**POLICY AND RESOURCES COMMITTEE – 23 JANUARY 2017**

**PART I - NOT DELEGATED**

**8. 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 is tied to 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 2017 - 2020 which includes a revised estimate for the current year. This is attached at **Appendix 1.** At this stage, revised internal recharges have not been recalculated and these have no overall effect on the Council’s net revenue budget. |
| 2.2 | ***2016/17***  The original net revenue budget for 2016/17 was **£11.782 million**. The latest approved budget is £**12.795 million** (approved by Council on 13 December 2016); the table below shows the approved changes to date and the Quarter 3 variances reported for this period to give a proposed revised budget of **£12.472 million**.   |  |  | | --- | --- | | **Net Revenue Budget 2016/17** | **£ million** | | **Original Net Revenue Budget** | **11.782** | | Variances Previously Reported | 1.013 | | **Latest Approved Budget** | **12.795** | | Service Variances Reported This Period (Quarter 3) | (0.050) | | **Net Expenditure Requirement** | **12.745** | | Funding Variance Reported This Period (Quarter 3) | (0.273) | | **Revised Net Revenue Budget** | **12.472** | |
| 2.3 | At Quarter 3 (31 December 2016) the revised service budgets show an estimated favourable variance of **£0.050 million**. In addition, the Council has recently received notification of a further distribution of New Homes Bonus grant funding for 2016/17 resulting in additional windfall income of **£0.273 million**. This increases the favourable variance to **£0.323 million**.  **Appendix 2** details each service committee’s net direct revenue budgets over the medium term.  The table below shows the net direct expenditure budgets (after removing non-service costs), actuals to date, revised budget and variance for each service committee.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **2016/17 Revenue Account – General Fund Summary** | | | | | | | **Service Area** | **Latest Budget** | **ActualsTo Period 9** | **Revised Budget** | **Variance** | | **£000** | **£000** | **£000** | **£000** | | Leisure, Wellbeing & Health | 2,271 | 1,092 | 2,219 | (52) | | Sustainable Development,  Planning & Transport | 2,043 | 810 | 1,952 | (91) | | General Public Services & Community Safety | 2,239 | 1,143 | 2,054 | (185) | | Policy & Resources | 5,116 | 4,936 | 5,394 | 278 | | **Net General Fund** | **11,669** | **7,981** | **11,619** | **(50)** | | Funding (New Homes Bonus) |  |  |  | **(273)** | | **Total** |  |  |  | **(323)** | |
| 2.4 | The main items that contribute to the net favourable services variance of £50,000 are;   * Additional insurance costs £54,400 * Employment of East of England consultant to progress the Council’s commercial activities £45,000, (further detail is shown at paragraph 3.2 below) * Increase in garden waste income (£20,000) * Increase in planning application fees (£139,460)   The details of all the variances over the medium term are shown at **Appendix 3.** |
| 2.5 | The trend over the financial year (2016/17) is plotted on the graph below; |
| 2.6  2.7 | ***2017/18 - 2019/20 - The Medium Term Financial Plan (MTFP)***  Looking ahead over the next three years, the MTFP has been prepared against a backdrop of further cuts in Government funding, increasing pressure on services and increasing expectations from stakeholders.  The main budget pressure facing the Council is the requirement for temporary accommodation. This is being felt by many Councils nationally and it is forecasted that this will continue to grow as the implications of benefit reforms start to impact. To mitigate the rising cost the Council has and continues to identify suitable locations to construct its own temporary accommodation and reduce the requirement to use the more expensive private sector. The table below shows the predicted increase in cost.    The table below shows if the Council decides to invest in providing further temporary accommodation this will reduce the budget pressure above. This is **not** included in the base budgets.    The additional units potentially relate to two ex-garage sites. This project is subject to a detailed business case and a capital bid of approximately £2.26 million. At this stage these are **not included** in the revenue base budget figures **or** the capital programme. If agreed, these are planned to become operational in February 2018.  In summary, the pressure over the next three years (2017/18 – 2019/20) is an additional cost of £1.374 million. If the additional development is undertaken it will reduce the pressure to £0.025 million. |
| 2.8 | A further budget pressure relates to pension costs, where the actuaries have recently completed their triennial review which results in an increase in the employers contribution rate from 16.1% to 18.2% from 1 April 2017. This has the effect of increasing service staffing budgets by approximately £180,000 per annum. The lump sum payable to the pension fund for past service deficits has also increased by £30,000 per annum. This is unavoidable growth and has been included in the base budgets. |
