

Cherwell District Council

Executive

6 February 2017

Draft Budget, Corporate Business Plan and Cycle of Growth 2017/18
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Report of Chief Finance Officer

This report is public

Purpose of report

The Council is required to produce a balanced budget for 2017/18 as the basis for calculating its level of Council Tax. It has to base that budget on its plans for service delivery during the year, recognising any changes in service demand that may arise in future years.

The proposed budget and business plan for 2017/18, including the new cycle of growth strategies, are presented as an integrated report to demonstrate that the Council adopts a strategic approach to managing all of its resources, ensuring that the delivery of the Council's priorities for the district directs the allocation of financial resources.

1.0 Recommendations

The meeting is recommended:

- 1.1 To consider and approve the draft budget in the context of the Council's service objectives and strategic priorities.
- 1.2 To approve and recommend the balanced budget to Full Council.
- 1.3 To recommend to Full Council a Council tax freeze.
- 1.4 To recommend to full council the proposed 2017/18 capital programme set out in **Appendix 5**.
- 1.5 To note the impact of the proposed budget on reserves and recommend the reserves 2017/18 to full council, see **Appendix 6**.
- 1.6 To approve the use of £3.053m of reserves to fund the initial one-off payment to the pension fund, in order to achieve the saving of £382,000.
- 1.7 To note the latest Medium Term Revenue Plan (MTRP) for 2016/17 to 2021/22, at **Appendix 3**; this will be the basis of the work of the Budget Planning Committee for the following year.

- 1.8 To recommend, subject to any further changes Members may wish to include tonight, the updated draft revenue budget for adoption by Full Council on 20 February 2017.
- 1.9 To delegate authority to the Chief Finance Officer, in consultation with the Lead Member for Financial Management to amend the contributions to or from general fund balances to allow the Council Tax to remain at the level recommended to Full Council following the announcement of the final settlement figures, any changes to relating to Business Rates or as a result of any financial implications arising from recommendation 1.8, above.
- 1.10 To recommend the 2017/18 business plan and performance pledges to Full Council (detailed in **Appendix 7**) and to delegate authority to the Director – Strategy and Commissioning, in consultation with the Leader of the Council to make any minor amendments to the plan as required before consideration by Full Council.
- 1.11 To recommend to Full Council the joint cycle of growth strategies of Operational Excellence, Commercial Development and Innovation, and Commissioning, detailed in **Appendix 8**, and to delegate authority to the Director of Operational Delivery, in consultation with the Leader of the Council to make any minor amendments to the strategies and corporate values as required.
- 1.12 To note the 2017/18 Business Plan, Budget and Cycle of Growth Equality Impact Assessments at **Appendix 9**.

2.0 Introduction

- 2.1 This report sets out the draft revenue budget for 2017/18 and other corporate strategies for the Council which will form the basis of the council tax setting report which is due to be considered by Full Council on the 20 February 2017. The report covers the information and work undertaken by Budget Planning Committee and the budget, capital programme and reserves recommended by that Committee at its meeting held on 17 January 2017.
- 2.2 The report also looks at the impact of the local government finance settlement which was announced on 15 December 2016. It sets out the steps which have been undertaken to produce a balanced budget and the capital programme.
- 2.3 Throughout the autumn and winter officers have been preparing the budget in line with the guidelines considered by the Executive at its meeting of the 3 October 2016. A copy of the guidelines is included at **Appendix 1** for ease of reference. This has set out the framework within which the budget has been developed.
- 2.4 The budget has been subject to consideration by the Budget Planning Committee which has also been involved in assessing the proposed capital programme and contributions to and use of reserves.

3.0 Report Details

Draft Revenue Budget

- 3.1 The initial Medium Term Revenue Plan (MTRP) for 2017/18 showed a funding gap of £0.64m. The budget presented in this report follows significant work by officers and the Budget Planning Committee in order to arrive at a balanced budget position. Table 1 (next page) shows the draft General Fund Revenue Budget for consideration by the Executive.

