



Report to: Cabinet, 17th January 2017

Report of: Councillor Joy Squires, Cabinet Member for Performance and Resources

Subject: UPDATE – DRAFT BUDGET AND COUNCIL TAX 2017/18 AND MEDIUM TERM FINANCIAL PLAN 2017-2022

1. Recommendations

- 1.1 **Cabinet note this update report on the Draft Budget and Council Tax 2017/18 and the Medium Term Financial Plan (MTFP), the details of which are deemed part of the budget consultation process and therefore will be referred to Performance and Budget Scrutiny Committee for consideration; and**
- 1.2 **Cabinet approve the creation of a Small Projects Development Fund from any surplus income from 2016/17 onwards and:-**
- (a) invite schemes from Members by 31st March 2017;**
 - (b) instruct officers to design a project appraisal scheme which rewards projects which fulfil priorities within the City Plan by 31st March 2017; and**
 - (c) undertake the appraisal of projects in April 2017 for Cabinet approval ready to start as soon as the resources are available in the Project Development Fund.**

2. Background

- 2.1 The 'Draft Medium Term Financial Plan 2017-2022' and the 'Draft Budget 2017/18' were presented to Cabinet in December 2016 and are currently out for consultation. As part of the 'Draft Budget 2017/18' further details are provided on the proposed Pay Policy Statement and the proposed Fees & Charges schedule. Feedback from consultation and from the Performance Management & Budget Scrutiny Committee process will be considered prior to finalisation of the budget papers for Cabinet on 14th February 2017.
- 2.2 Since presentation of the Draft Budget in December, Local Authorities have received formal notification of the provisional Local Government Finance Settlement for 2017/18. The settlement includes a four year offer which is in line with the figures previously announced.
- 2.3 Following consultation, all strands of the Draft Budget & Council Tax and the Medium Term Financial Plan will be consolidated into one document for consideration by Cabinet, prior to recommending Full Council approval on 21st February 2016.

3. The Provisional Local Government Finance Settlement (LGFS) 2017/18 to 2020/21

- 3.1 In line with the assumption in the December Cabinet Report the Government has kept to the previously announced figures for Council Tax, Business Rates and Revenue Support Grant (RSG) and nothing has been identified in the Settlement that differs from the assumptions in the proposed MTFP. This includes the confirmation of the four year agreement on RSG and the £5 limitation on the increase in Council Tax.
- 3.2 In the case of business rates there is a revaluation that will take effect from 1st April 2017 and the Settlement proposes a methodology to maintain a neutral position across local authorities. The business rates collected by Worcester are anticipated to reduce but the methodology proposes a corresponding reduction to the tariff paid by Worcester to the Government which at this stage is expected will secure a balanced position.
- 3.3 The main change in the Local Government Finance Settlement (LGFS) related to changes in the determination of New Homes Bonus (NHB). There was Government consultation during 2016 on a change to the allocation of NHB whereby the number of years for which NHB is paid would reduce from six years to four years. The consultation included the possibility of a transitional year (2017/18) where the reduction would be to five years. The MTFP presented to Cabinet in December assumed it would be reduced to four years, a worse case, but reported that if the transitional year was provided the City Council would gain £0.369m.
- 3.4 The LGFS does propose the transitional year in 2017/18 which adds £0.369m to the NHB receivable by Worcester City. However, there was a further change which impacts on 2017/18 and future years. A baseline has been introduced which has been set at the national average of new homes built which assumes 0.4% growth of the Band D equivalents before NHB will be paid. The NHB for 2017/18 had been estimated at £0.665m but the 0.4% baseline reduced this by £0.184m to £0.481m. This £0.184m will also impact on a further three financial years (2018/19 to 2020/21).
- 3.5 The position for 2017/18 is that the additional year has provided £0.369m extra NHB but the 0.4% growth baseline has taken away £0.184m leaving a net gain of £0.185m compared with the MTFP presented in December.
- 3.6 For 2018/19 to 2020/21 there is the on-going impact of the loss of £0.184m NHB which starts in 2017/18 for four years.
- 3.7 There is also an impact in future years of the new 0.4% growth baseline. The City Council set the future year NHB at a prudent level (£0.310m). To achieve this with the 0.4% growth baseline requires 247 band D equivalents which is considered achievable.
- 3.8 The NHB due or estimated 2017 to 2022 has been revised in the MTFP which is attached as **Appendix 1**. The additional NHB in 2017/18 can fund the reduced NHB in 2018/19. There is however a £0.184m shortfall in NHB from that assumed within the MTFP from 2019/20 which will need to be managed by either reducing the NHB allocated to investment projects from £1m to £0.8m from 2020/21 or by finding £0.184m additional savings from 2020/21.

