

Gloucester City Council

Meeting:	Cabinet	6th December 2017
Subject:	Draft Money Plan 2018-23 & Budget Proposals 2018/19	
Report Of:	Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: No
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Appendices:	1. Draft Money Plan 2018/19 – 2022/23 2. Budget Pressures & Savings 3. Savings Programme 4. 2018/19 – 2022/23 Capital Programme 5. Draft Budget Book	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Draft Money Plan.

2.0 RECOMMENDATIONS

2.1 **Cabinet** is asked to **RESOLVE** that:

- 1) The assumptions contained in the Council's draft Money Plan from 2018/19 to 2022/23 and revisions to the draft revenue budget be approved.
- 2) The uncertainties regarding future incomes, as shown in this report and Appendix 1, and the need to update the Draft Money Plan when there is more certainty regarding Central Government financing, be noted.

3.0 Introduction

3.1 The Money Plan sets out the Council's strategic approach to the management of its finances, and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Budget, the Capital Programme and Earmarked Reserves. It also comments on the significant financial risks facing the Council in the forthcoming years and explains what the Council is doing to reduce those risks.

3.2 The main objectives of the Money Plan are to:

- explain the financial context within which the Council is set to work over the medium term;
- provide a medium term forecast of resources and expenditure;
- identify the financial resources needed to deliver the Council's priority outcomes, in line with the Council's plan;
- achieve a stable and sustainable budget capable of withstanding financial pressures;

- achieve a balanced base budget, minimising the use of balances to meet recurring baseline spending, with the General Fund balance being maintained at a minimum of 10% of net expenditure by the end of the plan period;
- where possible, additional investment and spending decisions will be made to reflect Council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas; and
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme.

4.0 The Local Government Finance Environment

- 4.1 The Council's Money plan provides the framework within which revenue spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to take into account any alterations that may be required as a result of changed circumstances. The Draft Money Plan covers a five year period up to 2022/23.
- 4.2 Local Government continues to face a tough financial outlook, with funding pressures set to continue. The Local Government Finance Settlement in recent years has seen unprecedented reductions in formula grant.

Local Government Finance Settlement 2017/18

- 4.3 On the 15th December 2016, the secretary of State for Communities and Local Government announced the final Local Government settlement for 2017/18. The announcement included the following proposals to be delivered over the spending review period that will potentially affect the Council:
- Movement to 100% business rates retention
 - Flexibility for District Councils to increase Council Tax by £5 a year.
 - The offer of 4 year settlement for Councils that apply through demonstrating an efficiency plan.
 - The ability to use 100% of Capital receipts from 1 April 2016 to assist in funding efficiency reforms
 - Retention of New Homes Bonus, subject to consultation.
- 4.4 In addition to the detailed proposal for 2017/18, the settlement provided indicative figures for each financial year up to 2019/20.
- 4.5 The Chancellor delivered his Autumn Statement on November 22nd 2017. Following this announcement there are no changes required to the draft Money Plan.
- 4.6 The Council took up the Government's offer of a 4 year settlement and submitted an efficiency plan prior to the deadline of 14th October 2016. We are expecting this offer of certainty to remain over the four years of the offer.
- 4.7 The other key risk is New Homes Bonus (NHB). Government has further consulted on the level of reward and potential reductions to NHB. Further changes may be made to the level of deadweight (currently 0.4%) or a reduction based upon successful planning appeals.
- 4.8 The current draft Money Plan assumes a reduction in line with the 4 year settlement. At this stage this assumption appears to still be valid. The detailed Local Government funding settlement is expected in December 2017 and the final Money Plan will be updated with those details.
- 4.9 The settlement is expected to use the 'core spending power' measure. Core spending power is made up of the following elements;

Settlement Funding Assessments (SFA)

This is made up of;

- Revenue Support Grant
- Baseline Funding Level

The SFA also details level of Tariff on retained business rates and the Safety Net Threshold.

Instead of cutting all SFA by a set percent, Government take into account the ability to raise Council Tax locally. There are four key variables;

- Funding reductions
- Split of reductions between tiers
- Council Tax Base
- Council Tax Rate

Council Tax Requirement (CTR)

The core spending power assumes district councils will increase Band D Council Tax by whichever is the greater of £5 or 2%. The plan assumes an increase of £5.

New Homes Bonus (NHB)

The draft money plan assumes NHB to reduce by a further £1.007m from 2017/18 to 2018/19. However if further changes are made to the NHB calculation this could reduce further.

