



Title: **Overall General Fund Revised Financial Position  
2014/15 and Draft Budget 2015/16**

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## **1 Introduction**

This report contains the overall revised General Fund revenue budget for 2014/15, the draft General Fund revenue budget for 2015/16, and the draft capital programme for 2015/16.

Much of the financial information provided is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. Some of these factors such as the final level of external grant support and the level of Government set fees will not be known until later in the process and any amendments will be reported to Council at the 19 February 2015 budget meeting.

In addition, the provisional Local Government Finance Settlement for 2015/16, and the continuing challenging economic climate means the Council needs to produce a robust strategy for the future to meet these challenges.

## **2 Recommendations**

- (1) That Members consider the overall revised General Fund revenue budget position for 2014/15 (Appendices 1 and 2).
- (2) That Members recommend in principle to Council the overall draft General Fund revenue budget for 2015/16. This will be the subject of a further and full report to Council on 19 February 2015 (Appendices 1 and 3).
- (3) That Members recommend in principle to Council the overall draft Capital Programme for 2015/16 and note the forward programme to 2017/18. This will be the subject of a further and full report to Council on 19 February 2015 (Appendix 4).
- (4) That Members approve a 300,000 transfer from the General Fund Reserve to the Budget Equilibrium Reserve in 2014/15.

### 3 Information

The Council in February 2014 set the Council Tax and the budget for the General Fund for 2014/15. In March 2014, the Council's forward forecast to 2016/17 was set out in the Medium Term Financial Strategy (MTFS) which was presented to the Policy, Finance and Development Committee. The information presented concerning the Government's legislative programme and other external factors that could potentially impact on Oadby and Wigston's financial position was based on the best information available at that time.

Further to this, the Policy, Finance and Development Committee approved the budget strategy for the financial year 2015/16 in October 2014. It outlined that the Council historically adopted a budget process that derives its base budget each year from the previous year's original budget and that for the 2015/16 budget this process would be continued. Additionally, it highlighted that the key issues that would impact this budget are:

- Current financial position including working balances and level of reserves.
- The local government finance settlement
- The review and revision of the business rates pooling situation
- The review and revision of our Local Council Tax Support Scheme
- Any further advancements in Welfare Reform (Universal Credit)
- Limits on New Homes Bonus funding
- Availability of capital resources and prudential indicators
- Housing Revenue Account (HRA) and the impact of self financing and rent convergence.
- Transformation of services.

The provisional settlement was received from the Department of Communities and Local Government (DCLG) in December 2014. It is understood that the final settlement will not be published until February 2015.

Officers are still evaluating the impact of this new information but it appears that the Council has had a 5.81% reduction in Spending Power (a Government indicator of funding level consisting of a basket of grants received from Central Government) when compared to 2014/15. The average reduction amongst all of the Leicestershire districts was 3.08%. Whilst this Council's reduction in Formula Funding appears to have had roughly the same percentage decrease as other authorities, others have had compensating increases in locally influenced grants such as New Homes Bonus that have mitigated their loss of other grant. To illustrate this fact, it should be noted that this Council's New Homes Bonus for 2015/16 at £313,174 is the second lowest grant in the country after the Isles of Scilly.

Also included within this report is an overall financial update in the context of the current economic climate including the impact of the current four year Comprehensive Spending Review (CSR) to 2015/16 and beyond. It provides a commentary on prospects for the next CSR and how this may impact on local government finance generally.

It is clear from the current national economic position and consequential impact on local government resourcing that the whole funding model for this Council needs to be reassessed. This will not only include delivering efficiencies and careful consideration of future council tax levels but also a realignment of resources to the Council's strategic objectives and the reassessment of service provisions. As central funding declines the Council will need to maximise opportunities from new funding arrangements that are primarily dependent on business and residential growth in the borough.

The Council's current MTFs sets out the overall financial objectives that underpin the Council's priorities. This includes a summary of the national financial context together with factors and key financial principals affecting the General Fund. The MTFs needs to be updated to reflect all the new funding initiatives issued by the Government. A report will be presented to this committee in March 2015 updating the MTFs for these initiatives.