Table 1: Revenue Budget 2017-18	Budget 2016/17 £'000	Proposed Budget 2017/18 £'000	Movement £'000	Movement %
Chief Executive	173	187	14	8%
Commercial Development				
Bicester Regeneration Project	1,163	1,190	27	2%
Regeneration & Housing	1,642	2,263	621	38%
Human Resources	524	555	31	6%
Information Services	1,497	1,637	140	9%
Business Transformation	278	300	22	8%
Sub Total	5,104	5,945	841	16%
Finance and Procurement	1,148	1,398	250	22%
Strategy & Commissioning				
Strategic Planning Economy	1,124	1,201	77	7%
Development Management	296	585	289	98%
Communications & Corp Perf	295	318	23	8%
Business Support Unit	87	90	3	3%
Performance	197	180	(17)	-9%
Law and Governance	1,040	1,093	53	5%
Sub Total	3,038	3,467	429	14%
Community and Environment				
Community Services	5,162	5,176	14	0%
Environmental Services	4,913	5,454	541	11%
Sub Total	10,075	10,630	555	6%
NET COST OF SERVICES	19,538	21,627	2,089	11%
Transfers to/from Reserves NHB	2,030	2,373	343	17%
Transfers to/from reserves	(1,924)	(4,850)	(2,926)	-152%
Transfers to General Fund Balance	688	492	(196)	-28%
Interest on Investments (including Graven Hill)	(150)	(1,954)	(1,804)	-1203%
Pension Fund - Historic Costs	1,847	4,985	3,138	170%
Depreciation adjustment	(4,002)	(4,002)	0	0%
NET BUDGET REQUIREMENT	18,027	18,671	644	4%
CDC: FUNDING				
Formula Grant Equivalent				
Business Rates Baseline	(3,495)	(3,564)	(69)	-2%
Revenue Support Grant	(1,851)	(1,105)	746	40%
Sub Total	(5,346)	(4,669)	677	-13%
Grants Awarded				
Transfer to Parish Councils for CTRS	349	349	0	0%
New Homes Bonus	(3,851)	(4,468)	(617)	-16%
Sub Total	(3,502)	(4,119)	(617)	18%
Business Rates Growth				
Retained Business Rates	(2,114)	(2,231)	(117)	-6%
Pooling Gain	(1,869)	(1,562)	307	16%
Renewable Energy	(244)	(213)	31	13%
S31 Inflation Cap	(108)	0	108	100%
NNDR Collection Fund Deficit	1,555	648	(907)	58%
Sub Total	(2,780)	(3,358)	(578)	-21%
Council Tax Income				
Baseline	(6,219)	(6,219)	0	0%
Taxbase increase	0	(158)	(158)	0%
Council Tax Increase by £5	0	0	0	0%
Collection Fund	(180)	(148)	32	-18%
Sub Total	(6,399)	(6,525)	(126)	-2%
TOTAL INCOME	(18,027)	(18,671)	(644)	-4%
(SURPLUS) / DEFICIT	0	0	0	
Tax Base	49,506	51,639.5	2,133	-4%
Band D Council Tax	£123.50	£123.50	£0.00	0%

- 3.2 In order to balance the budget and secure the £0.64m deficit from the initial MTRP, further reductions in costs and increases in income were taken into account. The main drivers for this are summarised in Table 2 below and these adjustments have resulted in a balanced budget.

Table 2: Adjustments to proposed budget 2017/18

Movement Summary	£'000
Employee Costs	770
Implementation of Business Cases	70
Contracts & tendering	120
Reduced Planning Income	250
Increased cost of services (including items funded from reserves);	
- Pension Fund contribution	3,053
- Other	817
Change To Net Cost of Services	5,080
New Homes bonus	343
Use of Reserves	-2,779
Transfer to General Fund	-196
Interest	-1,804
Budget Requirement	644

Funded By:	£'000
Reduction in Formula Grant	677
Increase in New Homes Bonus	-617
Increase in Business Rates	-578
Increase in Council Tax	-126
Net Funding Increase	-644

- 3.3 The above actions have succeeded in balancing the budget. **Appendix 2** details a 'high level walk' from the 2016/17 net budget to the proposed 2017/18 net budget highlighting cost pressures and reductions.

