

REPORT TITLE: GENERAL FUND BUDGET 2019/20

28 JANUARY 2019

REPORT OF PORTFOLIO HOLDER: CLLR GUY ASHTON (PORTFOLIO HOLDER FOR FINANCE)

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WARD(S): ALL

#### PURPOSE

The budget sets the revenue financial resources for the 2019/20 financial year with which the Council can utilise to provide public services, including any changes to Council Tax levels. The general fund budget is consolidated to take into account the latest known funding allocations through central government as well as from locally raised Council Tax, Business Rates (after government levies and tariffs) and fees and charges. Members are requested to consider the financial assumptions and the implication of financial changes to the overall Council Strategy.

Members are asked to consider these proposals and also the level of Council Tax to be set for next year. The current tax is £138.92 at Band D for City Council services, and £67.17 for Winchester Town. It is proposed to freeze the District tax for 2019/20 at £138.92 and the town forum have proposed a 3% increase to £69.19 (Band D equivalent).

The General Fund Budget has been consulted on with The Overview and Scrutiny Committee, the business community and parish and town councils, and in finalising these proposals consideration has been given to all comments received.

#### RECOMMENDATIONS

That the Overview and Scrutiny Committee raises with the Leader or relevant Portfolio Holder any issues arising from the information in this report and considers whether there any items of significance to be drawn to the attention of Cabinet.

## IMPLICATIONS:

### 1 COUNCIL STRATEGY OUTCOME

- 1.1 The budget proposals contained in this report have been drafted using outcome based budgeting principles in order to align to the Council Strategy.

### 2 FINANCIAL IMPLICATIONS

- 2.1 As detailed in the main body of the report.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Any implications arising from budget options arising from this strategy will be dealt with in the individual business cases and committee papers relating to those specific decisions.

### 4 WORKFORCE IMPLICATIONS

- 4.1 No direct implications, any indirect implications will be addressed in the business cases relating to individual projects.

### 5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 As detailed in the main body of the report.

### 6 CONSULTATION AND COMMUNICATION

- 6.1 Budget considerations were consulted on with The Overview & Scrutiny Committee, the business community, and parish council representatives during the final quarter of 2018. The feedback received from this consultation has been fully reflected in finalising these proposals.
- 6.2 Feedback received from the business consultation process a strong interest in the council's major projects and further detail around the impact of car parking changes to the 2018-19 budget.
- 6.3 At the annual parish conference held in early December 2018 the parishes were briefed on the overall context of the budget as well as discussion around Council Tax referendum principles for parish councils.

### 7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Environmental considerations will be part of the business case supporting any budget proposals.

### 8 EQUALITY IMPACT ASSESSEMENT

- 9 Any equality impact assessments are carried out as part of the business case for any individual proposals.

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 None

11 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Council's service priorities are not reflected in the budget</i>	<i>The use of Outcome Based Budgeting as a method of delivering the budget from 2019/20 onwards.</i>	<i>Ensure the prioritisation of resources to best meet the Outcomes of the authority</i>
<i>Failure to achieve the budget proposals presented in Appendix B</i>	<i>Budget proposals for 2019/20 have been put forward on the basis that they have a high expectation of achievement, and some of the proposals have already been achieved.</i>	
<i>Income budgets (such as car parking) are not achieved, possibly due to market or economic conditions</i>	<i>Income budgets have been set using 'central case' expectations.  Robust in-year monitoring and reporting is in place which would identify any forecast shortfalls in income in time to take any necessary action to address this.</i>	
<i>Failure to adequately manage major contracts including planning for contract renewal</i>	<i>Ensure adequate contract management and monitoring arrangements are in place.  Ensure sufficient time for the review of contract options prior to contract renewal.</i>	<i>Ensure contracts are aligned to the councils requirements and council strategy  Transformational efficiency savings</i>

