

Section Four - General Fund Revenue Budget

Revised Budget 2018-19

1. During 2018-19, the Cabinet and Finance & Audit Committee (which provides the scrutiny function over budgetary control) have received three quarterly budget monitoring reports. Each Budget Monitoring report has included a summary of the known variances contributing to the projected year-end financial position of the authority.
2. The Budget Monitoring Report showing the projected financial position at the end of Quarter Three (period to 31 December 2018) indicates a projected underspend for the year of £823,330. The original budget was set on the basis of drawing £1,329,640 from working balances to fund the budget requirement for the year; the projected outturn indicates that this draw on balances may be reduced to £506,310, albeit income and expenditure variances in the last quarter of the year will impact on this figure.

Revenue Budget 2019-20

3. The Original Estimate for 2019-20 represents a balanced budget position, after utilising working balances of £739,870 (and assuming a Council Tax increase of £5.85 (2.97%) in 2019-20). This is in accordance with the objective in the Council's current Medium Term Financial Strategy to enable sums in excess of the agreed level of working balances to be released to support the annual General Fund revenue budget. This creates a period during which savings proposals can be implemented to respond to the ongoing and increasing financial pressures on the General Fund.
4. A draft Budget Book is attached at Appendix 3a for Member information. The key factors considered when proposing the budget for 2019-20 are set out below.

Employee Costs

5. The proposed revenue budget for 2019-20 incorporates staffing costs relating to the Waste, Street Cleansing and Horticulture services which had, in previous years, been reflected as a recharge into the General Fund.
6. The budget reflects the second year of the pay offer made by the National Employers for Local Government Services. The offer covers the period 1 April 2018 to 31 March 2020 and reflects a flat-rate increase of 2% per annum, albeit some adjustments are proposed to lower paypoints in 2019-20 to continue to close the gap with the National Living Wage and retain equitable differentials between these paypoints.
7. Tax and National Insurance amounts have been budgeted at 2019-20 rates. Employer Contributions to the Superannuation Fund have been reflected as per the triennial revaluation that took effect from 1 April 2017, uplifted by inflation.
8. A Vacancy Allowance of £350,000 has been retained for the General Fund.

Investment Income

9. Generating returns from traditional investment sources continues to be challenging, albeit the council has sought to maximise its returns where possible by expanding its investment portfolio into Property Funds and Diversified Income Funds. The council's treasury advisors, Link Asset Services, are currently forecasting that the Bank of England base rate will remain at 0.50% until March 2019 before increasing to 0.75%, then 1.00% in 2019. This, along with the expected returns from Property Funds and Diversified Income Funds, has been factored into the investment Income projections within the MTFP.

Interest Rate Forecasts								
Bank Rate	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Link	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%

Medium Term Financial Strategy – Bridging the Gap activity

10. The council continues to progress the five workstreams set out in its Medium Term Financial Strategy 2016-17 to 2019-20 as a sound and realistic plan for managing the Council's finances moving forward.

	£
Bridging the Gap Activity	
- Property Acquisition Strategy	(400,000)
- Fees and Charges activity	(270,000)
- Service Review Process Option Implementation	(1,430,000)
- Shared Services progression	(240,000)
- Budgetary Challenge Measures	(200,000)
TOTAL VALUE OF ACTIVITY	(2,540,000)

11. The funding gap, and therefore action required by the council, increased by £0.4m to £2.9m when setting the budget for 2017-18, primarily driven by the changes to the design of the New Homes Bonus Scheme. The funding gap was widened by at least a further £1m at budget setting 2018-19 due to the financial impact of low housebuilding rates in the borough, the higher than anticipated staff pay award and lower than expected interest rates.
12. Action initially commenced during 2016-17 and has continued since this time to implement the work strands intended to enable the Council to bridge the gap in funding. This proactive stance has meant that the council has been able to benefit from the early implementation of some actions in determining its budgetary requirement for 2019-20 and delaying the point at which further activity is required to be delivered, enabling such activity to be properly considered and planned.

13. An update on each workstream of Bridging the Gap activity was presented to Cabinet and Overview Scrutiny in Summer 2018. Further to this, in November 2018 both Cabinet and Overview Scrutiny were presented with further Balancing the Budget Initiatives amounting to just under £1.3m in response to the budget gap identified at budget setting 2018-19.
14. In preparing the Original Budget for 2019-20, further activity has been reflected and an update is provided in the following paragraphs:

Property Acquisition Strategy

15. In February 2016 the Council set aside £10m of its investment balances to acquire commercial properties and obtain a revenue rental income stream. Based on the criteria for selecting investment properties, three acquisitions were completed in 2016-17 delivering just over the £400,000 target for this workstream.
16. Further funding has since been made available for this strategy, with a total of £26.2m from the council's investment balances now being allocated to the acquisition of property purchases under the strategy. At the time of preparing this report, the strategy has secured commercial property holdings for the council valued at £18m and is generating some £1.2m in annual rental income. This compares to £110,000 that these amounts would be generating per annum if invested with banks and building societies.

Fees & Charges Activity

17. The authority has in place a Charging Strategy which outlines the key considerations of the Council to ensure that fees and charges for services are set in a transparent and consistent manner. The Strategy is based on the principles that services should maximise opportunities for income generation where there is the ability to do so, as a minimum seeking to cover the full costs of providing the service.
18. The annual review of fees and charges is budgeted to deliver additional income of £40,170 in 2019-20.