Proposed Council Tax 2017/18

- 3.4 The level of council tax being proposed is £123.50 p.a. at Band D.
- 3.5 If the Executive were minded to change the Council Tax increase they should be aware that a 1% increase would equate to an increase in income of £63,775.

Local Government Finance Settlement

- 3.6 On the 15 December 2016, the Secretary of State for Communities and Local Government, the Rt Hon Sajid Javid MP made a statement on the provisional local government finance settlement for 2017/18. The final settlement is likely to be announced towards the end of January 2017.
- 3.7 The Council's efficiency plan was accepted by the Government and the figures for Grant, Business Rates and New Homes Bonus are in line with the four year settlement originally proposed in December 2015.
- 3.8 The settlement proposes RSG, Business Rates Baseline Funding and New Homes Bonus (NHB) for the next three years, until the revised Business Rates Scheme can be introduced, when local authorities may retain more of the business rates collected.

Table 3: Grant Figures for the four year settlement, with estimated figures for 2020/21 and 2021/22

Formula Grant	Four Year Settlement				100% Business Rates Retention	
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000
Business Rates Baseline	3,495	3,564	3,669	3,786	0	0
Business Rates Retention	0	0	0	0	3,900	4,017
Revenue Support Grant	1,851	1,105	637	114	0	0
Total	5,346	4,669	4,306	3,900	3,900	4,017
Percentage Change		-13%	-8%	-9%	0%	3%

- 3.9 The settlement maintained the four year settlement that had been promised and also set out the outcomes from the New Homes Bonus consultation, which had been outstanding since March.

The main changes to New Homes Bonus (NHB) are set out below:

- The Government is implementing its preferred option: to reduce legacy payments from 6 years to 5 years in 2017/18 and then to 4 years in 2018/19.
- A “deadweight” factor will also be introduced, so that no NHB payments will be made to a local authority whose housing growth is less than 0.4%. The baseline for Cherwell in 2017/18 is 236 band D equivalent properties, a loss in NHB payments of £290k, or £1.16m over 4 years. The consultation included a baseline of 0.25%, the increase to 0.4% requires a further 88 band dD properties to be built in 2017/18 before NHB is paid.
- The Government will review the 0.4% baseline annually to ensure that the cost of NHB to the Treasury is affordable.
- Furthermore, from 2018/19 the Government could withhold payments from authorities not supporting housing growth (appeals, local plan); there will be a further consultation on these elements.

Table 4: New Homes Bonus

New Homes Bonus	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Without baseline	4,755	4,629	5,827	6,226	5,990
Baseline at 0.25%	4,576	4,265	5,229	5,438	5,188
Baseline at 0.4%	4,468	4,046	4,870	4,965	4,706
Reduced NHB @ 0.25%	179	364	598	788	803
Further reduction to 0.4%	108	219	359	473	482
Total reduction	287	583	957	1,261	1,284

Treasury Management Strategy 2017/18

- 3.10 There is a significant increase in interest on balances as a result of the Council's decision to set up, and invest in the Graven Hill Company. Interest payable by Graven Hill to the Council in 2017/18 is estimated at £1.249m. In addition a commitment fee of £0.661m is also payable, giving total income of £1.91m from the project in 2017/18.
- 3.11 The Council's investment income budget for 2017/18 has been compiled on the basis of close tracking of actual and likely interest rates and with the help of external advice. The emphasis has been on investments with the least risk for the Council's money and this, along with the continued low interest rates on offer and the agreed use of capital receipts has led to continuing low levels of investment income built into the budget. In budgetary terms this is prudent and places the Council at less risk of exposure in-year. A revised Treasury Management Strategy will be recommended to Full Council in February 2017 by the Accounts, Audit and Risk Committee.