## 12 SUPPORTING INFORMATION:

### **Background**

- 12.1 The budget is strongly aligned to the Council Strategy and the outcomes that the council wish to achieve. There are areas of significant investment contained within the budget to deliver new services to residents. For example, the Council is improving environmental services to residents by introducing a monthly kerbside glass collection.
- 12.2 This investment is supported through a variety of savings programmes. These items have been carefully considered and seek to enable the Council to continue to deliver its core services and protect our valued frontline delivery whilst matching the financial demands of disappearing government funding. We are ensuring that we drive out further efficiencies through a strategic focus on budgets and reviewing historic patterns of spend. We are seeking new opportunities, for example through providing additional funding for new homes in our 'HRA' and moving assets into the general fund to provide a long term rental stream to the taxpayer.
- 12.3 The Council is also proposing freezing the district tax at 2018/19 levels. The Council has the option of increasing this by 3% or +£5 compared to the previous year (equivalent to a rise of just over 3%) but is recommending a freeze to reflect the work we are progressing to re-focus our finances whilst facing the reality of a major reduction in funds from central government and a need to be financially self-reliant. The Council's approach to encourage business growth as well as having a robust local plan has yielded additional financial resources to the Council through significant growth in retained business rates and additional new homes bonus. This year is also the final year of the four local government finance settlement, and the previously announced £410,000 'negative RSG' has been removed by Central Government in the December 2018 local government finance settlement.
- 12.4 The Council Strategy 2017 - 2020 sets out four strategic themes which are helping the Council shape its activities and resources up until 2020. Outcome based budgeting principles have been used in the preparation of the 2019/20 budget, with proposals identified in CAB3103 Outcome Based Budgeting which went to December Cabinet.
- 12.5 Capital and Revenue budget considerations were consulted by The Overview & Scrutiny Committee, the business community, and parish council representatives during the final quarter of 2018. The feedback received from this consultation has been fully reflected in finalising these proposals.
- 12.6 A summary of the General Fund revenue budget is now presented for final consideration and Members are asked to consider the total level of General Fund Budget and the Council Tax for 2019/20.

## Identifying Resources

- 12.7 Over the current four year settlement period there has been a clear shift from central government grant, such as the revenue support grant, to locally generated funding. Winchester has benefited significantly from strong growth in housing (new homes bonus) and business (business rates retention), which has balanced out other funding reductions.
- 12.8 Locally generated income is a key focus of the medium term financial strategy, which identifies how the Council is looking to replace the reductions in government funding with new and innovative income sources. These income sources are identified under the themes of; Asset Management, Income Generation, Transformation, and Investment.

## Funding

### 12.9 Business Rates Retention

- (i) The provisional finance settlement confirmed that there would not be any negative revenue support grant for 2019/20. The baseline funding level (BFL) has therefore increased marginally to £2.19m (£2.15m 2018/19).
- (ii) In addition to the BFL, growth in retained rates is forecast to increase to £2.71m, giving a total business rates retention of £4.90m.
- (iii) The provisional finance settlement confirmed the Government's intention for a full reset of business rates growth from 2020/21, in line with the fair funding review. A consultation has been issued to determine how the resets will applied after 2020/21, as well as many other elements of the scheme such as the split of growth among tiers and how the administration of appeals could be changed.
- (iv) Business Rates Pilot application – the Council led a cross Hampshire application to be a business rates pilot for 75% retention in 2018. Unfortunately, this bid was not successful for 2019-20 as Government received a significantly higher number of applications compared to the places available.

### 12.10 New Homes Bonus

- (i) Government have announced that the current scheme will end in 2019/20 with no indications of whether it will be replaced with a new reward scheme. There is the possibility that legacy payments will continue until 2022/23.
- (ii) The total 2019/20 reward of £2,353,118 (£969,791 relates specifically to 2019/20) is £237,527 higher than the 2018/19 reward of £2,115,591. This increase reflects the above average housing growth in the Winchester district compared to councils across the country.

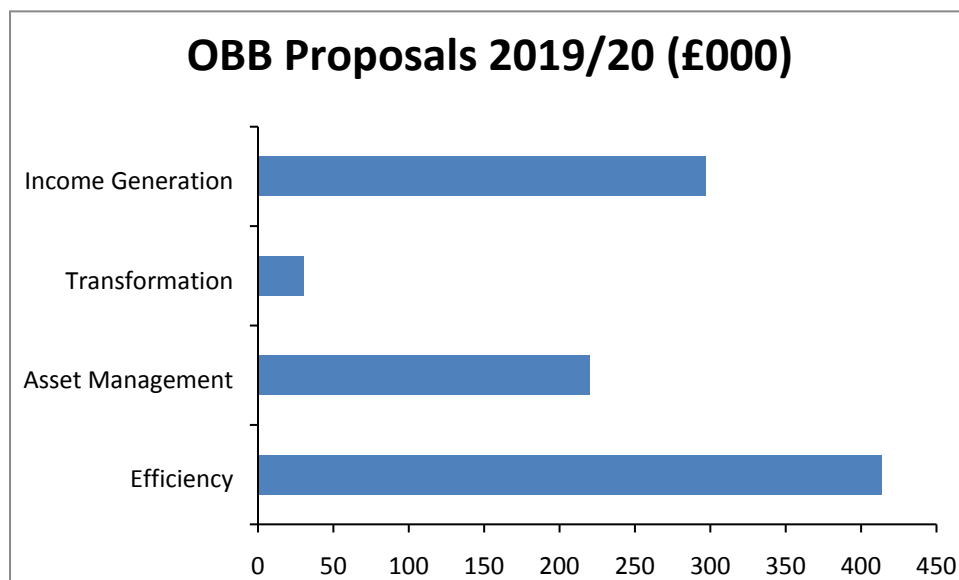
- (iii) The reward for 2019/20 includes an additional reward of £350 per affordable homes unit, totalling £51,240.

