

Management Committee

7 February 2017

Budget Update

For Recommendation To Council

Brief Holder

Cllr Jeff Cant – Finance & Assets

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Statutory Authority

Local Government Acts 1972, 1988, 1992 and 2003

Purpose of Report

- 1 To set out the revenue and capital budget proposals for the 2017/18 financial year including the level of council tax and reserves. To outline the Medium Term Financial Forecast for future years.

Officer Recommendations

- 2 That the Committee receives a report on the level of once-off funding available and potential bids at its next meeting.
- 3 That the Committee recommends to Council the following:-
 - a. That the funding for community-led housing developments is put into an earmarked reserve and that an action plan on its use is produced
 - b. That the proposals for balancing the 2017/18 revenue budget set out in Appendix 3 are approved
 - c. That the 2017/18 Capital Programme in Appendix 4 is approved
 - d. That the formal resolutions in respect of the 2017/18 Budget and Council Tax including details of the council tax levels for Dorset County Council, Dorset Police & Crime Commissioner and Fire & Rescue Authority and Town Council are included in the Budget Report to the 23 February Council meeting

Reason for Decision

- 4 To enable the Council to balance the 2017/18 budget.

Background and Reason Decision Needed

- 5 The Budget report in February 2016 set out the financial forecast for the next 3 financial years with estimated budget gaps of £1.808m in 2017/18,

£1.218m in 2018/19 and £1.105m in 2019/20. Against this background the Council's Financial Strategy focused upon three strategic options, those being:-

- Plan A – Unitary Council
- Plan B – Single 'super District' Council
- Plan C – Stay as a stand-alone Council

6. Given the uncertainty over the longer term direction the strategy for the development of the 2017/18 budget has been to focus upon it as a single year and produce a balanced budget which allows all three strategic options to be considered.

Budget Changes

Revenue Support Grant

7. Following on from the Comprehensive Spending Review (CSR2015) announced by the Chancellor on 25 November 2015, the Council received the details of its funding for the next 4 years. Having details of the likely funding for the next 4 years was very welcome as it makes financial planning considerably easier. However the reductions in funding are significantly quicker and larger than anybody was expecting.
8. The finance settlement shows that the Revenue Support Grant (RSG) was reduced to £743,000 for 2016/17 and further reduced down to £203,000 for 2017/18. There is no RSG in 2018/19 or 2019/20. In addition the government has also taken into account the Council's ability to increase council tax and calculated a 'negative' RSG payment of £487,000 in 2019/20. As it is not possible for there to be 'negative' RSG, the Council will have to pay the government this funding through a 'tariff adjustment'.

Business Rates

9. The current system of providing funding to the Council through some of the Business Rates that they collect came into effect in 2013/14. The government still sets the pence in the pound national multiplier and the Valuation Office still determine the rateable value. The government assessed how much Business Rates would be collected in the Borough and set up a system for the funding to be split between the government, the Council, Dorset County Council and the Fire Authority. The idea behind the scheme is to incentivise the Council to 'grow' the amount of business rates in its area and that it would be able to keep 50% of this additional income. There is also a 'safety net' mechanism to ensure a minimum funding level for councils.
10. There has been a national revaluation of business rates which comes into effect from April 2017. This process should be cost neutral for the Council in that it should receive the same level of funding after the revaluation as it would have done before the revaluation. However, in practice this is unlikely to happen. It is also very hard to predict the number of businesses that will successfully appeal against the new ratings valuation. Therefore for budgetary purposes it is prudent to set the 2017/18 budget based upon the safety net. This means the funding that the Council is building into the 2017/18 budget for Business Rates is £1,726,287.

11. The Chancellor has already announced the intention to introduce a 100% business rates scheme and there has been some initial consultations on this. The new scheme could be introduced in 2019/20 or 2020/21 and will mean that at the national level, Councils will retain 100% of the business rates that they collect. It is important to point out that this does not mean that individual councils will retain all of the business rates they collect. The new funding being given through the 100% business rates scheme will not be additional funding for local government but will be funding for councils to take on new additional responsibilities. The precise details of how this will work are still being developed and will be subject to further consultation.

