**POLICY AND RESOURCES COMMITTEE – 29 JANUARY 2018**

**PART I - NOT DELEGATED**

**9. FINANCIAL PLANNING – REVENUE SERVICES**

(DoF)

|  |  |
| --- | --- |
| 1. | Summary |
| 1.1 | The purpose of this report is to enable the Policy and Resources Committee to recommend to the Council the medium term revenue budgets. This report is the first of three that are covered together under the recommendations report at Item 11 on this agenda. |
| 2. | **Details** |
| 2.1 | Officers have prepared a three-year Medium Term Financial Plan (MTFP) base budget for 2018 – 2021 which includes a revised estimate for the current year. This is attached at **Appendix 1.**  |
| 2.2 | ***2017/18***The original net revenue budget for 2017/18 was **£10.538 million**. The latest approved budget is **£11.062 million** (approved by Council on 12 December 2017); the table below shows the approved changes to date and the variances reported for this period (end of November) to give a forecast outturn position of **£10.750million**.

|  |  |
| --- | --- |
| **Net Revenue Budget 2017/18** | **£ million** |
| **Original Net Revenue Budget** | **10.538** |
| Variances Previously Reported | 0.524 |
| **Latest Approved Budget** | **11.062** |
| Service Variances Reported This Period | (0.112) |
| **Net Expenditure Requirement**  | **10.950** |
| Funding Variance Reported This Period  | (0.200) |
| **Forecast Outturn position** | **10.750** |

 |
| 2.3 | At the end of November, Services show an estimated favourable variance of **£0.112 million**. In addition, a favourable funding variance on collection fund of £50,000 and growth on business rates of £150,000 in 2017/18 which increases the favourable variance to **£0.312 million**. The budget will be changed to reflect this outturn forecast if approved at Council.**Appendix 2** details each service committee’s net direct revenue budgets over the medium term. The table below shows the net direct expenditure budgets, actuals to date, forecast outturn and variance for each service committee.

|  |
| --- |
| **2017/18 Revenue Account – General Fund Summary** |
| **Service Area** | **Original Budget**  |  **Latest Budget**  | **Net Spend to Period 8** |  **Forecast Outturn** | **Variance** |
| **£’000** |  **£’000**  | **£’000** |  **£’000**  | **£’000** |
| Leisure, Wellbeing & Health | 2,270 | 2,249 | 1,252 | 2,134 | (115) |
| Sustainable Development, Planning & Transport | 1,834 | 2,169 | 596 | 2,127 | (42) |
| General Public Services & Community Safety | 1,947 | 1,794 | 524 | 1,776 | (18) |
| Policy & Resources | 4,487 | 4,849 | 4,051 | 4,912 | 63 |
| **Net General Fund** | **10,538** | **11,062** | **6,422** | **10,950** | **(112)** |
| Funding (Business rates & collection fund) |  |  | **(200)** |
| **Total** |  |  |  |  | **(312)** |

 |
| 2.4 | The main items that contribute to the net favourable services variance of (£0.112) million are;

|  |  |  |
| --- | --- | --- |
|  |  | £ |
| 1. | Additional income received following successful prosecution by the Environmental Health Team | (44,000) |
| 2. | Licensing - income target is unlikely to be met due to reduction in the number of applications for Private Hire Drivers | 20,000 |
| 3. | Energy Efficiency- Full allocation for grants and contributions is unlikely to be awarded in the current year | (18,700) |
| 4. | Land Charges-1. Due to change in questions and complexity of search enquiries, more requests are sent to Hertfordshire County Council for processing leading to unbudgeted increases
2. Services are projecting a shortfall in income due to reduced demand.
 | 11,00020,000 |
| 5 | Development Management: Additional 20% income due to Government legislation on increasing Planning Application fees  | (23,100) |
| 6 | CSC- additional costs due to restructuring  | 48,800 |
| 7 | £60k saving from the TRDC element of the IT operating costs that are shared between Watford and Three Rivers. A further £17k saving from a managed reduction in spend on IT equipment and professional consultancy. | (77,520) |
| 8. | Three Rivers House - saving on electricity as the building is more energy efficient  | (15,000) |
| 9. | Additional budget required for the refurbishment of the two recently purchased temporary accommodation properties at South Oxhey | 15,000 |
| 10. | In-year salary vacancies across services | (30,980) |
|  | Other | (17,630) |
|  | Total | **(112,130)** |

