STROUD DISTRICT COUNCIL

STRATEGY AND RESOURCES COMMITTEE

13 OCTOBER 2016

AGENDA ITEM NO

11

Report Title	BUDGET STRATEGY 2017/18-2020/21
Purpose of Report	To inform members of the Council's current financial position and the outlook over the medium term and set out the strategy for managing the financial challenges facing the council in future years.
Decision(s)	**The Committee:** **a) approves the Budget Strategy 2017/18-2020/21 as set out in this report and** **b) recommends to Council that Stroud remain in the Business Rates Pool from April 2017 if to do so maximises the retention of business rate income in Gloucestershire** **c) considers whether to submit an application for a multi-year settlement and, if deciding to do so, delegates authority to the Chief Executive and Interim Section 151 Officer, in consultation with the Chair of Strategy and Resources Committee, to make a suitable application *(note the deadline for applications is 14 October 2016)*** **d) considers the proposal to authorise the disposal of unused Right to Buy (RTB) receipts in the form of Grant Funding to Registered Providers for projects meeting the RTB 1-4-1 grant criteria. If deciding to do so, delegates authority to the Strategic Head (Development Services) and the Strategic Head (Tenant and Corporate Services), in consultation with the Chief Executive, Interim Section 151 Officer, Chair of Strategy and Resources Committee and the Chair of Housing Committee.**
Consultation and Feedback	Formal budget consultation is currently taking place in the form of a telephone survey of local council tax payers. The results will inform the 2017/18 budget setting round.
Financial Implications and Risk Assessment	There are no financial implications arising from the report. The report seeks to quantify as far as possible the budget pressures faced by the Council over the medium term and the strategy for addressing the issues identified. The report does highlight that the Council needs to

	continue with its work of identifying savings or ways to increase income regardless of the outcome of the Autumn Statement in November and that action needs to be taken now to address the gap between spending plans and the funding available. Should the Council not plan its finances over the medium term, it risks committing funds in the short term that would cause financial instability in future years. David Stanley – Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Legal Implications	As a whole there are no significant legal implications; however specific restrictions will apply to certain elements and these will need to be considered individually (e.g. increases to fees; disposal of RTB receipts). Karen Trickey, Legal Services Manager Tel: 01453 754369 Email: karen.trickey@stroud.gov.uk
Report Author	David Stanley – Accountancy Manager Tel: 01453 754100 Email: david.stanley@stroud.gov.uk
Options	None at this stage. Options on the level of council tax to be set will have to be considered in January 2017 with a recommendation from Strategy & Resources Committee to Council. Rent levels, which are subject to a 1% reduction for a further 3 years, will be considered by the Housing Committee in December 2016 and by Council in January 2017.
Performance Management Follow Up	The budget proposals for the Housing Revenue Account and the General Fund will be presented to the Housing Committee in December 2016 and Strategy and Resources committee in January 2017 respectively with a recommendation for approval at the Council Budget meeting in January 2017.
Background Papers/ Appendices	Appendix A – Medium Term Financial Plan 2016-17 to 2020/21 Appendix B – New Homes Bonus assumptions

Background

1. This report will inform Members of the current financial position as set out in the Council's General Fund Medium Term Financial Plan (MTFP) shown at Appendix A. The report will propose a strategy for tackling the budget deficit highlighted in the MTFP and model the options available to Council regarding the level of council tax for 2017/18.

2. The Council's General Fund balances stood at £8.662 million on 1 April 2016. This sum includes approved carry forward budgets of £151k. Earmarked Reserves stood at £9.060m on 1 April 2016. A report on the outturn position for 2015/16 was made to the Strategy and Resources Committee in June 2016 and the 2015/16 Statement of Accounts was approved by Audit and Standards Committee on 22 September 2016.

3. The report does not discuss the financial position of the Housing Revenue Account (HRA). The HRA Medium Term Financial Plan and 30 year HRA business plan are currently being reviewed with the intention of taking a report to December's Housing Committee. This will address the changing financial climate for the HRA in the light further 1% reductions in social rents, and changes arising from the Housing and Planning Act 2016.