#### 12.11 Other Government Grants (2019/20, £280k):

- (iv) The Rural Services Delivery Grant which will be £46k.
- (v) Flexible homelessness support grant is due to increase to £154k.
- (vi) A national business rates levy surplus is due to be distributed in 2019/20, with Winchester receiving £34k.
- (vii) New burdens payments relating to Universal Credit and other changes will total £46k. It is likely that further payments will be announced during the year.

### Outcome Based Budgeting

- 12.12 Appendix B shows the budget proposals for 2019/20, with the savings from the key headings shown in the graph below. The total full year savings are £1.08m, with £0.96m realisable in 2019/20. These savings enable a balanced budget for 2019/20 and also help towards the savings targets for future years.



- 12.13 **Investment - Movement Strategy (+£250k)** - The Council is intending to adopt the City of Winchester Movement Strategy in March this year. The Strategy is high level framework document which identifies actions to improve movement in and around the city over the next 20-30 years. In order to support the next phase of the Strategy post adoption the Council proposes to allocate £125k in 19/20 and 20/21 which will be used to carryout further development work in conjunction with the County Council to help bring forward the implementation of the measures set out in the Strategy.

#### 12.14 Environmental Services Contract:

- I. The current eight year contract expires in September 2019 and the costs of waste and recycling collection are expected to increase. Employee and vehicle costs have been running at levels above CPI inflation, so it is necessary to forecast an increase in contract costs from October 2019.
- II. The budget proposals include an investment option to introduce a kerbside glass collection service commencing October 2019.

12.15 Key Assumptions used in the 2019/20 budget are shown below:

Key Assumptions	%	£000	Sensitivity +/- 1%
<b>Income / Funding</b>			
District Council Tax Increase	0.0%	0.0	68.5
Interest Receivable	1.0%	250.0	250.0
Fees & Charges	2.4%	137.0	110.0
<b>Expenditure</b>			
Contractual Inflation	2.5%	258.0	103.2
Employee Pay Inflation	2.0%	330.0	165.0

#### 12.16 Summary Financial Position

The below summary financial position shows how the budget has been balanced for 2019/20:

General Fund Revenue Budget (£m)	2019/20	
<i>Baseline requirements c/f from 2018/19</i>	<i>-15.20</i>	
Employee Inflation & Pay Review	-0.80	
Contractual and Capital Programme Implications	-1.32	
OBB Budget Proposals	0.96	
One-off budgets & reserve related movements	-0.97	
Net Resource Requirements		-17.33
Funded by:		
Funding	15.28	
Investment Activity	2.06	
		17.33

### **Collection Fund**

- 12.17 *Council Tax* - Regulations require the Council to approve the Collection Fund balance at 31 March, calculated at 15 January preceding. For Council Tax a deficit of £12,932 is estimated, shared between the County Council (£9,330), the Police & Crime Commission (£1,379), the Fire & Rescue Authority (£511) and this Council (£1,712). This must be debited to the Council Tax for the District for 2019/20. The City Council's budget for 2019/20 will therefore be set including the £1,712.12.
- 12.18 *Business Rates* – The Business Rates Collection Fund balance will be updated for Cabinet in February. The NNDR1 return deadline is the end of January 2019.