#### 4. Local Government Finance Settlement

The provisional Finance Settlement for 2015/16 was announced in December 2014.

The provisional settlement funding announced by DCLG in December 2014 is detailed below.

<b>Funding</b>	<b>Actual 2014/15 £ 000's</b>	<b>Provisional 2015/16 £ 000's</b>	<b>Reduction 14/15 to 15/16 %</b>
Revenue Support Grant (Note 1)	1,630	1,130	
NNDR Baseline Funding	1,374	1,420	
<b>Total Formula Grant</b>	<b>3,004</b>	<b>2,550</b>	<b>15</b>
Council Tax Freeze Grant 15/16 (Note 2)	-	38	
<b>Settlement Funding Assessment</b>	<b>3,004</b>	<b>2,588</b>	<b>12</b>

Note 1 The Revenue Support Grant shown above for both 2014/15 and 2015/16 contain all Council Tax Freeze Grant up to and including the 2014/15 scheme.

Note 2 As for 2015/16 a Council Tax Freeze Grant is being offered at 1%, if there is no increase in the Council Tax level for 2015/16, as an addition to the Formula Grant.

The 2015/16 provisional Settlement Funding Assessment (SFA) announced in December 2014 for 2015/16 was announced at £20.8bn which is a like for like 13.9% reduction when compared with 2014/15. Of the overall £20.8bn, £9.4bn (45%) will be paid in the form of Revenue Support Grant (RSG) whilst £11.4bn (55%) is expected to be realised from retained business rates.

These settlement proposals confirm that Local Government continues to bear the brunt of Public Spending reductions in the spending review period. These reductions are expected to continue for the medium term.

## 5. Revenue Spending Power

Since 2011/12 the Government has introduced the concept of revenue spending power in an attempt to soften the reality of the significant reductions in Government grant to Local Authorities.

Based on the Government's methodology, overall Spending Power has reduced by just over 1.8% in 2015/16. These cuts are lower than their equivalents in 2014/15, where the reduction in Spending Power was 2.9%.

Revenue spending power as defined by the Government is the aggregate of formula funding, New Homes Bonus, other specific Government grants and Council Tax requirements. The table below details the Government's assessment of revenue spending power for this Council.

<b>Spending Power</b>	<b>Actual 2014/15</b>	<b>Provisional 2015/16</b>	<b>Reduction 14/15 to 15/16</b>
	<b>£ 000's</b>	<b>£ 000's</b>	<b>%</b>
Settlement Funding Assessment (From previous table)	3,004	2,588	
Other Small Grants	17	0	
New Homes Bonus	238	313	
NHB Returned Funding	5	5	
Housing Benefit Admin Grant	216	190	
Council Tax Burden Grant	60	13	
<b>Total Government Funding</b>	<b>3,540</b>	<b>3,109</b>	
Council Tax Requirement	3,335	3,366	
<b>Total Spending Power</b>	<b>6,875</b>	<b>6,475</b>	<b>5.8</b>

On this basis the reduction in spending power is significantly less than the reductions in Government formula funding grant detailed in the previous table above.

## 6. New Homes Bonus

New Homes Bonus will be in its fifth of operation in 2015/16. An additional allocation of £300m for new homes has been added to the £950m that was allocated for the first four years of the scheme.

Again, as was the case last year, to maximise the amount this Council receives from NHB a review of all the long term empty properties in the borough was carried out over the summer months.

The New Homes bonus allocation of £313,174 for 2015/16 was announced in late December as part of the Local Government Finance Settlement. As a result, this Council will have received a total amount of £880,733 over the five years.

However, as the table below illustrates, because of the urban nature of the borough and a lack of opportunity to develop new housing, the Council fares not only the worst amongst the districts of Leicestershire but, as previously mentioned, the second worst in the country after the Isles of Scilly.

