

<b>Agenda Item No:</b>	<b>9.2</b>	<b>Report No:</b>	<b>22/17</b>
<b>Report Title:</b>	<b>General Fund Revenue Budget 2017/2018</b>		
<b>Report To:</b>	<b>Cabinet</b>	<b>Date</b>	<b>08 February 2017</b>
<b>Cabinet Member:</b>	<b>Councillor Bill Giles</b>		
<b>Ward(s) Affected:</b>	<b>All</b>		
<b>Report By:</b>	<b>Alan Osborne, Deputy Chief Executive</b>		
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**Purpose of Report:**

To present the 2017/2018 General Fund Revenue Budget to be recommended to Full Council.

**Officers Recommendation(s):**

**That Cabinet:**

- 1** Reviews the contributions to reserves and use of reserves as set out in Appendix D.
- 2** Considers any recommendations of the Scrutiny Committee.
- 3** Notes the Council Tax and Business Rates Collection Fund balances to be returned in 2017/2018.
- 4** Considers the statutory report of the Designated Chief Finance Officer as required by section 25(1) of the Local Government Act 2003, set out in section 14.
- 5** Notes completion of the statutory Non Domestic Rates Return (NDR1) and consequent retained rating income for 2017/2018, as explained in paragraph 5.2(f).

**That Cabinet recommends to Council:**

- 6** An aggregate Council Tax requirement of £7,089,200 (a Band D Council Tax increase of £4.44, 2.3% for the aggregate Lewes District Council "Council Tax Requirement) comprising
  - a. A General Expenses Council Tax requirement of £6,496,260
  - b. A Special Expenses Council Tax Requirement of £592,940.

- 7 That following publication of the Final 2017/2018 Local Government Finance Settlement the Deputy Chief Executive be authorised to make the necessary adjustments to maintain the general expenses council tax requirement at the above level and to report any adjustments to the next Cabinet meeting.

## **Reasons for Recommendations**

- 1 Cabinet is required to approve the budget in accordance with the Council's Constitution. This budget report sets out the level of General Fund revenue resources needed to support the Council's priorities and services.
- 2 The Council has a statutory duty to determine its Council Tax Requirement and level of Council Tax for the coming year. Cabinet makes a recommendation to Council on this matter having taken account of the Deputy Chief Executive's statutory report on the adequacy of reserves and balances.

### **1 National Context**

- 1.1 On 15 December 2016, the Secretary of State for Communities and Local Government gave his statement on the local government finance settlement for 2017/2018, subject to consultation with local authorities and representatives bodies. The consultation closed on 13 January 2017. Details of the final settlement have not been released at the time of writing this report.
- 1.2 97% of local authorities, including this Council, have signed up to the Government's offer of a multi-year settlement, 2017/2018 being the second year of its 4 year term. Participating authorities now have increased certainty about the financial resources which will be made available to them from the Government through to 2019/2020.
- 1.3 The provisional finance settlement contained proposals for the reform of the New Homes Bonus which has been distributed annually to local authorities since 2011 to provide an incentive to encourage housing growth in their areas. At present the New Homes Bonus rewards all net housing additions in each local authority each year. The Government has decided to:
  - reduce the number of years for which legacy payments are made from 6 years to 5 years in 2017/2018 and then to 4 years from 2018/2019; and
  - introduce a baseline for housing growth set at an initial baseline of 0.4% of the council tax base for 2017/2018. Housing growth below this level in each authority will not receive Bonus allocations. The Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth.
- 1.4 These reforms are expected to release an additional £240m of funding in 2017/2018, which the Government intends to return to those authorities with responsibilities for adult social care. In this area, therefore, resources will move away from the district and borough councils to East Sussex County Council.

