

REPORT TO THE EXECUTIVE



DATE	12th February 2018
PORTFOLIO	Resources & Performance Management
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Revenue Budget 2018/19

PURPOSE

1. To consider the estimates of revenue income and expenditure for 2018/19 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 2018/19;
- ii) Approve the proposals contained in this report;
- iii) Set a Council Tax Requirement of £6,738,897 for the financial year 2018/19;
- iv) Set a Net Budget Requirement of £15,089,625 for 2018/19;
- 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 2018/19 budget;
- vii) Approve a Council Tax (Band D) figure of £291.50 for this Council for the year commencing 1st April 2018 and adopt the statutory resolution to set the full Council Tax for the year. This is equivalent to a 2.99% 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 2018/19 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 2018/19
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 22nd November 2017.
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.
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 2018/19

12. The proposed net revenue budget for 2018/19 is as set out in the table below:

	£'000	£'000
Net Revenue budget - original 2017/18		14,596
Add Spending pressures reported September 2017	1,024	
Less Savings approved September 2017	<u>(1,683)</u>	(659)
Add Proposed Growth - Appendix 2		17
Add Further spending pressures (Corporate items) 2018/19		336
Add Transfer to Business Rates Volatility Reserve		979
Less Further savings proposed - Appendix 3		(179)
Net Budget requirement		<u>15,090</u>
Financed from:		
<u>Government Settlement Funding Assessment</u>		
Business rates baseline	4,102	
Revenue support grant	<u>2,228</u>	6,330
New Homes Bonus		561
Council Tax Yield		6,739
<u>Business Rates in addition to Baseline Funding</u>		
Additional business rates above baseline	1,136	
Renewable energy	<u>235</u>	1,371
Collection fund surplus - Burnley share		89
		<u>15,090</u>

Recap on Budget decisions taken September 2017

13. Members at Executive and Council in September 2017 approved budget savings of £1,683k for 2018/19, following receipt of the initial budget report that outlined a savings requirement of £1,767k. The information presented to Members at that time is shown below:

Position Approved September 2017:

	£'000
<u>Net Spending Increases/(Decreases)</u>	
Pay awards and increments	96
General inflation	255
Pensions Costs	60
Cost share agreement	801
Strategic Partnership - Additional Income	(76)
Reversal of one-off growth 2017/18	(139)
Borrowing costs & MRP	81
Other net continuation budget changes	(2)
Fees and charges increases	(52)
Growth	-
	1,024
<u>Net Funding (Increases)/Decreases</u>	
Revenue Support Grant	550
Business Rates	(117)
New Homes Bonus	429
Council Tax - indicative 1.9% increase	(119)
	743
<u>Savings and Funding Increases</u>	
Net savings	(1,683)
<u>Contribution to Earmarked Reserves</u>	
Budget Gap Remaining - September 2017	84

LOCAL GOVERNMENT SETTLEMENT

14. Spending Power
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 3.5% in 2018/19 (4.3% in 2017/18).
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 19.8% which was confirmed in the provisional settlement figure for 2018/19.

16. New Homes Bonus

In the 2017/18 finance settlement the Government reduced the funding period for NHB from 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 £1.698m between 2017/18 and 2022/23 on existing year 1 to 7 allocations.

17. In addition, from 2017/18 the Government set a baseline for housing growth of 0.4% of a Council's existing taxbase below which no NHB grant is payable. The baseline has remained at 0.4% for 2018/19. For this Council it means that the first 122 additional band D equivalent properties do not attract New Homes Bonus. For the 2018/19 (year 8) allocation, the Council identified that an additional 193 band D equivalent properties had been added to the Council's taxbase which would have previously attracted NHB funding of £236k per annum. After deducting the first 122 band D properties this results in a provisional allocation of £87k per annum for the year 8 allocation, resulting in an annual loss of £149k starting in 2018/19, with an overall loss of funding of £596k 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 2018/19. Appendix 3 shows the residual budget gap as at September 2017 and the identified additional pressures and savings to balance the 2018/19 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 two items of revenue budget growth are included within the proposals for 2018/19. The growth items are shown in Appendix 2 for information and have been included within the revenue budget for 2018/19.

COUNCIL TAX

21. The proposals in this paper assume that the Council's Band D Council tax will increase by 2.99% from the 2017/18 level of £283.04 to £291.50. This level of charge will yield an estimated total income of £6,738,897.
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 2018/19, 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 2018/19 is 3%, or more than 3%, greater than its relevant basic amount of council tax for 2017/18. This has been increased from 2% for the previous financial year in line with

inflation.

