

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
6 February 2018

Subject: REVENUE BUDGET 2018/19

All Wards
Portfolio Holder for Finance and Economic Development: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of the report is to present at a strategic level the revenue budget proposals for the next financial year 2018/19.
- 1.2 The summary estimates in this report are shown at Annex 'A' and present the 2016/17 Actual; 2017/18 Original budget; 2017/18 latest Approved and 2018/19 Estimate budget. Commentary on the budget proposal is also contained in Annex 'A'. Theme budgets are shown at Annex 'B'.

2.0 BUDGET 2018/19:

- 2.1 The original estimate for 2018/19 shows a net budget of £8,096,170. This is £885,570 higher than the budget set in 2017/18 which was £7,210,600.
- 2.2 The increase in the budget mainly relates to an increase in salaries across the organisation. This is two-fold where the 'national employer' offer across all local authorities has suggested increasing salaries by 2% and also ensures those on lower wages receive the national living wage. Secondly, due to pressures that have arisen in Departments during 2017/18 new employees have been appointed and also to ensure the council can continue to generate other sources of income new posts have been introduced.
- 2.3 Considering the financial climate in which the Council is currently operating, with cost pressures facing local government and a tighter funding position from a reduction of Government grants, this is a satisfactory budget position.
- 2.4 The increase in budget that has been made is necessary for the council to continue to provide efficient and effective services for the community. Financial austerity has seen the grant funding for Hambleton District Council decrease by 36% since 2012/13 and yet the Council has been able to maintain the budget around the same level as it was then due to the income it has generated from the loan to the local housing association and the charging for green waste services.

3.0 FINANCIAL STRATEGY:

- 3.1 The revenue budget estimate for 2018/19 is within the financial constraints of the Financial Strategy included previously on this Cabinet agenda.
- 3.2 The ten year Financial Strategy makes a number of assumptions around the level of grant support to be received by the Council, the business rate retention scheme, the level of Council Tax to be collected and the amount of income that can be generated. These assumptions and the revenue budget provide a balanced position for 2018/19.

4.0 RISK ASSESSMENT:

- 4.1 The key financial risks and associated implications for the Revenue Budget 2018/19 are detailed below, a score of high, medium or low has been given to the likelihood of each risk occurring and the impact of risk on the Financial Strategy should it occur:-

Risk	Implication	Proba bility	Impa ct	Total	Preventative action
The four year funding settlement is further reduced by the Government	Loss of funding	3	5	15	Continually search for other income generating options
Under the Business Rate Retention scheme failure to meet the target for business rate collection set by Government represents a cost to the Council. Also, under this scheme the Government has transferred the risk of business rate no payment to the Council.	Loss of income	3	5	15	Monitor business growth and reduction through collection rates. Act as an enabler with partners on economic development initiatives
The continued forecast low Bank Base Rate of 0.5% for 2018/19 impacts on the Council's ability to generate investment income from balances.	Loss of income	5	3	15	Look for other investment opportunities
The Council is unable to generate income on an ongoing basis	Loss of Income	3	5	15	The Council is proactive in looking at new alternative income streams
Third Party Housing Association does not draw upon the offered loan according to the profile in 2018/19.	Loss of Income	4	3	12	This would result in a timing difference in interest received and reserves would be used and then replaced at a later date to support the budget.

5.0 FINANCIAL IMPLICATIONS:

- 5.1 The financial implications are dealt with in the body of the report.

6.0 LEGAL IMPLICATIONS:

- 6.1 It is a legal requirement under the Local Government Finance Act 1992 to set a balanced budget and monitor the financial position throughout the year.

7.0 EQUALITY/DIVERSITY ISSUES:

- 7.1 There are no specific equality implications to this report.

8.0 RECOMMENDATIONS:

- 8.1 It is recommended that Cabinet approves and recommends to Council the revenue budget for 2018/19 at £8,096,170.