The details of all the service variances over the medium term are shown at **Appendix 3.** |
| 2.5 | The trend over the financial year (2017/18) is plotted on the graph below; |
| 2.62.7 | ***2018/19 - 2020/21 - The Medium Term Financial Plan (MTFP)***Looking ahead over the next three years, the MTFP has been prepared against the continued backdrop of cuts in Government funding, increasing pressure on services and continuing expectations from stakeholders for service provision.The main immediate budget pressure facing the Council is the requirement to honour the National Joint Council pay award for staff. The level of pay award has been previously capped but for 2018/19 this has been set at 2% for the next two years. This will mean a pressure of £880,000 over and above the amounts already built into the MTFP. |
| 2.8 | Services have worked hard during the budget setting process to keep budget growth to a minimum and remain within their budget limits. Services have submitted Project Initiation Documents (PIDS) to their relevant service Committees for approval. This has resulted in a minimal increase in growth of £112,790 over the MTFP. |
| 2.9 | There is an expectation that the Council will take advantage of the increase in planning fees (statutory) to also increase its fees for pre-application advice by a similar percentage. Both of these will see an increase income, although the statutory element will be ring-fenced to support planning services. |
| 2.10 | In the previous MTFP the Council indicated that by 2018/19 it would be making an additional £1 million from its investment in property (including temporary accommodation). Whereas progress has been made in this financial year (c£300,000), delays in the Bury project and recent government announcements restricting property investments present a risk to the full achievement of this target in future years. |
| 2.11 | Appendix 3 includes the variances reported for the current period (end of December) that affects all years. The effect of the all variances on the Council’s (surplus)/deficit for the year and the general fund balance over the medium term is shown in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Movement on General Fund** | **2017/18** | **2018/19** | **2019/20** | **2020/21** |
| **Forecast Outturn** | **Proposed Budget** | **Indicative Budget** | **Indicative Budget** |
| **£000** | **£000** | **£000** | **£000** |
| Balance at 1 April | (4,094) | (3,347) | (3,859) | (3,124) |
| (Surplus)/deficit for year | 747 | (512) | 735 | 964 |
| Balance at 31 March | **(3,347)** | **(3,859)** | **(3,124)** | **(2,160)** |