Business Rates Pooling and Growth

- 3.12 Three years ago, the decision was taken to form a pool with Oxfordshire County Council and West Oxfordshire District Council. The calculations are still being made and will only be finalised when the 2017/18 NNDR1 return is made to the Government by the 31 January 2017.
- 3.13 However there will be a significant benefit to Cherwell as a result of the pooling arrangements. The budget anticipates £3.35m growth in business rates for the Council, a significant proportion, as a result of pooling. This estimate is deliberately prudent given the turbulence and uncertainty still associated with the scheme.

Capital Programme 2017/18

- 3.14 The Budget Planning Committee reviewed all the capital bids at the meetings held on 29 November 2016 and 17 January 2017. The new capital schemes for 2017/18 supported by Budget Planning Committee total £1.704 million are set out at **Appendix 4**. There are also £2.066 million of capital schemes for 2017/18 that were approved in previous years. It should also be noted that there are seven ongoing capital projects, and the capital programme shown in **Appendix 5**, includes an additional year in 2021/22 for these schemes, totalling £1.78 million.

Table 5: Capital Financing

Table 5: Capital Programme and Finance:	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000

In Year Spend - Capital Programme	72,149	3,770	1,880	1,650	1,730	1,780	82,959
Financed By:							
External Grant Funding - DFG	-375	-375	-375	-375	-375	-375	-2,250
External Grant Funding - Bicester Sports Village	-260	0	0	0	0	0	-260
Borrowing - Build Programme	-11,531	0	0	0	0	0	-11,531
Borrowing - Graven Hill	-44,428	0	0	0	0	0	-44,428
In Year - use of Capital Receipts	-15,555	-3,395	-1,505	-1,275	-1,355	-1,405	-24,490
	0	0	0	0	0	0	0

Capital Receipts	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Receipts balance brought forward	-3,161	0	-4,507	-4,082	-3,887	-7,107	-3,161
VAT Shelter and Right to Buy	-580	-580	-580	-580	-580	-580	-3,480
Other In Year Capital Receipts	0	-19,136	-500	-500	-3,995	-500	-24,631
In Year - use of Capital Receipts	15,555	3,395	1,505	1,275	1,355	1,405	24,490
Internal borrowing	-11,814	11,814	0	0	0	0	0
Capital Receipts balance carried forward	0	-4,507	-4,082	-3,887	-7,107	-6,782	-6,782

Reserves 2017/18

3.15 The Budget Planning Committee reviews reserves as part of the budget monitoring process, the impact, on reserves, of the proposed budget are shown at **Appendix 6**. The proposed use of existing earmarked reserves and contributions to reserves are highlighted in the appendix.

Pension Fund – Lump Sum Contributions

3.16 The triennial review of the Council's pension fund has been completed. There are three elements of pension contributions that the Council has to make:

1. A percentage which is added to employee costs, which is to fund the future cost of pensions for current employees. This percentage has increased from 13.9% to 14.9%.
2. A lump sum to fund historic pension costs for former employees. A schedule of payments for the next three years is shown in table 6 below.
3. An annual payment, currently £275,000 per year to fund the additional cost of employees who have been allowed to retire early, usually through ill-health.

3.17 Following discussion with the pension fund actuary, there is an opportunity for the Council to use reserves to make a one-off payment to fund 2 above. The one-off payment would be £4.71m and this would achieve a saving of £282,000 or 7.5% over the three annual payments.