- 1.5 From 2018/2019 the Government is considering withholding New Homes Bonus payments from local authorities that are not planning effectively, by making positive decisions on planning applications and delivering housing growth. To encourage more effective local planning the Government is also considering withholding payments for homes that are built following an appeal.
- 1.6 Within the business rates retention system the National Non-Domestic Rates (NNDR) baseline and top up/tariff amounts have been amended to reflect the NNDR Revaluation 2017. The adjusted amounts are intended to make changes in Rateable Value revenue neutral for individual authorities; with changes to authorities' NNDR Baseline (and therefore tariff/top up) being equal and opposite to the forecast change in the ability to raise business rates locally.
- 1.7 In overall terms, the provisional local government finance settlement indicates a 1.1% reduction in local authorities' Core Spending Power (comprising Revenue Support Grant and other core grants, retained business rates at baseline levels and council tax).

## **2 Policy Context**

- 2.1 Cabinet has previously set Financial Principles and Objectives in its Medium Term Financial Strategy (Appendix A). These are used as part of the framework to guide budget preparation and compilation of the Medium Term Financial Strategy.

## **3 Council Tax Referenda**

- 3.1 The Localism Act 2011 introduced a requirement for referenda to approve or veto council tax increases that exceed limits set out by the Secretary of State (and approved by Parliament) in "principles" defined for the following financial year.
- 3.2 For district councils, increases of less than 2% or up to and including £5 (whichever is higher) above the authority's relevant basic amount of council tax for 2016/2017 can be made without triggering a referendum. This threshold is applied to changes in the aggregate of an authority's "General" and "Special" Expenses.

## **4 Lewes District Council council tax requirement for 2017/2018**

- 4.1 The Council's average band D tax each year is calculated as follows:

$$\frac{\text{Aggregate Council Tax Requirement}}{\text{Band D taxbase}} = \text{Band D tax requirement}$$

**4.2** The aggregate Band D requirement comprises two elements:

- Special Expenses in respect of the cost of managing and maintaining parks and open spaces. The cost of each site is charged to the council taxpayers of that part of the district area in which it is located.
- General Expenses, all other costs

**4.3** The Council has made a commitment to passing on changes in the cost of the upkeep of open spaces, reflecting the devolution of these assets to town and parish councils. Special Expenses amounts are shown in the table below:

Town/Parish area	Special Expense 2016/2017 £	Band D 2016/2017 £	Special Expense 2017/2018 £	Band D 2017/2018 £
Lewes	298,720	49.22	345,430	56.40
Newhaven	98,630	27.52	98,890	27.32
Telscombe	51,430	20.88	51,890	20.83
Seaford	54,540	5.82	54,060	5.70
Peacehaven	39,570	8.65	37,510	8.00
Chailey	1,070	0.84	1,050	0.81
Ringmer	0	0.00	4,110	2.19
<b>Total</b>	<b>543,960</b>	<b>15.20</b>	<b>592,940</b>	<b>16.31</b>

**4.4** Applying a 1.9% increase to the General Expenses element of the Council Tax gives a Band D tax amount of £178.74 as shown in the table below.

Band D	2016/2017 £	2017/2018 £	Change £	Change %
Special Expenses	15.20	16.31	1.11	7.3
General Expenses	175.41	178.74	3.33	1.9
<b>Total</b>	<b>190.61</b>	<b>195.05</b>	<b>4.44</b>	<b>2.3</b>

The increase in the total council tax requirement, £4.44 is within the £5 referendum limit.

## **5 The 2017/2018 General Fund Budget**

**5.1** The table below indicates the change in resources made available to the Council from the Government.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
<b>Lewes District Council</b>				
<b>Settlement Funding Assessment</b>	<b>3.048</b>	<b>2.469</b>	<b>2.164</b>	<b>1.825</b>
Revenue Support Grant	0.995	0.375	0.002	0.000
Baseline Funding Level	2.053	2.094	2.162	2.239
Tariff / Top Up Adjustment <sup>a</sup>	0.000	0.000	0.000	-0.414
<i>Change in SFA:</i>				
<i>Annual change</i>		-19.0%	-12.4%	-15.7%
<i>Cumulative change</i>		-19.0%	-29.0%	-40.1%
<b>All District Councils</b>				
<i>Annual change in SFA</i>		-15.1%	-7.8%	-13.7%

**5.2** The General Fund Budget Summary for next year is shown at Appendix B together with the movement between 2016/2017 and 2017/2018. A statement showing the major variations arising from the Council's efficiency programme, inflation, variations in income and changes in demand for services is given at Appendix C.