- 3.9 The national impact of the changes to NHB is that £240m generated from this change in determination has been moved to provide additional funds in support of Local authorities providing Adult Social Care services.
- 3.10 It should be noted the LGFS also mentions the possibility of withholding NHB from local authorities that are not planning effectively (not making positive planning approvals or delivering housing growth) and also withholding NHB on homes built following an appeal. Any proposed changes will be subject to future consultation.

4. Pay Policy Statement 2017/18

- 4.1 Section 38 (1) of the Localism Act requires English and Welsh local authorities to produce a Pay Policy Statement and for this to be adopted by Full Council each year. The Pay Policy Statement is required in order to clarify the Council's current pay position. It does not alter or amend any current Terms and Conditions of Employment. The annual requirement to produce a Pay Policy Statement was introduced for the 2012/13 financial year.
- 4.2 Worcester City Council's draft Pay Policy Statement for 2017/18 is shown at **Appendix 2**. This includes The Council's new pay and grading structure which is effective from 1st January 2017.

5. Fees and Charges 2017/18

- 5.1 The proposed detailed Fees and Charges 2017/18 are shown at **Appendix 3**. Owing to commercial sensitivity the proposed Fees and Charges for Trade Waste and Building Control are classed as exempt items and are shown at **Appendix 4**.
- 5.2 The following Fees and Charges are proposed to increase by inflation in line with the assumptions in the MTFP, as follows:
- Bulky waste
 - Football pitch hire
 - Guildhall room hire/weddings
 - Allotments
 - Bereavement charges
 - City Life lettings
 - Trade Waste
- 5.3 The following Fees and Charges have been amended to reflect full cost recovery changes or market analysis of prices, as follows:
- Pre -application planning fees
 - Hackney carriage/private hire licences
 - Gaming and entertainment licences
 - HMO mandatory renewal licences
 - HMO additional licence
 - Animal licence renewal
 - Archaeology charges
- 5.4 The proposed Commandery charges reflect the new facilities and the addition of provision for weddings within the facility. The proposed implementation date is to be confirmed once the refurbishment has been completed.

- 5.5 Land Charges are subject to a future change in HMRC rules to apply VAT to some charges. Details of the implementation date are still awaited.
- 5.6 Leisure charges are subject to an average increase across all membership categories of 3.1%. The highest increase is the joint connective membership at 8.3% and the lowest increase is the junior connected at 0%.
- 5.7 Garden waste charges have increased by 3.7% to maximise income to invest into the service.
- 5.8 Building Control charges have not increased due to increased competition from the private sector.
- 5.9 Car parking charges have not been increased.

6. Utilisation of Earmarked Reserves

- 6.1 The summary of earmarked reserves is shown at **Appendix 5**. The total earmarked reserves are forecast to be £6.1m at 31st March 2017 and are predicted to reduce to £2.1m by 31st March 2022.

7. Minimum Working Balances Requirement

- 7.1 The MTFP has a recommended minimum working balances requirement of c£1.4m. Attached as **Appendix 6** is the methodology behind the calculation which is a risk based approach.

8. Draft Budget Book 2017/18

- 8.1 The draft Budget Book for 2017/18 will be provided as part of the formal proposed Cabinet budget report on 14 February following feedback from PMBS on the draft budget proposals.