<b>New Homes Bonus Allocations</b>		
<b>Leicestershire District</b>	<b>2015/16 Allocation £ 000's</b>	<b>5 Year Cumulative £ 000's</b>
<b>Oadby and Wigston</b>	<b>313</b>	<b>881</b>
Melton	859	2,973
Blaby	1,433	3,868
Hinckley and Bosworth	1,975	5,453
North West Leicestershire	2,123	5,132
Harborough	2,182	6,280
Charnwood	3,775	10,797

## 7. Business Rates

Under the Business Rates Retention Scheme (introduced in 2013/14), Local Authorities still need to operate within the existing national and domestic rate system in terms of their relationships with local business. They still do not have control over how the level of tax is determined for rate payers, i.e. the rateable value of properties or the rate of tax. However, the scheme does allow those Authorities that see increases in their business rates, tax rates and associated revenues to be rewarded. Authorities that have a decline

will see a relative reduction in their resources. These calculations are extremely complex.

Under the Business Rates Retention Scheme Councils are able to retain 50% of the real term growth in business rates. Conversely, Councils face the risk of having to absorb 50% of potential decreases. The system includes a levy on disproportionate increases in the safety nets which provide support to limit the impact of significant decreases.

Under the Local Government Finance Act 2012 Councils can form pools for the purpose of business rate retention. This is beneficial if in the period a real term rise in business rates for the sub-region to pool business rates as this means that the levy paid by the District Councils is reduced or eradicated for some of these resources can be retained in the pooling area.

In 2013/14 the Leicestershire Authorities opted to set up a business rate pool but for the current year (2014/15) these authorities opted not to pool because of uncertainty that existed surrounding evolving legislation and regulation and its effect on the pool. However, during the course of 2014/15 the business rates levels of the Leicestershire Authorities have continued to be monitored and, as agreed at the point that the pool was disbanded; the pool mechanism has been reviewed with a view to reforming it if it was thought beneficial. This review has been carried out and with both a settling down of the regulatory framework and predictions for the pool looking favourable for 2015/16, the Chief Financial Officer under delegated powers has agreed that this Council will rejoin the pool for the forthcoming financial year.

## **8. Local Council Tax Support**

At the Council meeting in January 2014 the Council Tax Support Scheme for 2014/15 was approved. The new support scheme (introduced in 2013/14) is effectively a Council Tax discount, reducing the Council's tax base and therefore reducing the amount of Council Tax collected.

The Council at its' meeting on 22 January 2014 considered changes to the current Council Tax support scheme which resulted in support reducing by 15% for working age claimants. This ensures that this Council and all other precepting Authorities recover the shortfall in funding resulting from the withdrawal of the transitional grant funding. The level of support reduction has been reconsidered resulting in no change to the current 15% which will operate throughout 2015/16.

As with the Business Rates Retention Scheme how Council Tax support is operated and funded imposes significant additional risk on this Council. Any additional growth and support and/or reduction in collection rates over and above what has been seen within our approved scheme and within fixed Government funding will have a direct cost on this Council and all other precepting Authorities. The Council will aim to mitigate these risks. Current

projections indicate that the current scheme is operating within the assumptions built into estimates.

## 9. Council Tax Base Calculation

The ensuing tax base figure for 2015/16 includes an allowance for housing growth compared to the previous financial year.

<b>Council Tax Base</b>	
<b>2015/16</b>	<b>2014/15</b>
<b>16,698.9</b>	<b>16,461.8</b>

The increase in tax base, allowing for no increase in Band D Council Tax will increase Council Tax income by £48,000 for 2015/16 compared to 2014/15.

## 10. Draft Budget 2015/16

The Council's medium term financial strategy (MTFS) ensures that the commitments made in the Council's priorities are funded not only in the year for which the formal approval of the budget is required (2015/16), but for forecast years also, within a reasonable level of tolerance.

This committee approved the latest MTFS at its' meeting in March 2014 and a summary table is shown below.