- (a) A balanced budget for next year requires a total savings target of £641,000 (of which £341,000 has been achieved and is incorporated within the service budgets shown in the Summary) with £400,000 to be met from the joint transformation programme, of which £100,000 is projected to be allocated to the Housing Revenue Account budgets. There is no withdrawal from the General Fund reserve is to meet non-recurring expenditure.
- (b) A budget of £109,000 is available in 2017/2018 to support the implementation of service priorities, unchanged from 2016/2017.
- (c) A budget of £209,600 is available in 2017/2018 as financing for General Fund capital programme and investment initiatives.
- (d) £84,000 Transition Grant from the Government in 2017/2018 is available as funding for non-recurring projects.
- (e) A summary of contributions to and from reserves is shown in Appendix D. Reserves can be used to finance revenue or capital expenditure and the summary shows the aggregate planned use in 2016/2017 and 2017/2018.
- (f) Business Rates retained by the Council under the retention arrangements introduced by the Government from 1 April 2013. The amount shown for 2017/2018 is indicative, at the level included within the 2016/2017 budget. The Government was late in releasing details of the NNDR transitional relief scheme which will apply to businesses affected by the 2017 Revaluation. As a result software suppliers were required to delay the release of the NNDR system updates which will make the necessary calculations. At the time of writing this report, this Council's system was in the process of being updated. The final estimate of

retained business rates income, derived from the detailed business rates estimates (to be reported to Government through the annual NNDR1 return) should be available when Cabinet meets: it is expected to offset the change between projection and final estimate by a contribution to/use of the Strategic Change Reserve

- (g) Due to the uncertainty surrounding business rate income forecasts following Revaluation, and the volume of appeals which may be triggered, the East Sussex district and borough councils, East Sussex County Council and Sussex Police Authority will end their current local pooling arrangement. Each district and borough council will revert in 2017/2018 to paying any levy (arising from business rates income exceeding the Government baseline amount) into the national pool.
- (h) Details of Government grants are shown in the sources of finance section of the General Fund Budget Summary. Key movements are the reduction in Revenue Support Grant (£620,000) and New Homes Bonus (£345,000).

### 5.3 Pay and Price Assumptions

The 2017/2018 draft budget has been prepared in accordance with the following framework:

#### *Base budget:*

- (i) No new items to be added to the budget except where approved by Cabinet in the year to date.
- (ii) Savings reported to and agreed by Cabinet to date to be incorporated within draft budgets.

#### *Employee budgets:*

- (iii) An average provision of £83,000 has been made for movements in the pay bill in line with the Government's policy that pay will increase by 1% in the sector.
- (iv) Provision has been made of £82,000 for annual contractual salary increments.
- (v) All pay budgets are now set with a built in vacancy factor of 2%.
- (vi) The budgeted employer's pension contribution for 2017/2018 (17.1% plus an adjustment of £442,000) is the same as that proposed by the actuary following the three yearly review of the East Sussex Pension Fund finalised in December 2016, and equates to 22% the same level as in 2016/2017. Following discussion with East Sussex County Council and the pension fund actuary, it is assumed that the pension cost of former Lewes District Council staff will not change following their transfer to Eastbourne Borough Council on 1 February 2017. A supplementary contribution of 1% is budgeted to offset pension strain costs arising from staffing changes through the Joint Transformation Programme.

*Inflation:*

- (vii) No allowance for general price increases other than where these are unavoidable eg business rates
- (viii) Agreed cost indices in tendered contracts.
- (ix) Should average price inflation (excludes pay) exceed assumptions in the budget outlook by 1%, this would add around £100,000 to the budget savings target.
- (x) Income from general fees and charges is largely related to usage and activity levels. A separate report is agreed annually to agree increases in volume and price to be reflected in the budget. The Medium Term Finance Strategy assumes that overall income will rise by CPI.