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 2018/19 funding settlement. The figure announced is £4.102m. 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 £1.136m. This is an increase of £0.979m over the amount expected in 2017/18 and will be transferred to the Business Rates Volatility Reserve.
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 £235k 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 2018/19 and future years. This is an increase of £2k over the amount expected in 2017/18.
25. For 2018/19, the excess Business Rates figure has arisen due to an increase of £3.1m in rateable values contained within the 2017 valuation list, which is issued by the Valuation Office Agency (VOA), and a revision to the estimated level of appeals against the rateable values in that list. The increase in the rateable value was due to a correction of the VOA's original data, which was issued in mid-January 2018, and a greater than expected rateable value for properties added to the VOA list during the year. The Council uses the services of an external advisor to assess the level of likely appeals lodged with the VOA against the rateable values in the 2017 valuation list. In January 2018 the estimated level of appeals was reduced from £1.7m to £0.8m which effectively increases the net amount receivable from rate payers.
26. Any excess Business Rates are subject to a Government levy which substantially reduces the amount due to the Council. The levy calculation is adjusted for any section 31 grants, received by the Council arising from the reliefs announced by the Government during the Spring and Autumn Budgets, and for any local discretionary reliefs granted under section 47 powers. During the provisional 2018/19 finance settlement announced in December, the Government approved the re-admittance of the Council into the Lancashire Business Rates Pool. As a consequence of this, the levy that the Council would previously have had to pay to Central Government will be paid into the Lancashire Pool and the Council will be able to retain 90% of the amount paid, providing opportunities to promote further economic growth as well as building financial resilience.
27. As part of the ongoing consultation around the 100% business rate retention proposals, the Government is proposing a reset, or partial reset, of the amount of Business Rates each Council expects to receive. A reset would mean that any previous growth in business rate income above the expected amount, achieved under the existing system, would be lost. This would mean an additional pressure on council's that had used any excess Business Rates income when balancing their annual budgets. It is expected that the new system of accounting for Business Rates will come into effect in 2020.

COLLECTION FUND SURPLUS

28. 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 £545k of which this Council's share is £89k which is 16.31% as a proportion of the total. An estimated figure of £81k for Burnley's share of the Collection Fund surplus was used in calculating the initial estimate of the 2018/19 revenue budget gap.

COMMERCIAL STRATEGY & FEES AND CHARGES

29. 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 2018/19 in this area.
30. During the budget process, it has been assumed that income budgets would increase in 2018/19 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 2018 as has been the case previously. The tariff of fees and charges mainly effective from 1st January 2018 was approved by full Council on 22nd November 2017. The estimated additional increase in income in 2018/19 as a consequence of the approved increases is £52k and forms part of the overall savings approved in September 2017 to balance the budget.

STRATEGIC EARMARKED RESERVES AND GENERAL FUND RESERVE

31. 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.

32. The table below shows the anticipated use of strategic reserves for 2018/19 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 01/04/17	5,375	1,379	6,754
Approved use to Q3 2017/18	(2,179)	-	(2,179)
Balance available after approvals	3,196	1,379	4,575
General revenue budget support 18/19	-	-	-
Future commitments and risks	(1,567)	-	(1,567)
Balance remaining	1,629	1,379	3,008

RISK ASSESSMENT

33. 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.
34. 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 2018/19 revenue budget is unduly onerous and the levels of reserves forecast will be sufficient in accordance with the medium term financial strategy (MTFS).
35. 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.
36. 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 2018/19.

37. Pay inflation has been increased by 2% in 2018/19 and future years. A revised pay structure has been proposed for local government in 2019/20 and the Council will need to revise its pay structure. There is little price inflation included within the estimates for non-salary budgets. 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.
38. 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 2018/19 and beyond.
39. The Council 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 provided 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.
40. In summary, after taking consideration of the issues in this report and the risks referred to above, the 2018/19 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.
41. 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

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

POLICY IMPLICATIONS

43. The revenue budget determines the extent to which the Council's strategic objectives can be pursued and achieved.
44. Community Impact Assessment and Equality Impact Assessments have been completed for the additional savings proposals that are contained within Appendix 3. The Assessments are included as Appendix 4.

DETAILS OF CONSULTATION

45. No external consultation has been carried out.

BACKGROUND PAPERS

46. None.

FURTHER INFORMATION**PLEASE CONTACT:****Asad Mushtaq – Head of Finance****ALSO:****Howard Hamilton-Smith - Finance &
Commercial Manager**