5. Business Rates Retention

Business Rates and the Gloucestershire Business Rates Pool

- 5.1 The localised regime on Business Rates took effect in April 2013. Gloucester City is part of a Gloucestershire Business Rates Pool, set up as a mechanism to retain more Business Rates growth funding within the Gloucestershire area and to support economic growth within the area of the Local Enterprise Partnership.
- 5.2 In September 2017 the Government published an offer to extend 100% Business rate pilots for 2018/19. Following extensive modeling undertaken by S151 officers, Leadership Gloucestershire submitted a proposal to be a pilot, signed by the leaders of all Gloucestershire councils. At present this is not a binding commitment and a formal decision will be required by Council if the bid is successful.
- 5.3 The submission to be a pilot is based upon government confirming that any pilot area would be protected by 'no detriment'. This is important for any Gloucestershire submission due to the risk of potential NHS trust action and further Virgin Media appeals in Tewkesbury Borough Council. The pilot in a two tiered area must include all authorities in that area
- 5.4 The proposed pilot is for 2018/19 only. Any expected benefit will not be a recurring benefit to the General Fund.
- 5.5 Stroud District Council as the lead authority also notified DCLG that if the bid to be pilot was unsuccessful then the Gloucestershire Business Rates Pool in its current form will continue in 2018/19. However it must be noted each pool member reserves the right to dissolve the pool within 28 days of the Local Government Finance report should there be a need to do so.

5.7 Any additional growth arising as a result of pool membership is not guaranteed and is therefore not included in the base budget.

6. General Fund Revenue Budget - Principles and Key Assumptions

6.1 The principles underpinning the proposed revenue strategy are:

- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
- ii. No long term use of balances to meet recurring baseline expenditure;
- iii. Resources will be targeted to deliver Corporate Plan priorities and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
- iv. Maintaining the General Fund balance at approximately 10% of net revenue budget. This assumes a minimum level of £1.4m by the end of the plan.
- v. Council Tax increases are kept to a minimum.
- vi. Year on year savings targets to be met by ongoing efficiency gains, income generation and service transformation.

6.2 **Table 1** below, lists the major **assumptions** that have been made over the five years of the strategy:

Table 1	2018/19	2019/20	2020/21	2021/22	2022/23
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	£5	£5	£1.99	1.99%	1.99%
Interest Rates (Earned)	0.5%	0.5%	1.00%	1.50%	2.00%
Inflation – Pay	2%	2%	2%	2%	2%
Inflation – contracts	2.5%	2.5%	2.5%	2.5%	2.5%
Inflation – other income	2.5%	2.5%	2.5%	2.5%	2.5%

7. Revenue Budget Increases

Pay and Prices Increases

7.1 A 2% pay award allowance has been included across the five years of the plan. This is a change to the assumptions in the previously published plan. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and is not subject to direct control from Central Government. However it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.

7.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet on going additional payments to the pension fund required from the employer to recover the deficit.

7.3 The pension fund is subject to a triennial actuarial valuation, the most recent of which has been undertaken by Hymans Robertson LLP during 2016, on behalf of Gloucestershire County Council, the pension fund administrator. A £255k increase has been included for 2018/19 with the same provision in each subsequent year.

7.4 Prices inflation has been included on selected non-pay items, namely contractual obligations. All other inflationary increases are expected to be absorbed within base budget which represents a real time reduction through efficiency gains.

7.5 Prices inflation is included on selected fees and charges at 2.5% for each year of the plan. Fees and Charges for 2018/19 are currently being reviewed and will be reported to Council for approval in February

Cost Pressures and Savings

7.6 Cost pressures and saving are included in **Appendix 2** and total a net saving of £1.149k.

7.7 The Council entered into an agreement for the Kings Walk Shopping Centre in July 2017 and the money plan reflects the financial benefits this has brought to the revenue budget and General Fund. The money plan reflects the requirement to place monies into a sinking fund to protect the Council against future capital works and potential income shortfalls.

7.7 Significant cost pressures that have been highlighted through budget monitoring are highlighted at Appendix 2. Some key pressures are highlighted below;

- Digital Transformation
- Homelessness prevention
- Asset management
- Business Rates BID
- Housing Benefit Overpayments

7.8 The budget savings identified in Appendix 2 for 2018/19 relate to a number of areas where actions undertaken by the Council have led to savings. Some of the key areas are highlighted below;

- Kings Walk
- Together Gloucester
- Income North Warehouse
- JCS
- CCLA.

7.9 The plan also includes the agreed management fee reductions with the council's leisure Trust partner Aspire.

Efficiency Savings/Income Generation

8.1 The Draft Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan.

8.2 In February 2017, Council approved the implementation of the target savings for the Money Plan 2017-22. In addition to savings in previous years further savings of £1.649m in 2017/18 were included.

8.3 With the inclusion of assumed settlement figures for 2018/19 and the assumption of further formula grant reductions over the life of the plan, further savings will be required. It must be noted that the agreement entered on Kings Walk has reduced the level of savings required over the draft money plan.