4. Further to the RTB receipts report to Housing committee in September 2016, it is proposed that authority be given to officers after consultation with members for the disposal of unused RTB receipts in the form of grant funding to Registered Providers for projects meeting the RTB 1-4-1 grant criteria. The authority is requested as grant support needs to be provided in a timely manner in order to mitigate against the risk of returning RTB receipts to Central Government.

5. HRA balances stood at £1.938 million on 1 April 2016. This includes approved carry forward budgets of £0.377m.

General Fund Budget & Medium Term Financial Plan

Volatility and Uncertainty

6. There is considerable uncertainty and volatility about overall funding available to the Council over the 4 year period, with Local Government finances in general undergoing a significant shift from certainty to volatility.

7. Changes to Government funding since 2010 have seen a shift away from Government providing the main sources of funding to local government, to one based on risk and reward and local decision making. Council's now have more control over their finances through Council Tax and Business Rates. Councils are, in the main, encouraged to promote growth in Housing development and economic growth where the financial reward comes through increased council tax revenues and business rates income.

8. Reductions in Government funding over the medium term now need to be met from local resources if current service provision is maintained. By the end of the 2019/20 financial year, Revenue Support Grant will have been fully withdrawn but local government will retain 100% of business rates income. This is a fundamental shift and will change the nature of the relationship between local government, its council tax payers and local businesses.

9. At the same time, council budgets continue to be under pressure with a need to balance the budget of the short and medium term.

10. Given the uncertainty around funding beyond 2019/20 and that further details may not emerge until after the Autumn Statement on 23 November 2016, we have made no material changes at this stage to the assumptions behind figures in the MTFP reported to Council in February 2016. The only changes made in this update of the MTFP concern the 2015/16 outturn and decisions around Waste and Recycling budgets taken in April 2016.

Revenue Support Grant

11. The Government is reducing the level of financial support it makes available in the form of Revenue Support Grant (RSG). For the Council, the proposed multi-year deal on offer from the Government will mean that the last RSG allocation will be in 2017/18.

12. In 2019/20, the intention is that the Council will pay £549,000 back to Government from other resources in the form of a Tariff adjustment (which could be viewed as negative RSG).

13. The Council has to decide whether to accept the 4 year deal on offer or continue to receive annual allocations (see section xxx)

New Homes Bonus

14. New Homes Bonus has been a key feature of Local Government funding and is based on the growth in new homes each year. The bonus has been paid for six years for each year of growth with 2016/17 being the sixth year.

15. For Stroud, the NHB currently represents 21% of the total funding including council tax for our budget requirement and 43% of the total government support. This has increased every year as RSG has continued to fall. This reliance on NHB to balance the budget is a major risk.

16. The Government's response to the consultation on New Homes Bonus has yet to be published. The Government has already indicated that £800m of NHB resources would be redirected to fund social care. It is likely a revised scheme will reduce the proportion available to districts and the timescale of the grant payments reduced from 6 to 4 years.

17. Appendix B shows the assumptions made in the last MTFP around funding from NHB beyond 2016/17. Based on the Government's consultation document worked example, the MTFP shows a much reduced level of funding from NHB – reducing from £3.210m in 2016/17 to £1.533m in 2019/20.

18. Whether this is a cautious or optimistic view remains to be seen but given its significance to the Council's overall funding, it is a risk until there is more certainty about the future of the scheme. We are not expecting to receive any further information on NHB until the Autumn Statement in November 2016.

Business Rates

19. The Government has signalled its intentions to allow local government to retain 100% of business rates. The terms of this have yet to be determined but the Government has indicated this will involve the transfer of responsibilities and functions previously delivered by central government and the ending of specific grants e.g. public health grant.

20. The new arrangements will need to provide for some redistribution between authorities and the Government is working with London, Greater Manchester and Mersyside as pilot areas for the new business rate regime. The current Gloucestershire business rate pool (which excludes Tewkesbury in 2016/17) could form the basis for managing the new arrangements.