## **The Council's Savings Plan**

- 5.4** Appendix E shows the savings plan through to 2021. The target for the current year is set to be achieved.
- 5.5** The savings for 2017/2018 will mainly derive from the Joint Transformation Programme and growth in commercial income streams.

## **6 Medium Term Budget Outlook**

- 6.1** The Medium Term Budget Outlook is shown at Appendix F. It builds upon the budget for 2017/2018 and uses assumptions for future years. No significant changes in assumptions have been made from 2016/2017.
- 6.2** Council tax levels for 2018/2019 onwards have been modelled at 1.9% to allow for inflation and assuming that current referendum principles continue to apply. In line with objectives, the Budget Outlook delivers a sustainable recurring base budget up to 2021, with no call on reserves for recurring expenditure. The four year savings target from 2017/2018 to 2020/2021 amounts to £2.344m which is an excess of £147,000 over the forecast requirement identified in the MTFS.
- 6.3** In the event that savings fail to materialise it would be necessary to utilise the New Homes Bonus spending power and even then a substantial budget gap would remain. The Council's reserves and balances would be under great pressure and the shape of the Council's service provision would be biased more towards statutory services.

**6.4** A number of underlying risks need to be constantly monitored:

**(a)** Retained business rates:

- there is likely to be a loss of retained rate income associated with regeneration projects in Lewes and Newhaven. This will be partly balanced in the medium term by newly created non domestic premises within the Newhaven Enterprise Zone and additional New Homes Bonus where non domestic premises are replaced with domestic dwellings. In such cases there may be a need to use the additional New Homes Bonus spending power to cover any loss in retained business rates.
- the outcome of appeals against business rate valuations remains a key risk, with the added complexity of the 2017 Revaluation. Successful appeals can be backdated to 2010 and the decisions of Valuation Tribunals elsewhere in England can trigger fresh appeals from certain categories of business. There are currently 160 outstanding appeals against the LDC rating list.

**(b)** General income levels:

- income from the sale of recyclates can be volatile, depending on the market price for materials.
- income from fees and charges is dependant on demand, and the impact on the wider economy resulting from the UK's withdrawal from the European Union is uncertain.

**6.5** Throughout the coming year Cabinet will receive monitoring reports to review budget against actual quarterly.

**7 The Council's Capital Programme**

**7.1** The Prudential Code requires local authorities to plan their capital expenditure programme for at least three years ahead. This corresponds with the time scale covered by the Council's Capital Strategy. Understandably, the most detailed information is available for Year 1, with the programme for years 2 and 3 liable to variation when more precise forecasting can be undertaken in terms of both the availability of capital resources and spending requirements.

**7.2** Revenue contributions to capital can be made either by the provision of a non-recurring contribution in the Revenue budget when circumstances permit or by annual recurring contributions if further savings can be generated within the revenue budget. Alternatively, contributions can be made from unallocated reserves and balances, or by using balances on reserves which are no longer required.

**7.3** The Capital Programme report demonstrates that a programme focussed on statutory requirements and core service needs and priority Council projects can be achieved for the next 3 years.



## **8 Conclusions**

- 8.1** In light of the above commentary it is essential that Cabinet carefully controls the recurring base budget.
- 8.2** The General Fund Reserve can be used as a short term measure to manage the pressures arising from lower income, rises in demand for statutory services and the lead in time needed to deliver savings.
- 8.3** The Council's earmarked reserves could be reassigned to balance a future budget in exceptional circumstances, but again this is not a sustainable solution.
- 8.4** Current and medium term pressures require the recurring base budget to be significantly reduced. Unless there is a compelling business case that helps achieve the base budget restructuring any calls for additional recurring resources need to be considered only when the desired savings targets are delivered.
- 8.5** There is capacity within the budget to meet time limited initiatives of a non-recurring nature, either from specific earmarked reserves, the General Fund Reserve, or the service priorities budget which is in effect a contingency that can be deployed once the overall year end position can be reliably predicted.
- 8.6** The Council needs to be reassured that the aggregate of reserves and the working balance is sufficient to meet the medium term finance strategy principles and objectives.

