

FINANCIAL REPORT TO HANNINGTON PARISH COUNCIL 13th December 2016:
Draft Budget 2017/18 and Three Year Medium Term Financial Strategy

PURPOSE OF REPORT

- 1. To provide a Draft Budget 2017/18, for approval, within the context of a Three Year Medium Term Financial Strategy, and**
- 2. To seek agreement from the Parish Council to the requests to BDBC for the Precept and Grants 2017/18.**

Projected Outturn 2016/17: based on information as at 6th December 2016

1. The Council Agenda has a detailed report at 12(b) on the Projected Outturn for the current year. The figures for the 'Projected Outturn 2016/17' have been used as the starting point for the construction of the draft Budget 2017/18 at Appendix A. In summary, the Appendix presents:-
 - Cash balance as at 1st April 2016 £6,070
 - Add Receipts (Income) in the year £8,352
 - Less Payments (Expenditure) in the year £7,804
 - Providing a surplus in year of £548
 - A Cash balance as at 31st March 2017 £6,618.
2. The Council, at its Sept meeting (Minute 17.b), made the "**DECISION:** *Without prejudicing any subsequent decision, the Council agreed in principle to create a 'Sinking Fund' for the 'Provision for Repair and Maintenance of Unadopted Roads'. This Fund could be 'kick started' by the allocation of the £1,000 that was no longer planned to be incurred on the development of a Neighbourhood Plan.*" The effect of this decision would be to reduce the General Fund cash balance to £5,610.

Draft Budget 2017/18

3. The Draft Budget 2017/18 and Three Year Medium Term Financial Strategy 2017/18 to 2019/20 (see Appendix A) is constructed based on:-
 - i. the Precept remaining at the same cash level as in 2016/17,
 - ii. **BDBC Grants reducing as announced in their letter to Parishes dated 3 November,**
 - iii. routine 'fixed' operating costs remaining at the same level as in current year,
 - iv. no allowance for inflation, except where it is known ie the 1% national increase in salary of the parish clerk in 2017/18,
 - v. maintain the financial provision for maintaining the village green,
 - vi. continue with the donation to the Churchyard,
 - vii. VAT payments and recovery based on the above.
 - viii. the Council decision in Sept 2016 to apply an initial £1,000, and then the view it would be necessary to further contribute by £700 each year, towards the "Provision for repairs and maintenance to the Unadopted Roads".
4. As with any financial model, there is always room for different interpretation. However, as a starting point the above, as detailed in Appendix A, represents the 'status quo'; with one exception. The model does NOT include any items of one-off or capital expenditure. The 'financial model' is therefore one in which the Parish Council is 'treading water'.
5. With all the figures remaining very much as they are at present, the financial model attached highlights the adverse effect of the decision by BDBC to phase out the two grants for 'General Admin' £1,100 and the 'Council Tax Support Grant' £103 over the next three years. Over that three year period

Hannington PC will have 'lost' access to £2,406 (£401 17/18 plus £802 18/19 plus £1,203 19/20). By 2019/20 BDBC grant funding will have reduced by £1,203 from £1,430 to £229; a reduction of 84%. There is also some doubt as to the guarantee for the continuation of the final parish grant which is to support 'grass cutting and closed churchyards'.