Table 6: Pension Fund Contributions

Year	Original Proposed Schedule	Alternative One-off Option	Saving
	£'000	£'000	£'000
2017/18	1,657	4,710	3,053
2018/19	1,697	0	-1,697
2019/10	1,738	0	-1,738
Total	5,092	4,710	-382

- 3.18 If the Council were to continue with the proposed schedule, the level of return on the cash would be in the region of £25k to £30k. The net impact of the early payment is, therefore, around £350k.
- 3.19 The additional £3.053m could be funded up-front from reserves, and the amount repaid into reserves over the following two years.

The Future – Medium Term Financial Strategy 2018/19 to 2022/13

- 3.20 The coming years will present further challenges which in the main will relate to the continued changes to government grants, business rates, local government reform and welfare reform. The Council has a strong track record and commitment to delivering efficiencies and this will continue in order to manage the challenges facing the authority in the future.
- 3.21 The forward planning together with the joint working with South Northamptonshire Council (and any other partners that we collaborate with), combined with our commitment to identifying alternative sources of income and commercial practice to provide financial independence strengthens our position to meet the forecast challenges of future years. The Council will update its MTRP forecast to be included in the 2017/18 budget book and this is shown at **Appendix 3**

Five Year Business Strategy, 2017/18 Business Plan, Performance Pledges and Cycle of Growth

- 3.22 Appendix 7 sets out the corporate business plan, including the performance pledges for 2017/18 arising from the Council's five year strategy. These inform the development of the annual budget and direct operational business plans for all services. This plan was considered and supported by the Overview and Scrutiny Committee on 10 January 2017.
- 3.23 The five year Business Strategy, the Medium-term Financial Strategy, the Annual Business Plan, individual service business plans and ultimately the appraisal targets of all individual employees demonstrate that the council has a clear and robust "golden thread" between resource availability and delivery of the council's agreed strategic priorities. This is, in times of austerity, fundamental and will help us to provide effective leadership to all of our residents and businesses. It will also demonstrate that we are adopting a more mature and commercially aware approach to running our council.

- 3.24 The four strategic priorities of the five year strategic business strategy remain:
- District of Opportunity
 - Safe, Green, Clean
 - A Thriving Community
 - Sound Budgets and Customer Focused Council
- 3.25 After the budget, strategic priorities and the annual business plan have been considered by Executive, they will then be recommended to Full Council on 20 February, ahead of publication as formal documents to ensure they are available from March 2017.
- 3.26 The business plan forms the basis of the Council's performance management framework and progress will be reported quarterly.
- 3.27 Operational service plans set out detailed performance measures and targets for the forthcoming year. These will be finalised after Council has adopted the budget and business plan.

Cycle of Growth

- 3.28 With a strong focus on the strategic priority of growth, we have now developed a suite of three new joint corporate strategies for Cherwell District Council and South Northamptonshire Council to sit alongside the respective strategic business plans.

Those three corporate strategies are:

- Operational excellence strategy
- Commissioning strategy
- Commercial development and innovation strategy

They are attached as **Appendix 8**.

- 3.29 As part of the operational excellence strategy we have developed a set of joint corporate values to add to the organisation culture. They are values that we expect to be demonstrated by the people who work for us and from our new partners and suppliers. The proposed joint corporate values, using the acronym "PRIDE" have been subject to consultation with JMT, the Manager's Forum and Unison.
- 3.30 Individually and collectively the three new corporate strategies represent the councils' cycle of growth, and will lead us towards financial independence, growth and sustainability. They will operate in tandem with one another to ensure the outcomes required in the strategic business plans and medium term revenue plans are achieved.
- 3.31 Operational excellence will be enhanced by our attitude to commercial awareness. Commercial success will be underpinned by the delivery of operational excellence. And they will be bound together by our approach to commissioning services.
- 3.32 Ultimately, the financial growth achieved through the successful delivery of these three strategies will enable further investment to improve the quality of life of our residents and economic growth of both areas.