21. The Gloucestershire Pool was reconstituted in April 2016 when Tewkesbury BC left the pool. Initial indications are that the pool will be in surplus for 2016/17, as a result of a more stable position across pool members and a lower levy rate on pool growth. Gloucestershire's Chief Financial Officers consider there is a financial benefit to pooling in the short term. **It is therefore recommended that Stroud remain in the Business Rates Pool for 2017/18 and continues to act as lead authority.**

22. Forecasting the level of business rates income is complex mainly because the timescale for delivery of growth can be very protracted and predicting the level of business rate losses due to appeals and closures is clearly difficult. On that basis, the level of business rate income modelled in the MTFP has tended to be very flat and only incorporate the inflationary increase in the business rate multiplier.

23. <u>2017 Revaluation:</u> The Valuation Office Agency has published the 2017 revaluation which increases the business tax base for Stroud District from £70m to £74.5m, an increase of 6% in rateable value. However, this is only part of the calculation of business rate income. Whilst there is a change in the RV in the district and a new multiplier, the revaluation should be fiscally neutral. Under rating statute, the amount of revenue collected across England cannot increase as a result of revaluation. Transitional relief, multipliers and other elements need to be decided before the Council can have any certainty about the business rate income it can anticipate in 2020. Detailed rateable values of properties in the Stroud District will be available later in October.

24. Some risk may remain that the new rating list may lead to an increase in appeals activity; although the Government is due to tighten up the process to prevent speculative appeals.

Planning Ahead

25. This is currently difficult to undertake given the uncertainty and volatility referred to above. What is clear is that the Council's General Fund budget will be under sustained pressure and an increasing level of balances is being applied. By 2020/21, the Council will be left with balances at the minimum level considered appropriate.

Multi-Year Settlement

26. As part of the 2016/17 Local Government Finance Settlement, the Government offered councils the opportunity to take advantage of a 4-year finance settlement covering the period 2016/17 to 2019/20. Indicative figures were provided by the Government and these were included in the last MTFP as approved by Council in January and February 2016.

27. On 10 March 2016, the Secretary of State for Communities and Local Government wrote to local authorities setting out the conditions for the offer of a multi-year settlement. The offer covers Revenue Support Grant, Business Rates tariff and top up payments, Rural Services Delivery Grant and Transition Grant. The offer was conditional on the production of a 4 year efficiency plan.

28. The offer does not include New Homes Bonus which currently is the most significant element of government funding to the Council.

29. In accepting the offer, it could be implied that the council to some extent accepts the methodology the government have used in the finance settlement and the consequential impact on Stroud of no RSG funding from 2018/19 and a £0.549m tariff adjustment (effectively negative RSG) in 2019/20.

30. The Council is not obligated to take up this offer and members authorised the Strategic Head (Finance and Business Services), in consultation with the Chair of Strategy and Resources Committee, to accept the offer if it is the best interest of the Council to do so.

31. Local Authorities have until 14th October 2016 to accept the offer by sending an email or letter to the Government. At the time of writing, all the other Gloucestershire authorities intend taking up the offer and this is true of most district and county authorities in England.

32. As part of a wider consultation on the 2017/18 finance settlement, the Government is considering expanding the current multi-year offer to include additional grants in the offer.

33. There is some risk that in not taking up the offer, the year-by-year settlements could be less generous that the multi-year deal. The consensus across councils is that the multi-year offer represents the minimum level of government support. A year-by-year settlement may not provide this level of certainty.

34. The Committee may wish to weigh up the risks and offer a view.

Budget Assumptions 2016/17 – 2020/21

<u>Local Government Funding</u>

35. The table below shows the level of Government funding assumed in the MTFP described above and reflects the indicative amounts provided in the multi-year settlement (2016/17 to 2019/20 only).