8.4 The savings details are summarised on a cumulative basis in **table 3** below:

Table 3	2018/19	2019/20	2020/21	2021/22	2022/23
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	£000	£000	£000	£000	£000
Savings required in year	43	728	179	62	56
Cumulative efficiency Savings	43	771	950	1012	1068
Targeted Savings	200	400	200	0	50

- 8.5 The Local Government Finance Settlement 2017/18 has highlighted that the Council will be required to make significant additional savings. To enable delivery the plan assumes that savings will be front loaded in these years.
- 8.6 Specific actions to achieve the targeted savings will need to be approved as part of the Council's annual budget setting process in each financial year. **Appendix 3** highlights targeted savings for 2018/19 and early proposals for 2019/20. Delivering savings early in 2018/19 reduces the total savings required over the life of the plan.
- 8.7 The efficiencies and budget savings target for 2017/18 was £1.649m. Whilst there is been some expected slippage in implementation of the savings during the year, the full-year impact of the changes will be fully achieved in 2018/19.

9. Overall Costs

- 9.1 With the targeted savings included from Table 3, the total costs of the Council (the "Net Budget Requirement over the five year period of the Draft Money Plan, change from £13.681m in 2018/19 to £14.560m in 2022/23. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five year period of the Draft Money Plan, will need to be funded by additional savings.
- 9.2 Draft summary budget pages for each service are detailed in **Appendix 5**.

10. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2017/18 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 10.2 The current assumed settlement for 2018/19 is expected to have RSG at £0.616m and retained business rates, including local growth, at £4.273m providing a total of £4.889m. Total funding excluding Council Tax in 2017/18 was £7.464m the plan expects this to reduce to £6.569m in 2018/19.
- 10.3 The indicative figures for RSG see this reducing to £0.090m by 2019/20 and ceasing completely after that year.

New Homes Bonus

- 10.4 New Homes Bonus is a grant that commenced in the 2011/12 financial year and is effectively a reward for increasing the number of properties within an area. Whereas previously an increase in the Council Tax base is essentially offset by a reduction in formula grant, central government intends to match-fund the additional Council Tax for each new home for a period of six years.
- 10.5 New Homes Bonus is a significant source of funding for Gloucester City Council. The Council will receive New Homes Bonus in 2017/18 of £2.687m, this is forecast to reduce to £1.680m in 2018/19.

Council Tax

10.6 The Local Government Finance Settlement 2016/17 has included Council Tax Requirement (CTR) as part of the Council's 'Core Spending Power'. CTR is assumed to grow as part of the settlement as follows;

- based upon an average growth in Council Tax Base, based upon the years 2013/14 to 2015/16,
- and also increase by an assumed growth based upon CPI at an average of 1.75%.
- assumed increase of £5 or 2% whichever the greater

Therefore to maintain CTR in line with government assumptions the minimum year on year increase should be in line with bullet points above.

10.10 The Government has reaffirmed that if the level of Council Tax rise is greater than 2% or £5, whichever being the higher, a referendum would be required. The Money Plan assumes an increase in Council Tax of £5.

11. General Fund Balance

11.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**. The General Fund level is at the minimum required level by the end of the Money Plan.

11.2 It should also be noted, that although £1.400m is considered an appropriate level of General Fund balances to retain each year, the position should be reviewed if the Council delivers a budget surplus at year end. The level of savings required over the next few years, is likely to be so significant, that an opportunity to phase the transition by increasing and then utilising General Fund balances, could be considered.

11.3 In the financial year 2018/19 it is proposed contribute £0.157m to the General Fund.

12.0 Capital Programme and Capital Financing

12.1 The key financial details on capital expenditure and financing in the revised money plan for the 5 years from 2018/19, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £9.097m Some key projects are, The Kings Quarter Development, City Centre Investment, ICT Transformation Projects and externally financed housing projects.
2. Capital financing comprises grants, Capital receipts and borrowing.

13.2 The capital programme assumes the majority of capital financing will be funded through the use of current and expected future capital receipts, where these are not available it will be met from external grants and borrowing. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of the borrowing. The main exceptions to this policy will be essential works on the Council's buildings and ICT systems, which will result in a reduced maintenance liability or potential increase in asset value and ensure delivery of the Council's transformation programme.

13.3 Wherever possible and desirable, additional one-off capital investments on a business case basis will be made, providing corporate objectives are delivered, and financing is available and affordable within existing budgets, or preferably with the provision of a "spend to save" revenue saving on existing budgets.

13.4 The strategy on borrowing is to ensure that any borrowing is only undertaken on a business case basis, and is affordable and paid off over the life of the asset.