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Background papers: Budget Setting papers 2018/19;
Financial Strategy 2018/19

REVENUE BUDGET – ESTIMATES 2018/19**1.0 ESTIMATES 2018/19**

1.1 The table below details the revenue budget for 2018/19 at a strategic level.

	2016/17 Actual £	2017/18 Original £	2017/18 Latest £	2018/19 Estimate £
Economy & Planning	1,203,798	1,183,990	1,175,070	1,430,990
Finance	(334,961)	39,190	55,490	342,450
Leisure & Environment	5,165,603	4,758,820	4,738,990	5,038,420
Law & Governance	1,028,014	1,118,960	1,128,760	1,169,770
Internal Drainage Boards	107,487	109,640	112,290	114,540
Net Budget	7,169,941	7,210,600	7,210,600	8,096,170

1.2 The budget has been prepared in accordance with the Council's priorities reflected in the Council Plan.

1.3 A detailed schedule of service's budgets that constitute the total budget in each Department is shown at Annex 'B'.

2.0 FINANCIAL STRATEGY:

2.1 The Council's latest Financial Strategy has been included previously on this Cabinet agenda. The revenue budget for 2018/19 is within the financial constraints set by the Financial Strategy.

2.2 A number of assumptions which underpin the Financial Strategy have been applied in setting the 2018/19 revenue budget, these include:-

- All fees & Charges have been reviewed for 2018/19, with an overall increase of 1.56%. This takes into consideration the nature of the services, the impact on commercial viability and local economic circumstances;
- A provision of 2% has been included in line with the nationally proposed pay award along with an uplift for lower grades to ensure the national living wage is received by all.
- Contracts and Service Level Agreements have been increased by the appropriate rate of Consumer Price Index where applicable. Energy and vehicle fuel prices continue to be volatile, although advantage has been taken of favourable rates in relation to gas and electric and contracts locked into. Prudent provision has been included for changes in vehicle fuel for 2018/19.
- The Business Rate Retention Scheme has been estimated at an increase of 2.8%, where the scheme enables the Council to keep a proportion of the business rates collected locally which provides an incentive for all Councils to grow their local economy.

- A Council Tax increase of £5 on a Band D equivalent property has been determined; Council tax did not rise for five years up to 2016/17 as a result of Central Government offering a Council Tax Freeze Grant; however due to the reduction in local government funding this is no longer viable.
- An Income generating revenue funding stream has been introduced from 2020/21 where by the Council needs to look towards alternative revenue generating opportunities to be able to continue to deliver current services
- Government grants will reduce where by revenue support grant and rural services delivery grant will cease to exist after the end of the four year funding settlement in 2020/21. It has been assumed that over the life of the 10 year strategy the new homes bonus grant will continue to be supported by government in line with their drive to promote growth in house building and for every Council to publish a 15 year Local Plan.
- The revenue budget assumes that the Bank of England base will remain low at 0.5% throughout 2018/19 with the possibility of rising in Q1 2019 to 0.75%. It is likely that the base rate will remain low for the foreseeable future as the Monetary Policy Committee is unlikely to dampen growth prospects, (i.e. by raising Bank Rate), during the negotiating of the terms for withdrawal from the EU which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. This will impact on the ability of the Council to generate investment income from balances.

2.3 Within the Financial Strategy it has been estimated that the Council loses 35.9% of its funding (revenue support grant, rural service delivery grant, new home bonus) from the Government's four year funding settlement since 2016/17. In 2018/19 there is a loss of 9.1%.

2.4 All these factors have been taken into account to balance the revenue budget and limit the Council's reliance on the use of reserves. The assumptions in the Financial Strategy on the level of income generated by all these streams are made on a prudent basis.

3.0 RESERVES AND BALANCES:

3.1 As the revenue budget has been set within the constraints of the Financial Strategy, the assumed level of revenue reserves and balances at 31 March 2018 remain consistent with the Financial Strategy.