Table 1 –Government Support 2016/17 to 2020/21

Government Funding	2016/17 (£'000)	2017/18 Forecast (£'000)	2018/19 Forecast (£'000)	2019/20 Forecast (£'000)	2020/21 Forecast (£'000)
Business Rates Funding Baseline **	2,261	2,305	2,373	2,449	2,522
Business Rates - s31 grant etc	767	837	853	879	907
Revenue Support Grant **	1,053	347	0	0	0
Tariff/Top-Up adjustment **	0	0	0	(549)	(549)
Transition Grant **	103	103	0	0	0
New Homes Bonus Allocations	3,210	2,680	2,000	1,533	800
Total Government Funding	**7,394**	**6,272**	**5,226**	**4,311**	**3,680**
** Four-year funding settlement	3,417	2,754	2,373	1,900	1,973

36. The table clearly shows the extent to which Revenue Support Grant will fall over the next 4 years from £1.153m in 2016/17 to zero in 2018/19. RSG will no longer feature as a source of funding for all councils by 2019/20. The level of funding for 2020/21 is extremely difficult to predict at this stage as no figures have been provided beyond 2019/20.

37. There is the potential for Business Rate growth as discussed above but the forecast here has only assumed an inflationary increase.

38. As discussed earlier in the report, the level of New Homes Bonus Funding has been reduced in the MTFP in anticipation of changes to the scheme and the distributional effects of those changes.

39. There have been no assumptions made about the level of council tax beyond the current year other than changes in the Taxbase.

<u>Pay and Price Inflation</u>

40. The budget will be prepared on a 'standstill' basis in that no price inflation will be added other than to contractual commitments to pay an annual inflationary increase such a contracts and software licence agreements. The impact on the MTFP will be reviewed following the publication of the September CPI and RPI figures given their current low rates. Pay inflation at 1% for 2017/18 and future years has been included in the MTFP.

<u>Local Government Pension Scheme</u>

41. An actuarial review of the Local Government Pension Scheme has been undertaken during the year which will impact on the budget for 2017/18. Provision was made in the last MTFP for further increases to the employer's contribution to the Fund. Provisional figures from the actuary are not expected until later in the Autumn with detailed modelling to be undertaken to assess the impact. Any change to the current level of funding will need to be included in the January 2017 MTFP update.

<u>Interest Rates & Investment Income</u>

42. The Bank of England base rate was cut from 0.5% to 0.25% in August 2016 due to concerns around the economy in light of the referendum decision to leave the EU. The base rate was held at this level at the

Monetary Policy Committee meeting in September. There remains some uncertainty as to whether the base rate will be cut further or held at this level. The continued uncertainty around the impact of 'Brexit' and ongoing concerns about the global economy - particularly the performance of the Chinese economy, make forecasting future interest rates more difficult. The recent decision by the US Federal Reserve to reaffirm its view of a 0% to 0.25% target range on interest rates in the short term due to these concerns may ease the pressure on other central banks to raise rates, but indications are that the Fed may raise rates towards the end of the calendar year. .

43. The latest forecasts from our Treasury advisors suggest a further reduction in UK interest rate to 0.10% in Q4 of 2016. Rates are not expected to increase until Q2 2018 when they are forecast to return to 0.25%.

44. Therefore, the outlook for investment income is significantly weaker in the short and medium term. The MTFP has not been updated to reflect this latest position given the uncertainty on whether rates will indeed decrease further. .

<u>Borrowing</u>

45. The total borrowing incurred for the HRA is £100.717m, an increase of £9m on the initial £91.7m borrowing drawn down for HRA self financing. All the debt is at fixed rates and so there will be no fluctuations in interest payments over the medium term. There may be opportunities to re-schedule the debt to take advantage of discounts and this will be kept under review.

46. General Fund borrowing of £6m has been undertaken to support the Council's capital programme, particularly around the Depot and vehicle acquisitions for the new Multi-Service Contract.

<u>Fees & Charges</u>

47. Fees and charges should wherever possible be increased by 2% unless they are set by statute or to do so would have a detrimental impact on the use of the service. Although the council is not increasing budgets generally by inflation, we are absorbing inflationary increases year on year as part of our drive for budget and efficiency savings. Any contribution that can be made to fund the increasing costs is essential.

<u>Capital Financing</u>

48. With the revenue resources available, there are opportunities for some capital investment without the need to borrow. Given the long term commitment that borrowing creates and the pressures the council faces on its revenue budget in the future, any decision to borrow must have regard to the longer term affordability and a return on the capital employed.