### **Council Tax**

- 12.19 The Council Tax Referendum limits have been confirmed at 3% for lower tier authorities. However, shire districts (such as Winchester) will be able to increase their precept by not more than £5 (equivalent to just over 3% for this council). Central Government spending power projections assume that all authorities will increase their precepts by the maximum amount.
- 12.20 At present the projections reflect a freeze in Council Tax for the District and an estimated increase of 3% for the Winchester Town Area, in 2019/20.
- 12.21 The current level of Tax for the District is £138.92 (Band D equiv.).
- 12.22 In considering the level of District tax, regard has to be had to the Tax for the Town area in order to ensure that the overall increase does not exceed the referendum limits.
- 12.23 The current level of Tax for the Town is £67.17 (Band D equiv.). An increase of 3% would increase this to £69.19.

### **Changes to Council Tax**

#### Empty Homes Premium

- 12.24 With effect from 2013/14 the Government gave local authorities the discretion to introduce a premium on Council Tax, of up to 50% of the liability. This applied to properties that had been vacant (a property where no one lives and is substantially unfurnished) which can be awarded for up to six months for two years or more as an incentive for owners to bring them back in to use. From April this year the Government has increased the premium threshold from 50% to 100% of the Council Tax and has introduced legislation to allow further increases, effective from April 2020 (200%) and 2021 (300%), for properties that have been vacant for five and ten years or more, respectively.



12.25 The following, details the number and length of time properties have been vacant as at the end of December 2018, plus an example of the premium that may be charged at the levels detailed above:

Vacant Properties	Number	Premium charged			Total
		1st April 2019 *£	1st April 2020 *£	1st April 2021 *£	
Less than 2 years	728	Nil	Nil	Nil	0
More than 2 years	89	146,872.25	146,872.25	146,872.25	440,616.75
More than 5 years	31	51,157.75	102,315.50	102,315.50	255,788.75
More than 10 years	13	21,453.25	21,453.25	64,359.75	107,266.25
					<b><u>803,671.75</u></b>

\* These figures use the average band D charge of £1,650.25 for Winchester Town in 2018/19 for illustration purposes only and are subject to increases each year.

Vacant Properties	Number	Additional Council Tax - Winchester City Council element			Total
		1st April 2019 *£	1st April 2020 *£	1st April 2021 *£	
Less than 2 years	728	Nil	Nil	Nil	0
More than 2 years	89	12,219.77	12,219.77	12,219.77	36,659.31
More than 5 years	31	4,256.32	8,512.65	8,512.65	21,281.62
More than 10 years	13	1,784.91	1,784.91	5,354.73	8,924.55
					<b><u>66,865.49</u></b>

\* These figures use the average band D charge of £1,650.25 for Winchester Town in 2018/19 for illustration purposes only and are subject to increases each year.

12.26 In line with the Council's empty homes strategy, which places the importance of bringing long term empty properties back in to use, it is recommended that, with effect from 1st April 2019, the Council introduces a premium of 100% on Council Tax on properties that have been vacant for two years or more. It is also recommended that, with effect from 1st April 2020 and 2021, the Council approves the future introduction of the higher premiums of 200% and 300% on Council Tax properties that have been vacant for five and ten years or more, respectively.

### Abolition of one month empty discount

- 12.27 The Council also awards a discretionary discount to those properties which have just become vacant. The discount is a 100% reduction of Council Tax up to a one month period, where the property remains vacant. In support of the Council's empty homes strategy to encourage properties back in to use as soon as possible, it is recommended that this discount is abolished with effect from 1st April 2019. This would only apply to properties which become vacant after this date and would not curtail any discounts which are being applied prior to the 1st April 2019.
- 12.28 Removal of the discount will increase the Council Tax Base by between 100 to 150 band D equivalent properties. The largest proportion of these properties is usually within the Town but others are spread throughout the district. The removal of the discount and increasing of the Council Tax Base has the effect of lowering the Council Tax charge for all residents.