Service Review Process Option Implementation

19. Progress continues in implementing the options agreed by the Cabinet intended to reduce the Council's net expenditure, either through delivering services in different ways or at lower cost, increasing income generated by services provided by the Council or identifying where there is potential to cease the provision of some services altogether.
20. At the point of building the budget for 2019-20, service review options totalling almost £1.1m have been reflected in the Medium Term Financial Plan.

Shared Service Progression

21. The Council has a successful track record in working with partners and other local authorities to deliver services in a more collaborative manner. Since 2017 the council has launched fully shared services for Legal, HR and Licensing with Medway Council, as well as entering into a Service Level Agreement with Medway Council to provide payroll services for the council.

Balancing the Budget Initiatives

22. The Balancing the Budget Initiatives presented to Cabinet and Overview Scrutiny and agreed continued the council's intentions to proactively review the way it delivers services and identify ways to make savings against existing budgetary provisions or generate additional income. Since the decision taken by November 2018, some £950,000 of activity has been reflected in the Medium Term Financial Plan.

Conclusion – Delivery of Bridging the Gap/Balancing the Budget activity

23. The council continues to make strong progress in delivering the planned work streams to address the ongoing pressures on its financial situation. To date, measures totalling £3.5m have been reflected in the MTFP, with further agreed activity expected to deliver just under £1.0m.

Workstream	Expected Value of Activity (£)	Activity Implemented and reflected in MTFP (£)	Activity Agreed, not yet reflected in MTFP (£)	Value of further activity required (£)
Property Acquisition Strategy (Phase 1)	400,000			0
Network House, Gillingham		147,710		
Springhead Units, Gravesend		150,000		
St John's House, Dartford		110,670		
Fees and Charges Activity	270,000			101,400
Fees and Charges Review - 2017-18 budget setting		60,000		
Fees and Charges Review - 2018-19 budget setting		43,430		
Revised Garden Waste charges from April 2018		25,000		
Fees and Charges Review - 2019-20 budget setting		40,170		
Service Review Process Option Implementation	1,430,000			0
Economic Development & Town Centre Management		264,230	29,060	
Public Health & Communities		195,200	990	
Parking & Amenities		229,770	30,230	
Revenues & Benefits		14,110	82,890	
Regulatory Services		76,190	90,710	
Planning & Regeneration Services		138,140	7,860	
Customer & Theatre Services		-	110,920	
Direct Services Operation		154,350	39,200	
Shared Service Progression	240,000			121,760
Legal Services		87,000		
HR		22,660		
Licensing		8,580		
Budgetary Challenge Measures	200,000			0
Consistent Underspend Exercise		200,000		
Property Acquisition Strategy (Phase 2)	397,000			0
123-127 Sittingbourne High Street		85,000		
Acquisition of Site at Stuart Road, Gravesend		511,190		
Planned Acquisition A			200,000	
Planned Acquisition B			58,000	
Balancing the Budget Initiatives (November 2018)	1,274,000		325,360	
Communities Directorate		16,730		
Corporate Services		662,810		
Housing & Regeneration		-		
Environment & Operations		169,100		
Cross-Directorate		100,000		
Total Value of Activity	4,211,000	3,512,040	973,240	223,160

* The total value of implemented, agreed and further activity required will not equal the total expected value of activity due to delivery beyond that expected in the Property Acquisition and Service Review workstreams.

24. The delivery of the Bridging the Gap and Balancing the Budget activity, alongside in-year savings against budgets, the financial benefit from Business Rates Pilot Status in 2018-19 and improved performance in delivery New Homes Bonus has had the effect of pushing back the point at which further savings are required to 2023-24, with a residual budget gap of around £1.9m. Some £1.2m of these savings will be delivered from the further Bridging the Gap/Balancing the Budget activity identified in the table on the previous page as yet to be delivered. The council therefore currently has a window of three years in which to identify further activity of £0.7m that can contribute to meeting the further savings required.
25. It is important to note, however, that there still remains significant volatility in the way in which local government is funded from 2020-21 which will begin to materialise during the next year:
- **Spending Review 2019** – due in Spring 2018, this will provide a forward-looking view of the Government's spending plans and the budgets allocated to government departments, which will directly influence the level of funding directed to local government. Indications from the Autumn Budget 2018 suggest that the funding made available to MHCLG will be squeezed, given the commitments made by Government to the NHS and Education.
 - **Fair Funding Review** – Government are continuing their review to inform the way in which the measurement of the relative needs of local authorities and the resources required to meet these needs is undertaken in future. Indications continue to suggest that the review will result in a shift of funding from lower tier to upper tier authorities, creating further pressures on this council's budgets.
 - **Business Rates Reform** – Government are proposing a redesign and reset of the Business Rates Retention Scheme from 2020-21 considering a partial reset of business rates in 2020-21 which will see changes to the mechanism used to redistribute business rates across the country to meet changes in the relative needs of local authorities. This is likely to adjust the business rate baseline of the council and may result in a greater proportion of business rates achieved in the borough being passed back to central government for redistribution.
 - **New Homes Bonus** - Government have retained the option to adjust the baseline in future years to reflect significant and unexpected housing growth. This may see allocations further affected in future years, and the amount of funding to be distributed through this mechanism could also be affected by the Spending Review 2019, assuming that the Scheme continues at all.
 - **Commercialisation** – there has been increasing concerns expressed by Government and professional bodies regarding some council's commercial investments and the potential risks they are exposing themselves and the public to. Any intervention by Government in this area may put at risk the council's ability to generate income through this activity in the future.
26. For these reasons it is critical that the council pushes forward with the Bridging the Gap/Balancing the Budget Activity to ensure that it is in the best position possible to respond to the outcomes of Government decisions around local government funding and is able to continue delivering services to its residents.