| 2.9 | The interest earned on the investments made by the Council supports the funding of the services it provides. The bank base rate was reduced to 0.25 in August 2016, which in turn reduces the investment rates offered from approved institutions. The Council’s treasury advisors (Capita Treasury Solutions) are currently predicting that the very low interest rates will continue over the medium term and the interest earned budgets have now been revised accordingly by £100,000 in 2017/18, £70,000 in 2018/19 and £50,000 in 2019/20, adding further budgetary pressure. |
| 2.10 | To help alleviate these pressures, Officers have identified the following additional income which has been included in the base budgets;   * Additional planning fees of £0.100 million per annum from 2017/18 due to a combination of higher volumes and the scale of expected planning applications. These include Leavesden studios, the South Oxhey initiative and the new secondary school site in Croxley Green. * Increase in the management fee payable to the Council of £0.130 million per annum from 2018/19 for the retender of the leisure facilities contract. This is a prudent estimate based on the affordability level that bidders are currently being evaluated against. * Increase in car parking charges of £0.300 million per annum from 2017/18 due to implementing new charging regimes for off-street parking and an increase in public parking provision. The £0.050 million capital outlay relating to this initiative has also been included in the capital programme base budget for 2017/18. |
| 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** | **2016/17** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | | **Latest Budget** | **Revised Budget** | **Draft Budget** | **Draft Budget** | **Draft Budget** | | **£000** | **£000** | **£000** | **£000** | **£000** | | Balance at 1 April | (4,396) | (4,396) | (3,712) | (3,375) | (2,601) | | (Surplus)/deficit for year | 1,007 | 684 | 337 | 774 | 1,137 | | Balance at 31 March | **(3,389)** | **(3,712)** | **(3,375)** | **(2,601)** | **(1,464)** | |
| 2.12 | It is recommended that for contingencies a balance of £2.000 million be retained in the General Fund. The Council has an earmarked reserve of £2,000,000 to set against future economic downturn/loss of business rates (Minute No. CL67/15 refers) and this is anticipated to be used in the final year 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. | **Service Reviews and Efficiency Savings** |
| 3.1 | The Strategic Service Review Working Party (SSRWP) continued to meet during 2016/17 in order to monitor the progress with the savings and additional income incorporated into the Council’s base budgets. The garden waste initiative has proved to be extremely successful and current demand has far outstripped the expected participation and take-up rates. Both the parking and garages services are currently under review to ensure they are able to achieve the savings previously mandated and agreed.    The base budgets also include efficiency savings of £250,000 in 2017/18 and £500,000 in both 2018/19 and 2019/20. These have yet to be specifically identified by the SSWRP and further allocated to individual services. |
| 3.2 | The Council has recently commissioned the East of England LGA to provide further commercial services by offering professional advice and support to develop the appropriate business case for each key scheme to move to implementation. It is envisaged that these services will generate further income over the medium term that may contribute to the above efficiency savings. |
| 4. | **Potential Growth** |
| 4.1 | 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 seven proposed growth items shown at **Appendix 5.** These total £396,270 in 2017/18 and £315,590 in future years. Three of these bids depend on the approval to fund their respective new capital schemes (see Item 9 on this agenda). A Project Initiation Document (PID) for each bid is shown separately at Item 12 on this agenda. It should be noted that none of the growth bids have been included in the base budgets. |
| 5. | **Fees and Charges** |
| 5.1 | Details of the proposed fees & charges were presented to service committees in November 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 2017/18 of **£11,844,622.** This will be funded from a number of sources, which are detailed in the following paragraphs. |
| 6.2 | **Government Grant** |