 |
| 2.12 | It is recommended that for contingencies a balance of at least £2 million should be retained in the General Fund. The Council has an additional earmarked reserve of £2,000,000 to set against future economic downturn/loss of business rates and this could be used if required to maintain a prudent level of General Fund balance. It should be noted that long term use of reserves to offset deficits is not sustainable or prudent. |
| 3. | **Additional income and efficiency savings** |
| 3.1 | The garden waste initiative has continued to be extremely popular and current demand has continued to exceed the anticipated participation and take-up rates. |
| 3.2 | The retendered leisure management contract had anticipated income of £130,000 for each of the years covered by the MTFP. The Council has been presented with a stepped income profile from the new contractor, which means that this management fee will not be achieved in the MTFP, but will see an enhanced revenue stream to the Council from 2021/22 onwards.   |
| 3.3 | The base budgets also include efficiency savings of £100,000 in 2019/20 and £200,000 in both 2020/21. These have yet to be specifically identified and allocated to individual services. |
| 4. | **Potential Growth** |
| 4.1 | As mentioned above, officers have made every effort to cash limit expenditure without affecting service delivery. Unavoidable growth (eg: statutory and contractual requirements) have been included into the based budgets. The scheme for prioritising discretionary growth is shown at **Appendix 4.** There are six new proposed growth items shown at **Appendix 5.** These total £61,530 in 2018/19. Three of these bids depend on the approval to fund their respective new capital schemes (see Item 9 on this agenda).  |
| 5.  | **Fees and Charges** |
| 5.1 | Details of the proposed fees & charges were presented to service committees in November and December and have been included in the base budgets where agreed. The latest budgets for fees and charges are shown at **Appendix 6.**  |
| 6. | **Funding the Revenue Budget** |
| 6.1 | The overall Council Medium Term Financial Plan (MTFP) at **Appendix 1** indicates a budget requirement (net expenditure) for 2018/19 of **£11,646,852**.This will be funded from a number of sources, which are detailed in the following paragraphs. |
| 6.2 | **Government Grant**  |
| 6.2.1 | Government funding has continued to diminish since the austerity measures were introduced in 2010. To provide some certainty the Policy and Resources Committee agreed on 6 October 2016 (Minute No. PR54/16 refers) to accept the Government’s offer of a four year settlement. These amounts have been included in the MTFP. The provisional settlement in December 2017 confirmed these amounts. |
| 6.3 | **Revenue Support Grant (RSG)**  |
| 6.3.1 | The RSG element of Government funding reduces to zero in 2019/20. The chart below shows the cumulative reductions over the medium term. |
| 6.4 | **Business rates** |
| 6.4.1 | Business ratesare collected by the Council, and the proceeds are shared between the District and County Council, and also with central Government to fund services. There is an element of risk and reward involved in the Business Rates scheme, which is designed to incentivise Councils to promote business growth within their areas. The Council expects its share of business rates to be £1.919 millionin 2018/19. The business rates retention scheme is volatile and estimating the outturn is complex due to factors such as appeals, demolitions, new builds, occupation and reliefs. Future plans for 100% rate retention are yet to be published by Central Government. The MTFP allows for business rate growth of £700,000in 2018/19. |
| 6.5 | **Business Rates Pooling** |
| 6.5.1 | In 2017/18 it was agreed by the various Hertfordshire Authorities that the previous business rates pool was not viable and therefore dissolved. In 2018/19 a new business rate pool consisting of the County Council, this Council and other Hertfordshire districts/borough councils has been established. Membership of this pool should see projected additional business rate income for the Council of £400,000. |
| 6.6 | **New Homes Bonus** |
| 6.6.1 | New Homes Bonus is a non-ring-fenced grant relating to the number of new homes delivered in a local authority area that may be used at the discretion of the Council for either capital expenditure or to support the revenue account (or combination). For 2018/19, based on the provisional settlement, the Council expects to receive £1.109 million of which will be split equally between revenue and capital funding**.** Estimates for future years are harder to predict due to factors around timing of qualifying developments coming on line, but the Council has made realistic estimates of income and included these in the MTFP. |
| 6.7 | **Council Tax for 2018/2019** |
| 6.7.1 | The Council needs to set a budget that gives an acceptable level of council tax, and is balanced in the medium to long term using the resources at its disposal. |
| 6.7.2 | A council tax increase of £5 has been assumed for 2018/19 and subsequent years. The Council expects to collect £6.459 million of council tax income in 2018/19. A one percentage increase in the council tax rate generates approximately a £65,000 increase in Council Tax revenue.  |
| 6.7.3 | The Localism Act 2011 introduced a power for local electorates to approve or veto excessive council tax rises. Any authority setting a council tax increase of 3% or more or more than £5 (whichever is the greater) will be required to hold a council tax referendum.  |
| 6.7.4 | The government assessment of core spending power assumes local authorities will increase Council Tax by the maximum amount available without triggering a referendum. |
| 6.8 | **Council Tax Base** |