Significant Budget Pressures/Risks

49. The new Multi Service Contract commenced in 2016 and members made a number of key decisions about the future delivery of the service, the acquisition of a depot facility and the sourcing of vehicles and wheeled bins. Whilst resources have been allocated to fund this project and the capital financing is in place, budget pressures have emerged over the last few months. Most notable amongst these is the additional cost of dealing with dray recyclate material (as reported to Council in April 2016) and income pressures on the Garden Waste Service. Given the nature of the budget pressures and scale of the project, there is a risk that costs could increase further. The Multi-Service Contract is being monitored closely, but members may need to consider the design of the service over the medium term if this continues to put significant pressure on the council's finances.

50. The Council is continuing with its work to use technology to improve the efficiency of the business. The ICT Strategy 2015-2018 presented to Strategy & Resources Committee in June 2015 described a series of work programmes the Council will need to achieve over the next few years. A further report was considered by Strategy and Resources committee in July 2016 concerning an immediate budget pressure resulting from changes to Microsoft Office licensing. Further investment in the Council's IT infrastructure will be needed to take the Council forward over the medium term with an ICT Investment Strategy being considered by members in January 2017.

General Fund Medium Term Financial Plan

51. The updated General Fund MTFP is shown in Appendix A. It takes account of the outturn position for 2015/16 and includes known changes that will affect the Council's financial position but does not include revised revenue estimates for 2016/17 or estimates for 2017/18. They are currently included at the 2016/17 original level and are in the process of being revised. The outcome will be reported to individual service committees in December with the total budget reported to Strategy & Resources Committee in January 2017.

52. Based on the information currently available and the assumptions made as set out in this report, the MTFP continues to show a growing funding gap from 2018/19.

53. A summary of General Fund balances in shown in Table 2 below and shows that at the end of its term, over £6.8m will have been used to finance the Council's spending plans. In 2019/20, a reduction in expenditure in the order of £3.2m will be required to balance the budget.

Table 2 – General Fund Balances

GENERAL FUND BALANCES	2016/17 Original (£'000)	2016/17 Revised (£'000)	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)
General Fund Balance b/f	8,662	8,662	7,746	7,055	5,052	1,845
Change in Balances	(335)	(916)	(691)	(2,002)	(3,207)	(4,131)
General Fund Balance c/f	**8,327**	**7,746**	**7,055**	**5,052**	**1,845**	**(2,286)**

54. Regardless of the outcome of the spending review, reducing the funding gap continues to be a challenge for the council. Officers and members have been reviewing service provision to reduce costs and increase income. Based on the figures above, the Council need to identify significant budget and efficiency savings each year for the next 4 years.

55. As referred to earlier in the report, estimating the likely level of funding for 2020/21 is extremely difficult. However, it is clear from the trend in preceeding years that the gap between the Council's current spending plans and its available resources is widening each year from 2017/18.

56. It is also worth noting that £1m of balances shown above are committed to the Local Authority Mortgage Scheme (LAMS) until 2017/18. The scheme commenced in 2012/13 for a 5 year period after which the funds would be returned subject to any mortgage arrears of which there are currently none. The balances assume the full amount is returned.

57. Reserves and balances continue to provide the council with financial resilience during this period of financial uncertainty. A Balances and Reserves Strategy is currently being produced which will help inform the level of balances and reserves the Council should seek to hold over the MTFP period. An update will be included in the MTFP report to Strategy and Resources Committee in January 2017.

58. A Capital Strategy is also being prepared that will assist the council in setting out the longer-term priorities around capital expenditure and financing. This will also help inform the Reserves and Balances Strategy and the updated Capital Programme that will be presented to members in January 2017.

Balancing the Budget

59. As the previous section has highlighted, there is a significant gap between the Councils' resources and its current spending plans. The Council will need to consider ways in which this funding gap can be closed over the short and medium term. Some of the options open to the Council are briefly outlined below.