### An Exemption for Care Leavers

- 12.29 The final change to Council Tax has been raised by Hampshire County Council who highlighted a campaign by the Children's Society to support young care leavers, and has been supported by the Children's Commissioner for England. A care leaver is a young person aged 16 to 25 years old who has been cared for by the local authority for at least 13 weeks in total since the age of 14 years old. Under the new corporate parenting responsibilities it is requested that the Council introduce a reduction in Council Tax which sees all care leavers pay no Council Tax until the age of 25.
- 12.30 The figures currently provided by the County suggest that only 7 care leavers responsible for paying Council Tax reside in the Winchester district. The cost to this Council would be in the region of £12,000 per year. It is recommended that the Council use its discretionary powers under the Local Government Finance Act 1992, Section 13A, to apply a reduction to the Council Tax bills of all care leavers who either live alone or live in a household solely occupied by care leavers, in the Winchester district, up to the day before their 25th birthday, or earlier if they move out of the Winchester district or occupy the property with a non-care leaver. Care leavers can only be identified by the County Council and the award of any discount will be reliant on notification from the County of a care leaver's status, their date of birth and current address.
- 12.31 In order to authorise the recommendations listed above, they must be approved by Council, which can be made following a recommendation from Cabinet. It is also recommended that Council allow the implementation of all changes and any minor details to be clarified in schemes set up by the Head of Revenues and Benefits, in agreement with the Strategic Director (Resources).

## Fees and Charges

- 12.32 Fees and charges are reviewed on an individual basis with the aim of achieving fair charges which limit any burden to the council tax payer. An inflationary uplift is a primary consideration (CPI was 2.4% at October 2018) along with the following considerations:
- i) **External competition** – services offered by the Council are subject to differing levels of market competition. It is important that market prices are taken into consideration when reviewing pricing levels especially as increasing council prices too high could actually have the effect of reducing overall income through reduced volume.
  - ii) **Neighbouring authorities** – benchmarking with other authorities is a useful exercise to determine how the Council is positioned, what the reasons are for this, and this aligns to the Council's pricing strategy.
  - iii) **Inflation (+2.4%)** – inflationary indexes, such as CPI, are a useful starting point as they give a broad indication of the increase in the costs of living and also the increase in the costs of providing the service.
  - iv) **Council Strategy** – not all charges meet the target of full cost recovery because the benefits derived from providing those services are part of the Council Strategy.
  - v) **New charges** – are there any opportunities to offer any additional services which would both be valued by the customer and deliver an income to the Council. This is possible even where a services charges are mainly set by statute, as there is sometimes scope for additional discretionary services e.g. planning pre-app fees.
- 12.33 Fees and charges are budgeted to generate income of just under £11m in 2018/19.
- 12.34 The General Fund seeks to review fees and charges over the life of the medium term financial strategy, through seeking new opportunities to trade, understanding subsidies and increasing activity. It is expected that fees and charges will make a positive contribution towards this target.
- 12.35 It is important to ensure that fees and charges are kept under regular review to ensure that charges remain reflective of the costs of providing those services. A target uplift of 2.4% has been set in line with October 2018 CPI.
- 12.36 The opportunity to introduce new charges is kept under review and opportunities will come forward with a business case as appropriate.

### Fees & Charges - 2019/20 Review - Locally set charges

	Volume	Price	Total
1 Car Parking & Enforcement	(150)		(150)
2 Concessions at car parks		(50)	(50)
3 Local Land Charges		(9)	(9)
4 Building Control		(12)	(12)
5 Marketing		(1)	(1)
6 Tourist Information Centre		(2)	(2)
7 Pest Control *	(10)	(25)	(35)
8 Licensing		(4)	(4)
9 Taxi & Private Hire		(2)	(2)
10 Sports Pitches		(1)	(1)
11 Cemeteries		(4)	(4)
12 Legal Business Unit		( )	( )
13 Street Naming & Numbering		(12)	(12)
14 Special Maintenance **		(15)	(15)
	<b>(160)</b>	<b>(137)</b>	<b>(297)</b>

### Winchester Town Charge – Section 35

- 12.37 In accordance with Section 35 of the Local Government Finance Act 1992 the Council has taken the decision in previous years to treat all expenses of the Council as general expenses other than those identified as special expenses. The Council endorsed this policy in February 2018.
- 12.38 Special expenses are costs incurred for the provision of an amenity or service that is primarily for the benefit of one locality. In the Winchester District these expenses are levied by the Council to cover the costs of local services in the Winchester Town area which elsewhere would be dealt with by parish councils.
- 12.39 The services currently covered by special expenses are listed in Appendix D.
- 12.40 It is recommended that the policy as previously agreed by the Council on 14 July 1999 (minute 186), and confirmed in the budget and council tax report for 2018/19 (CAB3011, February 2018) is endorsed again. That is to treat all expenses of the Council as General Expenses other than those specifically identified and itemised in the Winchester Town Account. In consequence of which the sum of £967,333 will be treated as Special Expenses under Section 35 of the Local Government Finance Act, 1992 in respect of the Winchester Town area, summarised in Appendix D.

