savings to balance the 2017/18 budget.

GROWTH PROPOSALS

19. Given the continuing and sustained budget pressures being faced, there is very little scope for continuing growth unless the Council's priorities demand new spending in key areas. A balanced approach needs to be taken to ensure priority issues are achieved.
20. Consequently, only six items of revenue budget growth are included within the proposals for 2017/18, one of which was approved at the September Council meeting. The additional five growth items are shown in Appendix 2 and approval is sought to include £132k within the revenue budget for 2017/18.

COUNCIL TAX

21. The proposals in this paper assume that the Council's Band D Council tax will increase by 1.9% from the 2016/17 level of £277.76 to £283.04. This level of charge will yield an estimated total income of £6,390,760.
22. Guidance has been received from central government on the criteria for Council tax increases that would trigger a local referendum. This guidance indicates that "If an authority's relevant basic amount of council tax is excessive a referendum must be held in relation to that amount". For 2017/18, the relevant basic amount of council tax of a shire district Council is excessive if the authority's relevant basic amount of council tax for 2017/18 is 2%, or more than 2%, greater than its relevant basic amount of council tax for 2016/17.

BUSINESS RATES

23. The expected amount of business rates to assist in funding the Council's spending next

year is included as part of the Government's 2017/18 funding settlement. The figure announced is £3,982k. The table at paragraph 12 above shows that it is expected that the Council will receive Business Rates in excess of the announced figure – an extra £161k.

24. The indicative figure from the Government for business rates relates to the system of business rates retention involving a distribution of rates collected to the Council, the County Council, the Combined Fire Authority and Central Government. Some elements of business rates are however fully credited to this Council. One element of business rates which falls within this category is sustainable energy. A sum of £233k is estimated to be receivable next year in respect of sustainable energy business rates which are a significant factor in balancing the revenue budget in 2017/18 and future years.

COLLECTION FUND SURPLUS

25. Council Tax Element

A surplus or deficit can arise for two reasons, namely:

- i) The Council's share of a variation in the amount of Council tax that is actually due and charged for the year in question compared with the figure assessed when the Council tax base for the year is calculated.
- ii) The Council's share of a variation in the amount that needs to be provided for taxes that the Council is unable to recover in each financial year.

This year's calculation has produced an overall surplus figure of £491k of which this Council's share is £82k which is 16.5% as a proportion of the total. An estimated figure of £82k for Burnley's share of the Collection Fund surplus was used in calculating the initial estimate of the 2017/18 revenue budget gap.

COMMERCIAL STRATEGY & FEES AND CHARGES

26. The Council has developed and approved a commercial strategy. This is intended to promote a more commercial approach to the Council's business and finances and reflects the changed environment in which the Council now operates with the establishment of major contracts for service delivery including the strategic partnership with Liberata. Part of this commercial approach is linked to maximising where possible the income which the Council receives from fees and charges. Further work will be undertaken in 2017/18 in this area.
27. During the budget process, it has been assumed that income budgets would increase in 2017/18 reflecting a corresponding increase, where practicable, in fees and charges levied. Heads of Service were therefore asked to review their fees and charges in the context of an assumed minimum overall increase of 2% in income generated except in areas where it was considered that no increase should take place. It was decided that the increase should take effect from 1st January 2017 as has been the case previously. The tariff of fees and charges mainly effective from 1st January 2017 was approved by full Council on 21st December 2016. The estimated additional increase in income in 2017/18 as a consequence of the approved increases is £38k and forms part of the overall savings approved in September 2016 to balance the budget.

STRATEGIC EARMARKED RESERVES AND GENERAL FUND RESERVE

28. It is important that, when considering the Revenue Budget, due consideration is given to the levels of strategic earmarked reserves that are available and held for future liabilities. The General Fund reserve is held to provide a working balance to help cushion the impact of unexpected emergencies and uneven cash flow.
29. The table below shows the anticipated use of strategic reserves for 2017/18 and later years. This table excludes any reserves held for specific operational reasons:

	Strategic Earmarked Reserves £'000	General Reserve £'000	Total £'000
Balance as at 01/04/16	4,895	1,379	6,274
Approved use to Q3 2016/17	(55)	-	(55)
Balance available after approvals	4,840	1,379	6,219
General revenue budget support 16/17	(250)	-	(250)
General revenue budget support 17/18	(240)	-	(240)
Future commitments and risks	(1,965)	-	(1,965)
Balance remaining	2,385	1,379	3,764

RISK ASSESSMENT

30. A risk assessment has been carried out on key areas of income and expenditure and ways of monitoring and mitigating the risk have been identified where possible.
31. An important issue to consider is the extent to which the Council will be utilising earmarked reserves and non-recurring income when setting the budget. Initiatives that are to be funded from earmarked reserves do not have assumed ongoing funding and the Council must therefore plan in future years to discontinue these activities or approve growth if they are to continue. The latter course of action would add to the savings requirement. It is not considered that the extent of funding from earmarked reserves factored into the 2017/18 revenue budget is unduly onerous and the levels of reserves forecast will be sufficient in accordance with the medium term financial strategy (MTFS).
32. There are risks associated with the business rates system. The proposed elimination of Government grant funding through RSG by 2020 makes these risks more significant. An increasing proportion of the Council's funding requirement will need to be met from business rates. The Council remains optimistic that the business rates system can provide positive benefits through the stimulation of economic growth but there is the possibility of less than anticipated receipts through factors beyond the Council's control. Progress will therefore be carefully monitored to ensure that the Council's position is safeguarded.
33. Declining levels of income also continue to be a significant risk area and although substantial reductions in income receivable have been made to reflect current economic conditions there may be a further decrease in income levels supporting the revenue budget. This will be closely monitored as part of budget monitoring for 2017/18.

34. Pay inflation is not a significant budget pressure in 2017/18 and there is also little price inflation included within the estimates. However, general levels of inflation as measured in the retail prices index and the consumer prices index will increase in the future and this may lead to demands for higher pay and an increase in the prices of goods and services which the Council has to meet. The risk of any increase in inflation is considered likely in the existing climate and will be closely monitored.
35. Significant savings have been achieved by operating the Council's leisure services as a charitable company but there are however risks in the operation of the Trust and the assumptions made in terms of the management fee paid by the Council to the Trust. To ensure that risk is minimised there will continue to be regular monitoring of activity and financial performance in 2017/18 and beyond.
36. The Council is undertaking a change programme and has entered into a contract with Liberata as our external service provider for around a third of Council services from 1st January 2016. The financial planning assumptions provide for a significant saving on previous in-house provision. It will be necessary to ensure that these savings are being delivered whilst maintaining service quality and standards. Procedures have been drawn up to enable the new partnership to operate effectively. Nevertheless this is a significant savings area which is currently and will continue to be actively managed.
37. In summary, after taking consideration of the issues in this report and the risks referred to above, the 2017/18 revenue budget may be approved. Also, the assumed level of Council Tax that should be set in order to achieve a balanced budget as set out above should be confirmed.
38. The final decision that Members of the Council take will need to reflect the statutory (Section 25) report of the Chief Finance Officer as to the robustness of the assumptions that have been made in compiling the budget.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

39. As shown in the body of the report and appendices.

POLICY IMPLICATIONS

40. The revenue budget determines the extent to which the Council's strategic objectives can be pursued and achieved.
41. Community Impact Assessment and Equality Impact Assessments have been completed and there is no change from the report presented to September Council.

DETAILS OF CONSULTATION

42. No external consultation has been carried out

BACKGROUND PAPERS

43. None.

FURTHER INFORMATION

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ALSO:

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