60. CIPFA's recent publication "Balancing Local Authority Budgets" put forward the following definition of a sustainable balanced budget: *"A financial plan based on sound assumptions which shows how income will equal spend over the short and medium term".*

61. For local government, *“at its very simplest, a balanced budget means that the council is content that the combination of income, the sensible use of reserves and having robust savings plans in place means that underlying income will cover on-going costs and future commitments in a sustainable and manageable way.”*

62. Therefore, the council should consider how best to achieve a balanced position through:

- Cost reductions (e.g. efficiencies through improved procurement practices or achievement of best value)
- Analysis of spending needs (i.e. statutory and non-statutory services – few of these statutory services prescribe the level of service that should be delivered so there is some flexibility in how these are delivered).
- Income Generation through a review of fees and charges and identifying new areas for income generation. Officers have been working on specific projects such as sponsorship and advertising over the last few months.
- Review of Assets with surplus assets identified and potentially disposed of for a capital receipt, or a review of how services are delivered using those assets. The Corporate Asset Management Strategy sets out the approach taken through Assets Reviews.
- Use of balances and reserves to help achieve a balanced budget in the short term as use of these balances may offer the ability to manage fluctuations between financial years to help maintain a balanced budget. Balances and reserves can also be used for planned investment and the financing of capital projects or change programmes.
- However, use of balances must be considered over the medium term in that any balances are replaced if used. A Balances and Reserves Strategy is currently being drafted that will help inform the level that the council should look to hold commensurate with the risks facing the council.
- Council Tax and Business Rates income and consideration how to maximise potential for business rates growth in the district and the appropriate level of council tax to raise.

Council Tax

63. In previous years, the Government permitted those councils with council tax levels in the lower quartile to increase their council tax by £5 or up to 2%, whichever was greater. This was extended to all district councils in the February 2016, after the council had set the council tax for 2016/17. The Government is currently consulting on the 2017/18 Local Government Finance Settlement and is proposing that these arrangements continue for 2017/18.

64. The Government also built this source of revenue into the spending power totals for councils over the 4-year period 2016/17 to 2019/20 and so the presumption is that this opportunity to raise council tax will be taken advantage of.

65. For the purposes of this report, no increases in council tax have been assumed in the MTFP. Clearly, a council tax increase would make a contribution to the funding gap.

66. It should be noted that a 1% increase in council tax (approximately £80k) does not fund the cost of a 1% pay award (approximately £100k).

67. The table below shows the annual income generated for different levels of council tax increases up to 4% in 2017/18 only (i.e. no assumption made in these figures around Council Tax increases beyond 2017/18)

Table 3 – Income generated by different % increases in Council Tax

Council Tax Increase	Annual Income Generated (£)	Income over MTFP 4 years (£)	Stroud Band D (£)	Annual Increase (£)
0.00%	0	0	190.65	0.00
1.00%	80,500	322,000	192.56	1.91
2.00%	160,500	642,000	194.46	3.81
2.62%	210,700	842,800	195.65	5.00
3.00%	241,000	964,000	196.37	5.72
3.50%	281,100	1,124,400	197.32	6.67
4.00%	321,500	1,286,000	198.28	7.63

Note – 2.62% increase is equivalent to a £5 increase

68. Table 4 below shows the impact on the MTFP of a year on year council tax increase (i.e increases in each year 2017/18 to 2020/21). For example, a council tax rise of 2.00% or £5 (up to the currently advised referendum limit) each year for the next 4 years would generate £1.639m or £2.162m respectively of additional council tax income over the medium term.

Table 4 – Income generated by a year on year increase in Council Tax

Council Tax Increase	Additional 2017/18	Additional 2018/19	Additional 2019/20	Additional 2020/21	TOTAL Additional
0.00%					
1.00%	£80,500	£161,700	£243,600	£326,400	812,200
2.00%	£160,600	£324,500	£491,700	£662,300	1,639,100
2.62%	£210,700	£426,800	£648,500	£876,000	2,162,000
3.00%	£241,100	£489,400	£745,100	£1,008,600	2,484,200
3.50%	£281,100	£572,200	£873,500	£1,185,300	2,912,100
4.00%	£321,600	£655,900	£1,003,500	£1,365,100	3,346,100

Note – 2.62% increase is equivalent to a £5 increase.