New Homes Bonus

12. The New Homes Bonus (NHB) scheme commenced in April 2011. Up until 2016/17, the amount of NHB that each authority received was dependent on two elements:
 - a. The council tax band of each additional property built, multiplied by the national average council tax level from the preceding year i.e. the 2016/17 allocations were based upon the average Band D council tax set in 2015/16 at £1,484.
 - b. A payment of £350 for each affordable home.
13. The scheme originally made payments for six years. This meant that an authority received its 2011/12 allocation each year between 2011/12 and 2016/17.
14. The consultation paper, "New Homes Bonus: Sharpening the Incentive", was published in December 2015 and closed in February 2016. The results were announced in December 2016 with the government making significant changes to the New Homes Bonus Scheme, which are reflected in the 2017/18 allocations. A list of the changes made/planned are as follows:
 - A move to 5-year payments for both existing and future NHB allocations in 2017/18 and then to 4 years from 2018/19.
 - The introduction of a national baseline of 0.4%, for 2017/18, below which allocations will not be made. This is higher than the baseline of 0.25% discussed in the consultation paper.
 - The government will also retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth.
 - It will not introduce the proposals to withhold payments for areas without a local plan in 2017/18; however, it will revisit this issue for 2018/19.
 - It will also consider withholding payments for homes that are built following an appeal (and the Minister mentioned in his statement that further consultation will take place in this area).
 - The allocations will continue to be an un-ring-fenced grant.

15. Nationally the funding for New Homes Bonus in 2017/18 was reduced from £1,493m to £1,252m, a reduction of £241m. The £241m has been used to fund a new grant, the “Adult Social Care Support Grant”, which is a grant for 2017/18 only to be paid based on the Adult Social Care Relative Need Formula to authorities providing Social Care. For 2017/18, the rate of payment for the scheme is:
- £1,530 per Band D Dwelling equivalent
 - £350 per affordable home
16. The impact of changes to the New Homes Bonus scheme upon the funding that the council receives is set out in Appendix 1.

Community-led Housing Developments

17. The Government announced a £60 million fund to support community-led housing developments in areas where the impact of second homes is particularly acute. The fund will enable local community groups deliver affordable housing units of mixed tenure on sites which are likely to be of little interest to mainstream housebuilders and will thereby contribute to the overall national effort to boost housing supply. The fund will also help build collaboration, skills and supply chains at a local level to promote the sustainability of this approach to housebuilding. The fund will enable capital investment, technical support and revenue to be provided to make more schemes viable and significantly increase community groups’ current delivery pipelines. The funding is allocated between local authorities proportionate to the number of holiday homes in the local area and taking account of the affordability of housing to local people.
18. The funding we have been allocated is £430,315 and we have received 50% of the allocation. We are required to produce an action plan in order to receive the final 50%. It is therefore proposed to ring-fence this funding by putting it into an earmarked reserve and an action plan for its use is produced.

Staffing

19. The pay for staff is to increase by 1% for 2017/18 as part of the national pay bargaining agreed last year. Dorset County Council administers pensions on behalf of all the councils in Dorset and the pensions fund is reviewed every 3 years. As a result of the review, employer pension’s costs have increased from 12.4% in the current year to 15.3% for the next 3 years. This is partly offset by a reduction in backfunding but means an additional cost pressure of £30,000 for 2017/18 and this takes the total employers pensions budget to £1,276,308.

Inflation

20. An uplift of 3% has been applied to amount that the council has to pay on business rates. Where the Council has contracts in place which set out inflationary increases these have been built into the budget but there is no allowance for general inflation.

Revenue Budget Proposals

Budget Gap & Financial Forecast

21. All of the changes to the budget are summarised in Appendix 2 which also sets out the financial forecast until 2019/20. It shows that the budget gap for 2017/18 is £1.198million before any action is taken, with further gaps of £933,000 in 2018/19 and £935,000 in 2019/20.