Impact assessment

- 3.33 An impact assessment of the 2017/18 budget, business plan and cycle of growth strategies has been carried out and is attached at **Appendix 9**.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The above narrative alongside the appendices represents the draft budget for 2017/18, business plan and cycle of growth strategies, including a set of new corporate values for approval by the Executive. If agreed, they will be recommended to Full Council on the 20 February and be considered alongside the setting of the 2017/18 Council Tax.

5.0 Consultation

5.1 Public Consultation

- 5.2 The development of the Council's corporate business plan and budget is shaped by undertaking public consultation including using the Citizen's Panel and an annual customer satisfaction survey.

- 5.3 In addition, the draft budget has been available on the Council's consultation portal for comment.

5.5 Other Consultation

As part of our commitment to a whole Council approach to the setting of the budget and our priorities for the year ahead, the Council's Overview and Scrutiny Committee has been invited to help shape the proposed business plan and Pledges for 2017/18.

During its meeting on 18 January 2017, Scrutiny Committee offered a number of suggested changes to the draft business plan for 2017/18 which have subsequently been considered and incorporated.

The Budget Planning Committee has considered the budget through its meetings during July 2016 to February 2017.

The corporate values, forming part of the operational excellence strategy have been the subject of consultation with the Managers' Forum and Unison.

6.0 Alternative Options and Reasons for Rejection

- 6.1 This report presents a final analysis of the Council's draft revenue and capital budget and business plan for 2017/18. They will be presented together to Full Council on the 20 February to support the setting of the Council Tax.

- 6.2.1 It is a legal requirement to set a balanced budget and the recommendations as set out and directed by the corporate business plan represent what is believed to be the best way of achieving this.

- 6.2.2 Members could decide not to agree the recommendations or to present alternative budget proposals but that would run counter to the detailed budget setting process that has taken place as part of the formulation of this budget.

7.0 Implications

Financial and Resource Implications

- 7.1 The financial effects of the revenue budget are identified in the report. The new capital schemes are detailed in **Appendix 4**. Any decisions made in relation to on-going expenditure or income in the budget for 2017/18 will have repercussions in future years when current forecasts indicate the financial environment is likely to become increasingly difficult. The Council has a statutory duty to set a balanced budget and could be subject to the intervention of the Secretary of State if it failed to do so.

Comments checked by:

George Hill, Corporate Finance Manager, 01295 221731

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Legal Implications

- 7.2. The Council is legally required to set a balanced budget which the recommendations will achieve if recommended by Executive and approved by Full Council. Due consideration of external responses to consultation is also required and I am informed has taken place as part of the budget process.

Comments checked by:

Kevin Lane, Head of Law and Governance, 0300 0030107

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Risk Management

- 7.3 The position to date highlights the relevance of maintaining a minimum level of reserves and budget contingency to absorb the financial impact of changes during the year. Any increase in risk will be escalated through the corporate risk register.

Comments checked by:

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Equality and Diversity

- 7.4 Impact assessments will be carried out in advance of setting the 2017/18 budget.

Comments checked by:

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8.0 Decision Information

Key Decision

Financial Threshold Met: Yes

Community Impact Threshold Met: Yes

Wards Affected

Not applicable

Links to Corporate Plan and Policy Framework

Enhancing the Council Performance

Lead Councillors

Councillor Barry Wood, Leader of the Council &
Councillor Ken Atack – Lead Member for Financial Management

Document Information

Appendix No	Title
Appendix 1	Budget Guidelines 2017/18
Appendix 2	Revenue Budget Summary and “high level walk” 2016/17 to 2017/18
Appendix 3	MTRP 2016/17 to 2021/22
Appendix 4	New Capital Bids 2017/18
Appendix 5	Capital Programme 2017/18
Appendix 6	Proposed Reserves 2017/18
Appendix 7	Business Plan and Pledges 2017/18
Appendix 8	Cycle of Growth Strategies: i. Operational Excellence ii. Commercial Development and Innovation iii. Commissioning.
Appendix 9	Business Plan, Budget and Cycle of Growth Equality Impact Assessments
Background Papers	
None	
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