| 6.8.1 | The Council Tax base for 2018/19 was set at the Council meeting on 12 December 2017 and totalled 38,243.7 assuming a collection rate of 99%. The base shows an increase of 1.1% over 2017/18. Where amounts of Council Tax collected exceed the estimates made, the surplus is shared between the relevant major precepting authorities (Hertfordshire County Council, Three Rivers District Council and Hertfordshire Police & Crime Commissioner). To reduce risk for the Parish Councils, surpluses or deficits are not paid or charged to them.  |
| 6.9 | **Local Council Tax Reduction Scheme** |
| 6.9.1 | At the Council meeting on 12 December 2017, it was resolved to continue to apply the agreed Local Council Tax Reduction Scheme for 2018/19.  |
| 6.10 | **Collection Fund** |
| 6.10.1 | The Collection Fund is a statutory requirement to account separately for Council Tax and Business Rates. The Fund records all transactions such as the yield, exemptions, discounts, provisions for bad debts, payments to major preceptors to Central Government and takes into account collection rates. |
| 6.10.2 | The Council Tax setting process requires an estimate of the surplus or deficit at 31 March 2018 on Council Tax and Business Rates. The balances are distributed to the Council as the Billing Authority, the major preceptors and Central Government. The balance on the Collection Fund for Council Tax at 1 April 2017 was a £0.711million surplus, with £0.93 million as TRDC’s share. The balance on the Collection Fund for Business Rates at 1 April 2017 was a £9.863 million loss, with £3.945 million as TRDC’s share. The Business Rates deficit will be recovered in subsequent years in the proportion to the value of the respective shares of the Business Rates Retention scheme. |
| 6.11 | The charts below show the value and proportion of each funding stream that supports the Council’s revenue account for 2018/19. |
|  |  |
|  |  |
| 7. | **Budget Consultation** |
| 7.1 | The Council consulted on budget proposals for the period 2018/19, via an on-line proposal document.  Customers, stakeholders, businesses and partner agencies were invited to read the proposals and to respond directly to the consultation email address, with their opinions.  The consultation completed on 16 January 2018 and a report will be compiled with the responses and presented to Members for their consideration in February. |
| 8. | **Draft Revenue Estimates and General Fund Balance**  |
| 8.1 | The Director of Finance confirms the estimates have been correctly calculated under the assumptions used and that balances remain adequate. |
| 8.2 | The Council’s financial exposure over a three-year medium-term period has been calculated for each of its budgetary risks. It is acknowledged that were any of the risks to occur then the impact might last longer; on the other hand actions to mitigate the risk would be taken over the three year period.  |
| 8.3 | Balances can be used to support revenue expenditure, applied to capital expenditure or a combination of these. The Council should agree to retain some of the balance as ‘working balances’. These should be retained at a prudent minimum to assist cash flow management, avoid the need to borrow in the short term, and cover unforeseen expenditure. The prudent minimum level of balances depends on the council’s view of its financial risks and is considered further under risk management below. |
| 8.4 | The Committee is recommended to agree £2,000,000 as the minimum general fund balance over the medium term.  |
| 9. | **Options/Reasons for Recommendation** |
| 9.1 | The recommendation below enables the Committee to make recommendations to the Council on 20 February 2018 concerning the Council’s budget. |
| 10. | **Policy/Budget Reference and Implications** |
| 10.1 | The recommendations in this report contribute to the process whereby the Council will approve and adopt its budget under Article 4 of the Council’s Constitution. |
| 11. | **Environmental, Community Safety, Customer Services Centre, Communications & Website Implications** |
| 11.1 | Dependent on budget decisions.  |
| 12. | **Financial Implications** |
| 12.1 | Included above. |
| 13. | **Legal Implications** |
| 13.1 | The Policy and Resources Committee must forward its recommendations on the budget to Council. The Council must set its 2018/19 budget by 11 March 2018.  |
| 14. | **Equal Opportunities Implications**  |
| 14.1 | None specific |
| 15. | **Staffing Implications** |
| 15.1 | These depend on the budget set. The Council has clear policies and procedures in circumstances where it needs to reduce staff levels, for example, redeployments are made wherever possible. Staff and their representatives have been kept informed of the strategic, service and financial planning process. |
| 16. | **Risk Management and Health & Safety Implications** |
| 16.1 | The Council has agreed its risk management strategy which can be found on the website at <http://www.threerivers.gov.uk> . Financial and budgetary risks are shown at **Appendix 7.** |
|  | In the officers’ opinion none of the risks above, in isolation, were they to come about, would seriously prejudice the achievement of the Strategic Plan and are therefore operational risks that will be included and managed via the Corporate Services Service Plan. The effectiveness of treatment plans are reviewed by the Audit Committee annually. |
|  | **Recommendation** |
|  | That this report be noted.  |
|  | Report prepared by: Bob Watson – Head of FinanceNigel Pollard – Section Head (Accountancy)**Background Papers -** Reports and Minutes of;* The Policy and Resources Committee
* Council
 |
|  | ***The recommendations contained in this report DO NOT constitute a KEY DECISION but contribute to the process whereby the Council will approve and adopt its Strategic, Service and Financial Plans under Article 4 of the Council’s Constitution*** |