6. In the attached financial model, the year-end cash balance would continue to rise and would be around £10,082 by 31st March 2020, of which £3,100 would be held for the "Provision of repairs and maintenance of the Unadopted Roads", leaving the balance of £6,982 held in the General Fund. However, as previously stated this scenario presumes no one-off or capital spend over the next three years.
7. In recent years the Parish Council has incurred one-off items of expenditure including essential repairs to the Wellhead (£1,700), legal costs for the transfer of the village green (£1,480), and minor works such as provision of 'hounds teeth' on the village green, repair of the noticeboards, and purchasing a seat at White Lane crossroads. The Parish Council has also been very successful in bringing in financial and non-financial support from external agencies to undertake many tasks, such as the conversion of 'stiles to gates', improvements to the standard of various bridleways, and most recently the works to remedy the flooding on the road near North Oakley. Whilst the costs of these have generally been met from 'third parties', the Parish Council could not have entered into these 'partnerships' if it did not have the potential to access cash reserves.
8. The summary table below shows a more realistic scenario of the financial effect of anticipating an average one-off/capital expenditure in each year of just £1,000. This presents a substantially different picture with:-
 - a. The Council having a 'surplus' in year of only £73 by 2018/19 and a 'deficit' of £328 by 2019/20.
 - b. After allowing for the annual contribution to the "Provision for the repairs and maintenance of the unadopted roads", the current General Fund balance would have fallen from the estimated £6,611 at 31st March 2017 to £3,975 by 31st March 2020... and would continue to fall!

Financial model of Three Year Medium Term Financial Strategy 2017/18 to 2019/20

	2016/17	2017/18	2018/19	2019/20
Precept	5397	5397	5397	5397
<i>BDBC Grants</i>	<i>1430</i>	<i>1031</i>	<i>630</i>	<i>229</i>
NALC website grant (see spend below)	1123	0	0	0
VAT refund	402	445	200	200
Total Receipts	8352	6873	6227	5826
Routine running costs				
Clerk's salary	3032	3062	3062	3062
Other 'fixed' operating costs	1057	992	992	992
Donation to Churchyard	250	250	250	250
Village Green mowing	650	650	650	650
VAT on 'admin' costs	200	200	200	200
Total 'admin' costs	5189	5154	5154	5154
One-off and/or capital costs				
Website construction (see funding above)	1123	0	0	0
Legal fees – village green	1240	0	0	0
<i>Allowance for one-off/capital spend in year</i>	<i>0</i>	<i>1000</i>	<i>1000</i>	<i>1000</i>
VAT on 'one-off/cap' costs	252	0	0	0
	2615	1000	1000	1000
TOTAL Payments in year	7804	6154	6154	6154

Cash Balance b/fwd 1 April	6070	6618	7337	7410
Surplus in year	548	719	73	-328
Cash Balance c/fwd 31 March	6618	7337	7410	7082
Allocated to the "Provision for repairs of Unadopted Roads"	1000	1700	2400	3100
Balance held in General Fund at year end	5618	5637	5010	3982

What Action can the Parish Council take?

One Option is to accept the above financial scenario and 'do nothing'.

- 9.** This would indicate that the Parish Council wishes to proceed as expressed in paragraph 8(b) ie running a budget deficit of £328 by 2019/20 and having a General Fund balance of £3,982 and a Specific Provision of £3,100.
- 10.** Even in the 'do nothing' option above, if the outcome of a General Fund cash balance as at 31 March 2020 of approximately **£4,000 is not satisfactory**, then two initial decisions can be taken. The questions are whether or not:-
- to adopt the annual contribution to the "Provision of repairs for the Unadopted Roads"?
To not make a sufficient provision would result in the Parish Council, at some future date, having to undertake repairs (under H&S/Highways instruction?) for which it does not have sufficient funds, and/or,
 - to limit any one-off/capital items to an amount less than £1,000 and/or to ONLY proceed on the basis that the cost is being met directly from the General Fund.

Further Options to increase income or reduce expenditure

- 11. INCREASE INCOME:** The Parish Council has only one source of income under its 'direct control', and that is the level of Precept it sets in any one year. BDBC, in their letter of 3 November and at their workshop on 21st November, appear to recognise that Parish Councils might decide to increase their Precepts to 'make up' for the planned reductions in BDBC Grants of £400 per annum. This loss of £400 in grants equates to approximately 7.5% of the Precept. If the Council adopted this strategy of a compensating increase alongside an inflationary increase each year of 2%, the Precepts would be as follows:-