## **9 Reserves**

- 9.1** Section 25 of the Local Government Act 2003 contains the statutory duty on the Chief Finance Officer to report to the authority on the robustness of the estimates it makes when setting the Council Tax and on the adequacy of its proposed financial reserves.
- 9.2** The Chartered Institute of Public Finance and Accountancy issued updated guidance in July 2014 (The Local Authority Advisory Panel Bulletin no. 99) in relation to reserves and balances. This has been taken into account in this report.
- 9.3** The Council's reserves and balances need to cover all significant identified risks and operational service needs. As part of the annual budget and closing of accounts processes, the Council reviews and approves the position on its reserves. This is a mandatory requirement for all councils.
- 9.4** Where it is known in advance of a financial year that a reserve will be used, the expenditure is budgeted for and included in the draft budget and a contribution is made from that reserve. The Leader can authorise additional uses up to £100,000 during the year in accordance with the Council's Constitution and Council above that amount.
- 9.5** Savings can be achieved by reducing the annual level of contributions to reserves, but reserves are essential to ensure the financial sustainability of services. Making short term cuts to annual contributions is not a sustainable course of action but reviewing the level of contribution in parallel with service

reviews and realignment exercises may enable reductions to be achieved. Reviews are made at least twice a year, during the budget cycle and as part of the accounts closure process.

- 9.6** A statement of the Council's Main Reserves projected through to 31 March 2018 is shown at Appendix D.
- 9.7** The Strategic Change Reserve holds New Homes Bonus received pending its use on approved projects. The most significant project to be funded from the Reserve is the Joint Transformation Programme with Eastbourne Borough Council, with £0.7m committed to supporting changes to the Waste and Recycling service.
- 9.8** The Asset Maintenance Reserve provides resources for major works to General Fund assets including corporate buildings, parks, and the indoor leisure facilities for which the Council has landlord repairing responsibilities.
- 9.9** The Vehicle and Equipment Replacement Reserve provides funding for the cyclical replacement of the vehicle fleet. In 2017/2018, £1.1m is committed to fund the up-front costs of restructuring the Waste and Recycling Service.
- 9.10** The General Fund Reserve holds funds pending allocation to specific projects. It also retains a balance as a buffer against unforeseen expenditure or reductions in income as explained in section 11 below.

## **10 Collection Fund Balance**

- 10.1** The Council Tax Collection Fund Balance and the Non Domestic Rates Collection Fund Balance are key components of the Council Tax setting process. A principle of the MTFS is to achieve a zero balance (or as close as possible) each year. A review of the likely Collection Fund position is made at 31 March 2017 including a review of the provision for doubtful debts.
- 10.2** There is an estimated credit balance of £1.7m on the Council Tax Collection Fund which can be utilised in the 2017/2018 budget. The surplus will be redistributed to preceptors as follows:

<b>Council Tax Collection Fund</b>	<b>£</b>
East Sussex County Council	1,206,500
Lewes District Council	266,400
Sussex Police and Crime Commissioner	143,500
East Sussex Fire and Rescue	83,600
<b>Total</b>	<b>1,700,000</b>

- 10.3** A debit balance of £1.4m is estimated on the Business Rates Collection Fund at 31 March 2017 as a result of the provision needed in respect of business rates valuation appeals. The balance will be charged against the 2017/2018 budget, shared as follows:

<b>Business Rates Collection Fund</b>	<b>£</b>
East Sussex County Council	124,800
Lewes District Council	554,500

Central Government	693,200
East Sussex Fire and Rescue	13,800
<b>Total</b>	<b>1,386,300</b>

## **11 Unallocated General Fund Reserve**

**11.1** The Council uses a risk-based approach to setting the level of General Fund Reserve Minimum.

**11.2** As a guideline the Council should keep a minimum level unallocated General Fund Reserve of £1m.

**11.3** This can be further analysed as:

<b>Risk</b>	<b>£</b>
Unforeseen emergencies not covered by the Bellwin Scheme, capital programme overrun and general requirements	500,000
Delays in savings and lower than expected income	400,000
General provision for service risks	50,000
Provision for contingencies to be used in accordance with Financial Procedure Rules	50,000
<b>Total Minimum General Fund Reserve</b>	<b>1,000,000</b>

The projected General Fund Reserve at 31 March 2018 is £2.1m.