3.2 A summary of anticipated revenue reserves and balances at 31 March 2019 is set out below:-

Reserves	Balance £
Council Tax-payers	5,390,799
Repairs and Renewals Fund	968,886
Computer Fund	712,379
Grants Fund	80,948
One-Off Fund	366,503
Economic Development Fund	586,113
General Fund Working Balance	2,000,000
TOTAL	10,105,628

3.3 This reserve position is reliant on the income streams detailed in paragraph 2.3.

4.0 FINANCIAL OUTLOOK:

4.1 Although the revenue budget 2018/19 and Financial Strategy represent a robust position, the Council is not immune to the continued significant economic and financial challenges facing the whole of the public sector in the UK.

4.2 The Local Government Finance Settlement 2018/19 announced in December 2017 was broadly in line with what was expected. Overall Core Spending Power nationally is expected to increase by 1.5%, where the national reduction in revenue support grant -6.4% is offset by the expected increase in council tax, 7.8%. The Core Spending Power is the overall impact on local authorities of changes in funding and locally-raised council tax. It reflects the impact of changes on local authority budgets. For this District Council the Core Spending Power includes:

- Settlement Funding Assessment – revenue support grant and rural services delivery grant
- New homes bonus
- Council Tax

4.3 The Core Spending Power for the Council in 2018/19 has decreased by -0.38% which was mainly due to the significant fall in revenue support grant which is offset by the increase in Council tax and the increase in the number of properties in the district.

4.4 The announcement in December 2017 on rural services delivery grant and new homes bonus for the 2018/19 finance settlement significantly benefits this Council as the anomaly in the rural service delivery grant allocation previously stated was resolved resulting in the amount received being the same as 2017/18 an increase of £116,452 than was expected. In addition no changes were made to new homes bonus calculation and again the amount received was similar to last year which had not been anticipated and was greater by £361,614. The future proposals from Government to withhold payments from authorities' not supporting growth (houses built after appeal and Local Plan) are awaited in due course.

4.5 The ongoing reductions in Government grant support increases the Council's reliance on other funding streams such as:

- The proposed 100% business rates retention system; this is still in consultation with the Government and is not expected to significantly change the current financial position of the Council where 100% locally retained business rates will still be redistributed across local government and increased burdens will be transferred from central government to ensure the overall position is fiscally neutral. In 2020/21 there is currently a hybrid suggestion to introduce 75% retained business rates, where further detail is awaited.
- Increasing Council Tax by £5 on a Band D equivalent property; an alternative option in 2018/19 was to increase Council Tax by 3%, but due to this Council charging the third lowest council tax in the UK the financial strategy is based on a £5 rise.
- Reviewing Fees and Charges across Council services;
- Investment income and loan interest; delivered from investing the Council's surplus funds through treasury management activities or by through the Capital Programme where investment can be made in their parties. In these instances 'due diligence' and risk management are key.

➤ Revenue income generated from commercial and partnering opportunities.

- 4.6 In addition to the reduction in grant funding and reliance on other funding streams it is also necessary to consider the volatility of inflation, changes in energy prices, reduced investment interest rates, the economic environment and the implications of BREXIT. A report to Audit, Governance & Standards Committee in March 2018 will detail the current national discussion on the implications for local government.
- 4.7 The shortfall in funding and increase in costs presents a challenging financial outlook for the Council. The Council continues to ensure services are provided in a cost effective way enabling the Council to continue to preserve its front-line services for the community at the present time.
- 4.8 Due to the Council's revenue reserve balances it is in a better financial position than most to deal with these financial challenges. It should be noted that as a result of the Local Government Finance Settlement over the 10 year financial strategy the revenue reserve balances continue to fall significantly. Therefore, to maintain the current reserve position it is vital that other income generating opportunities are identified and efforts must be made in setting future budgets to, where possible, preserve these reserve levels and protect the Council's financial position.
- 4.9 In light of the reliance on the ability of the Council to generate income, a new revenue stream has been established in the financial strategy where this funding will support the ongoing financial viability of the Council.