13.5 **Appendix 4** shows the proposed capital budgets for 5 years from 2018/19 incorporating any carried forward capital budgets and new, approved schemes. The capital programme will be updated for any future additions, such as Kings Quarter further development, subject to the required level of approval being made.

13.6 The 2016-17 Local Government Finance Settlement provided, “Statutory guidance on the flexible use of Capital receipts”. The Council approved this strategy in February 2017.

13.0 Earmarked Reserves

13.1 The Council has limited earmarked reserves with the balance at 31 March 2017 being £4.569m an increase £0.692m on the position at 31 March 2016, consisting of;

• Insurance reserve	£0.010m
• Historic buildings reserve	£0.053m
• Portfolio reserve	£0.048m
• Shopmobility reserve	£0.029m
• Members Allocation reserve	£0.004m
• Repairs reserve	£0.400m
• Environmental reserve	£1.000m
• Regeneration reserve	£0.552m
• VAT Shelter reserve	£0.513m
• Business Rates reserve	£0.620m
• Trading Development reserve	£0.050m
• Land adoption reserve	£0.881m
• Community Builder Reserve	£0.030m
• Planning Grant reserve	£0.030m
• Economic Development Reserve	£0.020m
• Flooding Works Reserve	£0.010m
• Meet & Greet Reserve	£0.004m
• Police Contribution Reserve	£0.015m

13.2 Where earmarked reserves are not ring fenced for a specific use such as the regeneration reserve, then if necessary, these reserves may potentially be used to support the General Fund.

14.0 Alternative Options Considered

14.1 The Council must set a budget in time to start collecting Council Tax by 1st April 2018. Alternative proposals put forward for budget savings will be considered as part of this process.

15.0 Conclusions

15.1 This report has outlined the proposed approach to further build on the Council’s budget consultation arrangements to inform the 2018/19 budget setting process.

16.0 ABCD Implications

16.1 There are no ABCD implications as a result of this report.

17.0 Financial Implications

17.1 Contained in the body of the report.

18.0 Legal Implications

18.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2018/19. The Council also has a statutory requirement to set a balanced budget.

19.0 Risk & Opportunity Management Implications

- 19.1 Covered in the report. The budget is prepared based on the information available at the time of writing. The budget pressures facing the Council have, as far as possible, been built into the budget.
- 19.2 The risks are set out more fully in the report but in summary centre around the continuing economic situation and the possible impact this is likely to have on the public sector, changes to Government funding in future years and the level of the Council's spend from 2018/19 onwards.
- 19.3 In addition to the risks identified in the report, a list of additional identified risks for both the Draft Money Plan and the Budget for 2018/19, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation		Proposed measures	Residual Risk Evaluation	
<ul style="list-style-type: none">▪ Employee related costs will be more than assumed▪ Other costs will be more than assumed	Risk Score	6 8	<ul style="list-style-type: none">▪ Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings.	Risk Score	4 4
<ul style="list-style-type: none">▪ Pension fund contributions will be higher than expected.	Risk Score	8	<ul style="list-style-type: none">▪ The financial plan will continue to be reviewed and updated annually for a three year period, based on known changes and informed by the most recent actuarial triennial valuation.	Risk Score	4
<ul style="list-style-type: none">▪ Planned budget reductions will not be achieved▪ Impact of Legislative changes on Councils ongoing costs	Risk Score	12 6	<ul style="list-style-type: none">▪ Close monitoring of budgets will be carried out in each financial year.▪ Continuous monitoring of service pressures and ongoing focus on preventative support.▪ Previously agreed changes to Council, tax exemptions and discounts, to help fund the shortfall in financing for local support of Council tax.	Risk Score	6 4
<ul style="list-style-type: none">▪ Income from fees, charges and other sources will not be as high as planned	Risk Score	12	<ul style="list-style-type: none">▪ Close monitoring of income budgets will be carried out in each financial year.	Risk Score	8
<ul style="list-style-type: none">▪ Timing of Capital Receipts will be later than anticipated or	Risk Score	8	<ul style="list-style-type: none">▪ Close monitoring of the timing and payments of capital	Risk Score	4

<p>lower than estimated</p> <ul style="list-style-type: none"> ▪ Timing of Capital payments may be earlier than estimated 			<p>expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed</p>		
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20.0 People Impact Assessment (PIA):

20.1 People Impact Assessments will be carried out for each line of the budget savings, to ensure that all relevant considerations are taken into account.

21.0 Other Corporate Implications

21.1 Community Safety

None

21.2 Environmental

None

21.3 Staffing

The budget reductions and efficiency savings will result in a net reduction in staff, which could include possible redundancies.

21.4 Trade Union

Ongoing discussions with the Trade Union on both the money plan and budget represent a key element of the overall consultation process.

Background Documents:

Money Plan 2017-22, February 2017