

Crawley Borough Council

Report to Overview & Scrutiny Commission 29 October 2018

Report to Cabinet 31 October 2018

Budget Strategy 2019/20 – 2023/24

Report of the Head of Corporate Finance, **FIN/417**

1. Purpose

- 1.1 The 2019/2020 General Fund and Housing Revenue Account Budgets and the updated capital programme will be determined by the Full Council in February 2019. This report sets out the projected financial position for 2019/20 to 2023/24 for the General Fund and the underlying assumptions.

The report also sets the policy framework for the budget process, recognising that there are a range of options for capital investment, income generation, savings and Council Tax levels; none of which can be considered in isolation. The overall objective is to work towards a balanced General Fund budget over a three year period.

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However this was complicated by the Government's announcement in the July 2015 Budget that rents are to be reduced by 1% per annum for 4 years from 2016/17. This reduced the Council's ability to invest in the provision of new housing.

The Council has been selected to bid for additional borrowing to build more housing. A bid has been made to the Ministry of Housing, Communities & Local Government (MHCLG) in order to build up to an additional 231 affordable homes. These are made up of 183 affordable rent units and 58 shared ownership units. The outcome of the bids will be known later this year and will be reported to Cabinet and Full Council. Subsequently to this an announcement was made at the Conservative Party conference that the debt cap will be removed. Details of this will follow in the Budget on 29th October 2018.

5. Key Assumptions

- 5.1 This report provides details of budget projections for a five year period, 2019/2020 to 2023/2024. There are a number of key assumptions affecting the projections. A summary table is shown in paragraph 5.11.

On 24 July 2018, the (MHCLG) issued a technical consultation paper on the 2019-20 settlement. In that paper there are no proposed changes to the limits on council tax increases in 2019-20 (a maximum of £5 on a Band D property), although they are still subject to confirmation in the provisional settlement which will be announced around Christmas 2018.

5.2 External support

The Local Government Finance

Any in year variations from this budget will be transferred to/from the business rates equalisation reserve. When the reserve exceeds £5m the surplus is transferred to the general fund or capital

The outcome of this review will not be known until late in 2019. It is therefore very difficult to project forward and setting the 2020/21 budget will result in transferring either to or from reserves.

5.11 Summary of assumptions

	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>	<u>22/23</u>	<u>23/24</u>
Business rate income*	+3.7%	+2.2%	+2.1%	+2.0%	+2.0%
New Homes Bonus	+£63k	-£307k	-£483k	-£421k	-£320k
Pay award	2.802%	2.0%	2.0%	2.0%	2.0%
Av. interest rate	1.00%	1.25%	1.50%	1.65%	1.75%
Running costs	0%	0%	0%	0%	0%

* Section 31 Grant is payable by the Government when they give business rate discounts for small businesses

Costs associated with the New Town Hall have been excluded at this stage as final contracts have yet to be signed (with the exception of sums currently in the capital programme).

6.2 There is a projected budgeted gap in 2019/20 of £225,000; increasing to £1,701,000 by 2021/22. At this stage there is an assumed reduction in funding as a result of the Fair Funding Review of £700,000 in 2020/21 increasing annually. Once the outcome of the review is known these assumptions will be amended.

The Table below summarises the movements in the Gap

	2019/20	2020/21	2021/22
	£000's	£000's	£000's
Inflation	468	824	1,196
Interest	-238	-294	-431
Retendered contracts	-645	-635	-625
CMT restructure	-123	-123	-123
Business rates income	340	14	-99
Increased Council tax income	-258	-519	-773
Heat Pump at Tilgate Park	-38	-38	-38
Planning pre-applications fees	-30	-30	-30
Reduced External audit fees	-15	-15	-15
Annual IT licence costs (revenue implications of capital programme)	64	64	64
Reduced recycling credit income from WSCC*	203	203	203
New Homes Bonus	-63	244	727
Fair Funding – estimate	0	700	1,000
Reduced Revenue Support Grant	516	575	575
Increased Employers pension contributions	73	73	73
Other – various	-29	-13	-3
Total	225	1,030	1,701

7. General Fund Reserves

- 7.1 The Council achieved a surplus General Fund in 2017/18 of £0.923m, which was transferred to the capital programme reserve.
- 7.2 There are two purposes for holding reserves. The first is to have sufficient funds to be able to maintain services, both in the short and medium term. The second is to earmark funds for specific purposes. There should be plans to spend earmarked reserves, even if the amount and timing of that spending is uncertain.
- 7.3 The level of reserves should be regularly reviewed. This is particularly true in the current situation. Local government has had reduced financial resources from the Government and it is clear that this is going to continue for several years. Other Government changes (for example the localisation of Council Tax Benefit and of Business Rates) have transferred significant risks to local authorities.
- 7.4 For both the Housing Revenue Account and the General Fund, the Council needs sufficient funds to be able to sustain services. In the case of the Housing Revenue Account the reserves are sufficient and no changes are proposed.
- 7.5 The 2016/17 Budget Strategy set the General Fund reserve at £4m and a separate business rates equalisation reserve for £5m. Any reserves available in excess of these sums are transferred to the Capital programme reserve.
- 7.6 Due to the short term impact of the expenditure on the New Town hall it is proposed that any surplus in the current financial year (Projected at £309,000 at Quarter 1) and in the financial year 2019/20 are transferred to the General Fund reserve. In addition, that £1m is transferred from the Business rates equalisation reserve to the General Fund reserve. This will still allow for volatility within the Business rates system to allow for any in year fluctuations between budgets and income.
- 7.7 This will provide sufficient sums within the General Fund reserve to fund budget shortfalls during the new build programme and at the same time allow the reserve not to get below £2.5m.
- 7.8 Further details of the impact of the New Town hall will be included in the Quarterly budget monitoring reports to Cabinet.

8. Capital Funding

- 8.1 Future bids for capital should be presented to the New Budget Advisory Group to maintain the Council's assets, for environmental obligations such as flood prevention and for disabled facilities grants. In addition bids will be presented to save projects or spend to earn investment income. Schemes will be presented to the Budget Advisory Group later in the year for prioritisation. Once the New Town hall project earns

9. Housing Revenue Account

- 9.1 Council on 22 February 2012 (FIN/257) approved the payment of £260.325m to the Department for Communities and Local Government as part of the Government's abolition of the previous housing subsidy regime. The money was borrowed via a series of loans from the Public Works Loan Board. The repayment dates vary between 2022/2023 and 2037/2038.
- 9.2 The net effect of these changes was that the HRA had budgeted for significant surplus over the coming years. This was to enable the Council to make capital investments that will help it achieve its corporate housing objectives. Investments already approved include the ()Tdcson