**Appendices**

|  |  |
| --- | --- |
| Appendix 1 | Summary Medium Term Financial Plan (2017-2021) |
| Appendix 2  | Service Committees Medium term Financial Plan (2017-2021) |
| Appendix 3 | Service Committees Variances at end of November (2017-2018) |
| Appendix 4 | Scheme for Prioritising Growth |
| Appendix 5 | Potential Growth |
| Appendix 6 | Proposed Fees & Charges |
| Appendix 7 | Financial and Budgetary Key Risks |

**APPENDIX 1**

**MEDIUM TERM FINANCIAL PLAN 2018-2021**



**APPENDIX 2**

**SERVICE COMMITTEES - MEDIUM TERM FINANCIAL PLAN 2017 - 2021**















**APPENDIX 3**

**SERVICE COMMITTEES – VARIANCES**











**APPENDIX 4**

**SCHEME FOR PRIORITISING GROWTH**

| Criteria |  | Revenue Growth/Capital Bids |
| --- | --- | --- |
|  |  |  |  |
|  |  | Score | Description |
|  |  |  |  |
| Measure of Quality of | a | 3 | Maintaining Current Service |
| Service |  | 6 | Improved Internal Service |
|  |  | 9 | Improved External Service |
|  |  |  |  |
| Customer Impact / Quantity  | b | 3 | Affects < 10% of residents  |
| of Service |  | 6 | Affects < 50% of residents |
|  |  | 9 | Affects all residents |
|  |  |  |  |
| Links to Strategic Plan | c | 2 | Contributes to General Theme |
|  |  | 4 | Contributes to General Aim |
|  |  | 6 | Contributes to Specific Objective |
|  |  |  |  |
| Impact on Partners | d | 1 | No impact on partner agencies or joint priorities |
| (as defined in the |  | 2 | Impacts on 1 partner agency / priority |
| Community Strategy) |  | 3 | Impacts several partners / priorities |
|  |  |  |  |
| Partnership Funding | e | 1 | No Partnership Funding |
|  |  | 2 | Partly Funded by Partners |
|  |  | 3 | Fully Funded by Partners |
|  |  |  |  |
| Equalities | f | 1 | No impact on vulnerable groups |
|  |  | 2 | Impacts on one vulnerable group |
|  |  | 3 | Impacts several vulnerable groups |
|  |  |  |  |
| Asset Management | g | 1 | Not related to asset maintenance |
|  |  | 2 | Allowing asset to continue in use |
|  |  | 3 | Expenditure required to bring asset up to standard enabling service to continue (i.e. an element of ‘backlog’ repair exists) |
|  |  |  |  |
| Statutory/Discretionary | h | 1 | Entirely Discretionary |
| Service |  | 2 | Partly Statutory |
|  |  | 3 | Entirely Statutory |
|  |  |  |  |
|  |  |  |  |
| Contractually Committed  | i | 1 | No Commitment |
|  |  | 2 | Moral Obligation (e.g. SLA) |
|  |  | 3 | Contractually Committed |
|  |  |  |  |

**APPENDIX 5**

 **PROPOSALS FOR GROWTH** (not included in base budgets)

The growth items below were submitted as PIDs to the relevant service Committee in the November/ December cycle of meetings.