## **12 Setting the Council Tax including the other preceptors**

**12.1** The calculation of the overall tax requirement will be presented to Council on 23 February 2017, when all precept details will be known. The precept details for East Sussex County Council, East Sussex Fire Authority and Sussex Police Authority should all be available before Council meets.

**12.2** At the time of writing this report, not all Town and Parish Councils had notified the Council of their precept requirements.

## **13 Report of the Chief Finance Officer (Deputy Chief Executive)**

**13.1** The Chief Finance Officer is the Council's principal financial advisor and has statutory responsibilities in relation to the administration of the Council's financial affairs (Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988).

**13.2** The budget proposals before Cabinet have been prepared in accordance with the Council's policy framework and reviewed by Corporate Management Team, Heads of Service, Lead Councillors and the Scrutiny Committee.

**13.3** Prudent use of reserves is an appropriate measure to finance one off budgets.

**13.4** The underlying earmarked reserves will continue to be replenished from annual contributions in the base budget.

- 13.5** The earmarked reserves are not used to fund the recurring base budget or to fund initiatives that will add to the recurring base budget.
- 13.6** The commentary within this report provides a framework for achieving a sustainable medium term budget position. The level of the Council's reserves, balances and provisions are adequate and prudent for the commitments within the Medium Term Financial Strategy.
- 13.7** Should the budget be adopted by the Council be materially unaltered then in the opinion of Chief Finance Officer, the estimates used to calculate the budget are robust and the levels of reserves are adequate.

## **14 Legal Implications**

- 14.1** The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.
- 14.2** Chief Financial Officers also have a duty to report on the robustness of estimates and adequacy of reserves under Section 25 of the Local Government Act 2003.
- 14.3** Section 151, of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

## **15 Risk Management**

- 15.1** A risk assessment in accordance with the Council's Risk Management methodology has been completed and the following significant risks and mitigating factors have been identified.
- (a)** Revenue Budgets – these have been compiled in accordance with the approved budget preparation guidelines, mitigating the risk that the budgets do not reflect likely expenditure needs or income levels. Cabinet will consider the estimates and recommend an overall budget to Council, having assessed the position in relation to its approved MTFS.
  - (b)** The Council has adequate Reserves and Balances established as a mechanism to support the Council through its deficit reduction programme and preparing for the future.
  - (c)** Reductions in income – Reserves provide a buffer to absorb falls in income and property related transactions in the short to medium term.
  - (d)** As inflation begins to take effect there is the prospect that future pay settlements will follow a similar pattern. The Medium Term Budget Outlook anticipates inflation rates in line with national projections including pay and price movements through to 31 March 2021 and takes into account local circumstances.

## **16 Equality Screening**

- 16.1** This is a budget report for which detailed Equality Analysis is not required to be undertaken. The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports and it is not considered necessary to undertake an overarching analysis of the budget proposals as a whole.

## **17 Background Papers**

- 17.1** Information on the Provisional Local Government Finance Settlement for 2017/2018 is available from this website:  
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2017-to-2018>

## **18 Appendices**

Appendix A – Medium Term Finance Strategy – Principles and Objectives.

Appendix B – The 2017/2018 General Fund Budget Summary.

Appendix C – General Fund budget movements from 2016/17 to 2017/18

Appendix D – Summary of Contributions to and use of Reserves

Appendix E – 2021 Savings Plan.

Appendix F – Medium Term Budget Outlook 2017/2018 to 2020/2021