| 6.2.1  6.3  6.3.1 | 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.  **Revenue Support Grant** (RSG)  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  6.4.1  6.5  6.5.1 | **Business rates**  Business ratesare collected by the Council, and the proceeds are shared between the Borough and County Councils, and Central Government to fund services. There is an element of risk 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 £1.916 millionin 2017/18. 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 £500,000in 2017/18.  **Business Rates Pooling**  In 2016/17 the Council was part of a business rate pool consisting of the County Council and some of the other Hertfordshire districts/borough councils. Due to the uncertainty around revaluation of business rates it has been agreed that this pooling arrangement will be dissolved from 1 April 2017. |
| 6.6 | **New Homes Bonus** |
| 6.6.1 | New Homes Bonus is a grant relating to the number of new homes delivered in a local authority area. The Government consulted in December 2015 on possible changes to the scheme, and local authorities responded by 10 March 2016. For 2017/18, based on the provisional settlement, the Council expects to receive £1.658 million of which £0.794 million is apportioned to revenue funding and the balance to 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 2017/2018** |
| 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 2017/18 and subsequent years. The Council expects to collect £6.197 million of council tax income in 2017/18. A one percentage increase in the council tax rate generates approximately an £60,000 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 2% or more will be required to hold a council tax referendum. |
| 6.8 | **Council Tax Base** |
| 6.8.1 | The Council Tax base for 2017/18 was set at the Council meeting on 13 December 2016 and totalled 37,812.1 using a collection rate of 99%. The base shows an increase of 1.18% over 2016/17. (Minute No. CL67/16 refers). Where amounts of Council Tax collected exceed the estimates made, the surplus is shared between the relevant major precepting authorities (Hertfordshire County Council, Watford Borough, Council and Hertfordshire Police & Crime Commissioner). |
| 6.9 | **Local Council Tax Reduction Scheme** |
| 6.9.1 | | At the Council meeting on 13 December 2016, it was resolved to continue to apply the 2016/17 Local Council Tax Reduction Scheme for 2017/18. (Minute No.CL68/16 refers).    It is proposed that a full review of LCTR scheme options is undertaken during 2017 and if agreed to adopt a new scheme the necessary consultation carried out. Any new scheme would need to be agreed by Council before 31 January 2017 for introduction in April 2018. |
| 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 2017 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 2016 was a £0.821million surplus, with £0.109 million as TRDC’s share. The balance on the Collection Fund for Business Rates at 1 April 2016 was a £3.674 million loss, with £1.470 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 over the medium term. |
|  |  |
|  |  |
|  |  |
| 7. | **Budget Consultation** |
| 7.1 | The Council has consulted with residents via press releases, social media, e-mail and paper copies were made available to those without access to the internet. In addition the elderly and other vulnerable residents have been visited by Council staff with laptops to help them complete the consultation. The consultation completed on 9 January 2017 and the results will be published on the Council website at the beginning of February. |
| 7.2 | The Council commissioned a market research provider to consult on some of the budget options the Council has to support a balanced budget over the next 3 years. It has made use of an interactive web-based survey designed by Opinion Research Services that requires respondents to choose how to create a saving of £450,000 from a range of options that allows them to increase charges, reduce/increase services, or invest in new ways to run services. The survey also collects demographic data in order that results can be analysed to see if there are different views specific to different demographic groupings in the community. |
| 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 21 February 2017 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 2017/18 budget by 11 March 2017. |
| 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 Finance  Nigel Pollard – Section Head (Accountancy)  **Background Papers**  Reports and Minutes of;   * The Policy and Resources Committee * Council * The Strategic Service Review Working Party |
|  | ***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 (2016-2020) |
| Appendix 2 | Service Committees Medium term Financial Plan (2016-2020) |
| Appendix 3 | Service Committees Variances at Period 9 (2016-2020) |
| 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 2017-2020**



**APPENDIX 2**

**SERVICE COMMITTEES - MEDIUM TERM FINANCIAL PLAN 2016 - 2020**







**APPENDIX 3**

**SERVICE COMMITTEES – VARIANCES AT PERIOD 9 (December)**











**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 cycle of meetings.



The growth items have not yet been scored as the PIDS were completed in January.



**APPENDIX 6**

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



**APPENDIX 7**

**FINANCIAL AND BUDGETARY KEY RISKS**