Council Tax

22. As the billing authority the Council is responsible for sending out the bills and collecting council tax on behalf of the County Council, Police & Crime Commissioner, Fire Authority and for Portland Town Council. Each of these bodies is responsible for setting their own level of council tax. The latest estimate is that there is a surplus on the current years collection fund with the councils share being £147,643 which will be added to reserves.
23. As part of the 4 year finance settlement the Government has for the first time taken into account the Council's ability to raise funding through council tax. It has assumed that Council increase their council tax over the next 4 years of the finance settlement.
24. Although council tax is determined by the Council the government limits the amount of any increase to below 2% or £5 per year, whichever is the greater. The final finance settlement confirmed that this arrangement is in place throughout the settlement period. If the Council wanted to increase the council tax by more than this then it is required to undertake a public referendum.
25. The budget proposals for 2017/18 assume an increase in number of Band D equivalent properties of 153.4 (0.7%) to 20,721.3 and an in year collection rate of 96.5%. The proposal is to increase council tax by 1.99% per year for a Band D property.

Savings & Increased Income

26. The Council has been very effective in managing its finances over the longer term and putting in place the Stronger Together Transformation Programme to address the reduction in resources. This programme has already successfully delivered significant savings and a further £1,271,000 can be built into 2017/18.
27. There are a number of further saving and increased income options that are required in order to produce a balanced budget for 2017/18. These have been developed by managers and were detailed in the September report to the Committee and have been reviewed by Scrutiny. They are set out in Appendix 3 and total £128,000.

Capital Budget

28. The Council now has an up to date Asset Management Plan which is a key document for future planning. It helps clarify the future costs of maintaining the current assets. There has also been considerable work over the last 6 months on the underlying data held on all of the councils assets.
29. The Capital Programme for 2017/18 is set out in Appendix 4.

Reserves

30. The Council holds reserves which are funding that has been set aside for a particular purpose. In effect they are the Council's equivalent of savings accounts but it should be remembered that they are once off sources of funding and when they have been spent they are gone.
31. General Reserves are funding that is set aside to cover unforeseen circumstances. There is a legal duty for the Chief Finance Officer (Section 151 Officer) to provide members with assurance that the level of reserves are adequate. In order to help provide this assurance, a risk based assessment of the minimum amount of general reserves is undertaken and has been set as £1,205,700.
32. The other type of reserves are called Earmarked Reserves which are funds that the Council has set aside for a particular purpose.
33. As part of developing the budget proposals a number of bids for once off funding have been identified and it is proposed that these are considered at the next Committee alongside a detailed review of all once-off funding available that could be utilised to support them.

Section 151 Officer

34. As the legally appointed Chief Finance Officer (Section 151 Officer) I have a legal duty to the Council to ensure that the budget proposals are robust and that there is a balanced budget for 2017/18. I am able to provide a positive assurance statement that the current proposed budget for 2017/18 is a balanced budget and also that the level of reserves are at an adequate level based upon the current proposals.

Implications

Corporate Plan

The budget allocates the financial resources of the councils and therefore directly impacts upon the delivery of the corporate plan.

Financial

As set out in the report.

Equalities

None directly from this report.

Environmental

None directly from this report.

Economic Development

None directly from this report.

Risk Management (including Health & Safety)

The budget process should ensure that the 2017/18 budget estimates are robust. The council has general reserves to cover any unforeseen circumstances and the level of the reserves is assessed using a risk based methodology.

Human Resources

There are some the savings that have already been agreed involve changes to some staffing structures. There is an agree HR process for making these changes which will be followed.

Consultation and Engagement

The budget proposals have been subject to review by Scrutiny. In addition there have been various member and staff briefings on the budget.

Appendices

Appendix 1 – New Homes Bonus
Appendix 2 – High Level Financial
Appendix 3 – Budget options
Appendix 4 – Capital Programme

Background Papers

Budget Report February 2016

Footnote

Issues relating to financial, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

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