2016/17 (base position)	£5,397
2017/18	£5,500 plus £400; £5,900, an increase year on year of 9.3%
2018/19	£6,020 plus £400; £6,420, an increase year on year of 8.8%
2019/20	£6,550 plus £400; £6,950, an increase year on year of 8.2%

- 12.** However, in their letter of 3rd November, BDBC reminded parishes that the Government has introduced controls over '**Excessive Precept Increases**'. They state, "*In previous years no excessiveness principles have been applied to parish councils. However, there has been a recent Government Consultation to consider if referendum principles will apply to parishes from 2017/18 onwards. The consultation ended on 28th October 2016 and the outcome is awaited.*" It may therefore be that the Parish Council will not have the option to increase its Precept by more than a fixed percentage (currently 2% for larger Councils), without having a referendum of its residents... which would cost more to undertake than would be gained by the increase in the precept!!

13. On 5th December the Clerk was sent a copy of a letter from the Leader of Hampshire County Council to the Government expressing his County Council's concerns on the damaging effect of any extension of the Council Tax cap to parish and town councils (See Appendix B attached.) The email also provided the necessary link to the Government's Consultation paper. The relevant extract is also attached at Appendix B. The most relevant section for Parish Councils is "that referendum principles are introduced for town and parish councils whose Band D precept is higher than that of the lowest charging district council for 2016/17 (£75.46), and which have a total precept for 2016/17 of at least £500,000".

13. REDUCE EXPENDITURE: Options include reducing/ceasing payments and/ becoming more efficient. The table at paragraph 8 shows that in addition to the cost of the Clerk £3,062 (2017/18) other operating costs only total £992. Of this £992, the following £752 (75%) are legal requirements and the Council therefore has NO OPTION:-

- i. **Insurance** £235
- ii. **Internal Audit** £200
- iii. **Data Protection Registration** £35
- iv. **Hire of public venue for Council meetings** (Village Hall) £65
though not strictly a legal requirement
- v. **Subscriptions** are paid to three national bodies HALC, NALC and CPRE, totalling £217. It could be argued that NOT being a member of NALC and HALC would result in higher alternative costs in getting information and support, and the loss of being proactively briefed on changes and initiatives.

The remaining two items of operating costs total the balance of £240. They are:-

- vi. **expenses** £180. Actual costs in the last two years have been £165 and £106, with the current year running at £121. The higher figure reflects the Clerk charging car allowance for attendance at meetings etc.
- vii. **Training** £60. This is sufficient to fund one course.

14. The Council makes two further payments in the year:-

- i. Payment to PCC as a contribution towards the churchyard £250, and
- ii. Cost of mowing the village green £650 excl VAT. Considering the Council has been funding this work for many years, and has only this year become the registered owner of the green, it would appear perverse to stop maintaining it now!

RECOMMENDATIONS:

That the Parish Council

- 1. agrees the Draft Budget 2017/18 as summarised in paragraph 8,**
- 2. being mindful of the loss of grants from BDBC and the level of projected cash balance held by the Council as at 31 March 2018, that the Council agrees to increase its precept request by (a) £400 to compensate for the loss of grant incomes and (b) £103 being a 2% inflationary allowance on its operating costs.**
- 3. agrees in principle to apply a similar financial strategy over the medium term to 31st March 2020 ie to increase the precept year-on-year to compensate for loss of grant and for inflationary pressures.**

Calculating the effect of the agreed Budget 2017/18 on the Parish Precept

15. In their letter 3rd November, BDBC advised they would provide parishes with their council tax base figures for 2017/18 by 9th January 2017.

16. Parish Councils are required by BDBC to submit their Precept and Grant application forms by 31 January 2017. The application forms are completed in 'cash terms'. Based on the above recommendations, the Parish Council would request a Precept of £5,900 (£5,397 + £400 +£103), and a General Admin Grant of £733.

Chris Pottinger
Clerk/RFO Hannington Parish Council
23 November 2016