- 12.41 The Winchester Town Forum met on 17 January 2019 and recommended the budget which is currently set out in Appendix D, including a proposed Council Tax increase of 3% for 2019/20.

### **Reserves**

- 12.42 A summary of earmarked reserves is included at Appendix C. These have all been reviewed as part of the budget process and the levels are considered to be appropriate.
- 12.43 The proposed baseline budget for 2019/20 also includes fixed annual contributions to various earmarked reserves including: Property – Asset Management £300k; Car Parks Property £200k and IMT Strategy £280k.
- 12.44 In order to support the transformation programme an additional £350k will be transferred into the transformation reserve in 2019/20.
- 12.45 Budget provision of £350k has been allowed for in the updated 2018/19 budget forecast in order to allow for potential one-off costs of the current transformation programme. This is a one-off budget and therefore depending on the timing of decisions there could be some re-profiling to 2019/20.
- 12.46 Total General Fund Earmarked Reserves are forecast to reduce from £21.1m at 01 April 2019 to £15.4m at 31 March 2020. The forecast closing balances (31 March 2020) of key earmarked reserves are summarised below;
- a. Operational Reserves (£5.1m), significantly the Major Investment Reserve, are revenue reserves which can be used to support revenue or capital expenditure, for example major projects.
  - b. Risk Reserves (£1.5m), such as business rates retention, are available to mitigate risks faced by the council. The overall levels are reviewed each year in line with the medium term financial strategy.
  - c. Asset Reserves (£3.4m), such as the Asset Management Reserve, are used to maintain existing council assets and are supported by spending plans such as the asset management plan.
  - d. Restricted Reserves (£5.3m), such as the Community Infrastructure Levy, can only be used for restricted purposes and therefore must be considered separately to other reserves which can be used for wider purposes.
- 12.47 The general fund has a forecast £0.58m underspend in 2018/19. Any balance at year end after adjustments will transfer to the Major Investment Reserve (operational reserves) in order to support key projects. CAB3124(CWR) recommends allocating £60k of this underspend for initial design work for lower High Street and Broadway.

### **General Fund Working Balance**

- 12.48 The Council also holds a general balance which is held to mitigate against any potential financial risks, these could be known risks or completely unforeseen risks. The current balance was increased in the previous year to represent two months of net expenditure. This balance is £2.789m and can give some additional cushion particularly against the uncertainty of government funding over the medium term projections.
- 12.49 In addition, a minimum balance of £1m is held within the business rates retention reserve in order to provide mitigation against the short term risks of a reduction in income, for example an unexpected increase in successful appeals.

### **Adequacy of Reserves and Robustness of Estimates**

- 12.50 There are specific requirements under Section 25 of the Local Government Act, 2003, for the Chief Finance Officer to provide a positive assurance statement about the adequacy of proposed financial reserves and the robustness of estimates made for the purposes of the Budget calculation.
- 12.51 Reserves are detailed in this report and specific comment is made on the most significant balances. The General Fund working balance is discussed above and is considered to be adequate.
- 12.52 When considering the robustness of estimates for the budget calculation for the current year savings and increased income proposals included in the budget must be considered to be achievable. Considerable savings have been achieved to date, and the recent experience has been that compensating savings have been found to cover unforeseen growth pressures. Given the complex nature of the organisation, the significant turnover, the cautious approach to budgeting and the sensitivity to income, these variations are to be expected. The purpose of reserves, in particular the General Fund working balance, is to provide a cushion for these variations.
- 12.53 Within the context of the overall budget and reserve levels, the S151 officer is able to provide positive assurance on the robustness of the estimates made for the purposes of the budget calculation for next year.

### **13 OTHER OPTIONS CONSIDERED AND REJECTED**

- 13.1 The Council must prepare a balanced budget for 2018/19. Traditional “Salami Slicing” of budgets has been rejected in favour of an Outcome Based Budgeting approach.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

Medium Term Financial Strategy – CAB3131 – February 2019

Medium Term Financial Planning – CAB3103 – December 2018

Council Strategy Refresh – CAB2980 – December 2017

Efficiency Plan 2016 – 2020 - CAB2827 – September 2016

Other Background Documents:-

None

APPENDICES:

Appendix A: General Fund Budget Summary 2019/20

Appendix B: Outcome Based Budgeting Financial Summary

Appendix C: Reserves

Appendix D: Winchester Town Account