9. Small Project Development Fund

- 9.1 It is proposed that a Small Project Development Fund be created from half of any surplus of actual income in excess of the budgeted income across the City Council.
- 9.2 The budget income projections are based on a prudent assessment of collection reflecting the volatility of customer choice and the possible impact of economic and climatic conditions which are outside the control of the Council. In addition, there is a specific income contingency of £0.230m to cover the specific risk of car park income being below budget.
- 9.3 In recognition of the possibility that income will exceed budget projections in a any particular year it is proposed to establish a Small Project Development Fund which would receive 50% of any such income in excess of budget including the income contingency budget) which would be earmarked for small projects and feasibility studies suggested by Members.
- 9.4 Projects are being invited from Members by 31st March 2017 so that they can be appraised and be ready to be implemented as soon as the 2016/17 financial results are known. By definition the small projects title implies bids of less than £30,000

with an objective appraisal system to determine priorities which scores projects based on the extent to which they fulfil the City Plan priorities.

10. Implications

- 10.1 Financial and Budgetary Implications– included in this report.
- 10.2 Legal and Governance Implications– in line with the Budget and Policy Framework Procedure Rules in part 4 of the Constitution, consultation on the draft budget proposals should take place over a period of at least six weeks, prior to full Council approval of the budget on 21st February 2017.
- 10.3 Risk Implications– as always with financial planning assumptions, there are risks associated with the accuracy and robustness of the forecasts, which become more difficult to predict as the period covered lengthens. To mitigate against medium term planning uncertainty, the forecasts are updated on an annual basis as a minimum and it is proposed once approved to treat this as a “live document” updated on an on-going basis. However, risks on forecasting remain, as follows for both the Draft Budget 2017/18 and the medium term period to 2021/22:-
- i. **Revenue Support Grant** – The acceptance of the four year agreement, to some extent mitigates the risk during which the Revenue Support Grant will reduce to zero over the MTFP period (making the Council self financed without the grant).
 - ii. **NHB Grant** – although there is now certainty on the allocation for 2017/18 there remains a risk that the methodology or Government intervention regarding planning could further reduce future year allocations.
 - iii. **Localised Business Rates** – there is volatility in the system on business rates as can be evidenced by the GP surgeries appeals. Prudent assumptions have been made on growth, which are lower than current Government forecasts for Worcester City. The 2017 revaluation of rateable values will require changes to the localised business rate system methodology and this is still to be agreed. There is also a risk that the business rates payable by Worcester City Council will increase. New monies are expected in 2020 as part of the 100% to local government transfer, but no income is forecast for this until the position is clearer particularly on the transfer of any new burdens associated with the extra income.
 - iv. **Reserves and balances** – are likely to come under more intense scrutiny from Government with pressure to utilise reserves to fund service delivery.
 - v. **Pensions backfunding** – the budget has been prepared on the basis of the provisional 2016 triennial actuary valuation and the costs of the backfunding has been included in the budget. The risk remains that the costs increase in the next actuary review, which is due in 2019 and a further £0.110m per annum has therefore been included in the MTFP from 2019.
 - vi. **Transformation and efficiency plan** – delivery of £2.2m of savings over the next three years brings an implementation risk. Plans are in place to deliver these initiatives and these will be closely monitored by senior officers and programmed for performance review within the council cabinet / committee timetables.

vii. **Capacity to deliver** – the transformation and efficiency plan as envisaged within the MTFP is based on a structured but phased approach and one-off earmarked funds are available in support of delivery of these plans

- 10.4 Corporate/Policy Implications– the budget and Medium Term Financial Plan proposals provide resources for the Council’s service delivery priorities and Corporate Plan delivery priorities.
- 10.5 Equality Implications– none directly arising from this report. The transformation and efficiency plan sets out to deliver the same front line service outcomes.
- 10.6 Human Resources Implications– extra resources will be required to deliver some of the transformation and efficiency plan and costs for these resources will be built into the relevant project budgets.
- 10.7 Health and Safety Implications– none directly arising from this report.

Ward(s): All
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Background Papers: None