**APPENDIX 6**

**PROPOSED FEES & CHARGES** (included in base budgets)



**APPENDIX 7**

**FINANCIAL AND BUDGETARY KEY RISKS**

| **Risk No.** | **Type of Risk** | **Comment** | **Risk Impact** |  **Risk Likelihood** |
| --- | --- | --- | --- | --- |
| 7 | The Medium term financial position worsens.  | In that the general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register. | IV | D |
| 8 | Revenue balances insufficient to meet estimate pay award increases | The medium term planning period takes into account a 2% increase for the period 2018/19 to 2019/21 | III | D |
| 9 | Revenue balances insufficient to meet other inflationary increases | Other than contractual agreements, budgets have been cash limited where possible.  | II | D |
| 10 | Interest rates resulting in significant variations in estimated interest income | The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy continues to place uncer**t**ainty on the investment strategy.  | III | C |
| 11 | Inaccurate estimates of fees and charges income | See Key Budget Indicators shown in the latest Budget Monitoring report  | V | E |
| 12 | Revenue balances insufficient to meet loss of partial exemption for VAT | If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vat able expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs*. Three Rivers House has now been given the opt to tax status which reduces this risk and means all lettings are now subject to VAT.*  | II | E |
| 13 | The estimated cost reductions and additional income gains are not achieved | Savings identified and included in the budget will be monitored as part of the budget monitoring process | IV | E |
| 14 | The Council is faced with potential litigation and other employment related risks | The Council has no outstanding litigation cases.  | III | E |
| 15 | The amount of government grant is adversely affected | The provisional settlements for 2018/19 future years have been factored into the MTFP. The Council decided to accept the Government’s offer of a four year settlement. | II | E |
| 16 | Localising support for council tax | The introduction of universal credits and the localising of support for Council Tax will substantially alter the administering of Housing and Council Tax Benefits | II | E |
| 17 | Right to Buy Receipts & VAT Shelter Receipts | Under the housing stock transfer with Thrive Homes Limited (THL) the Council is entitled to use its share of the proceeds to fund the capital programme. The level of activity on these income streams are outside the Council's control.  | IV | E |
| 18 | Fluctuations in Business Rates Retention | The Council is legally obliged to cover the first 7.5% loss on its pre- determined baseline level.  | IV | C |
| 19 | Failure to deliver the South Oxhey Initiative to desired outcomes and objectives | This is a key project. This appears as item no.7 in the Council's strategic risk register. | IV | D |
| 20 | Failure of ICT systems | The Council's integrated Financial Management System (FMS) is held on an ICT platform. If this were to fail then potentially there will be a loss of functionality occurring during any downtime.  | III | E |

Note: The risk numbers relate to the Council’s risk register. Risk numbers 1-6 do not relate to finance or budgetary risks.

**Matrix Key**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Impact** |  |  |
|  |  | **I** | **II** | **III** | **IV** | **V** | **Likelihood** | **Impact** |
| **Likelihood** | **A** |  |  |  |  |  | A equal to/or > 98% | V - Catastrophic |
| **B** |  |  |  |  |  | B = 75% - 97% | IV = Critical |
| **C** |  |  | **10** | **18** |  | C = 50% - 74% | III = Significant |
| **D** |  | **9** | **8** | **7,19** |  | D = 25% - 49% | II = Marginal |
| **E** |  | **12,15,16** |  **14, 20** | **13,17** | **11** | E = 3% - 24% | I = Negligible |
|  |  |  |