<b><u>Four Year Financial Model</u></b>	<b>2013/14 Revised Budget £ 000's</b>	<b>2014/15 Original Budget £ 000's</b>	<b>2015/16 Forecast £ 000's</b>	<b>2016/17 Forecast £ 000's</b>
<b>Services:</b>				
Expenditure	8,609	8,653	8,778	8,982
Income	(1,964)	(2,034)	(2,091)	(2,150)
<b>Net</b>	<b>6,645</b>	<b>6,619</b>	<b>6,687</b>	<b>6,832</b>
To/(From) Reserves	46	(300)	10	10
<b>Corporate Items:</b>				
Pensions Increase	0	0	77	77
Capital Financing	311	539	540	541
Investment Income	(56)	(56)	(56)	(56)
Recharge to HRA	(185)	(201)	(207)	(213)
<b>Net GF Expenditure</b>	<b>6,761</b>	<b>6,601</b>	<b>7,051</b>	<b>7,191</b>
<b>Funding:</b>				
Formula Funding	(2,860)	(2,774)	(2,532)	(2,310)
CT Freeze Grant	(127)	(166)	(203)	(203)
New Homes Bonus	(177)	(238)	(292)	(389)
CT Support Funding	(372)	0	0	0
Collection Fund	(17)	(88)	0	0
Surplus				

Use of GF Balances	58	0	0	0
Council Tax income	<u>(3,266)</u>	<u>(3,335)</u>	<u>(3,335)</u>	<u>(3,369)</u>
<b>Funding Deficit</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>689</u></b>	<b><u>920</u></b>

Forecasting for the years 2016/17 to 2017/18 is particularly volatile and should be treated with extreme caution. No provisional announcements regarding the Government grant for these years has been made and therefore the figures could be better or worse than forecast. For the purposes of the next revision of the medium term forecast, the figures will be assumed to continue to reduce year on year in line with the Autumn Statement announcement.

However, it is clear from the Autumn Statement and the Provisional Finance Settlement that the squeeze in public expenditure will continue for these two years and beyond. An update in medium term financial forecast will be produced following the confirmed settlement announcement 2015/16 which is expected in February and will be submitted to this committee at its' March 2015 meeting.

Clearly, the MTFFS approved in March 2014 showed a substantial funding gap for 2015/16 and 2016/17 requiring further strategic intervention.

Since then, officers and Senior Management Team have been involved in the process of priority setting and the continued implementation of service transformation in order to produce a balanced budget for the financial year 2015/16. However the achievement of further efficiencies in future years whilst maintaining an excellent service will present considerable challenges for the Council.

The level of net expenditure for 2015/16 is currently estimated to be £6.5m before any additional savings are included. (See Appendix 1)

The current strategy is not to use the General Fund reserve to fund the projected deficits for future years. This will ensure the balance is kept above the target minimum level of £647,000.

The draft Corporate Plan for 2014-17 continues the Council's successful and proven programme for all services. The funding for the majority of the priorities is included by rolling forward costs in this year's budget without the requirement for any specific growth to be identified.

A summary of the proposed General Fund revenue budget for 2015/16 is detailed in Appendix 1.

## **11. Assumptions Built into the Budget Forecast**

In the forecast there are a number of assumptions which are necessary to produce the overall budget strategy. However there is an element of risk

associated with this process although we aim to mitigate these risks as detailed in related paragraphs of the report. The main assumptions are as follows:-

- Council Tax increases of 0% for 2015/16 and thereafter 1%
- No increase in Council Tax base in 2016/17 and beyond
- An average 2.2% pay award has been applied for the period 1 January 2015 to 31 March 2016. Thereafter, a 1% pay award is applied.
- The allowance of pay increments
- 2% per annum increase in employers pension contributions from 2015/16 (as determined by the latest triennial valuation of the Leicestershire Pension Fund in 2013)
- No allowance for general inflation for the period of the budget
- Specific allowances for inflation for business rates, external contracts, energy and water drainage board levies
- Investment interest rates to stay at current levels until the market rates are forecast to begin rising slowly
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases and renewal activity levels.
- Allowance has been made for higher non-collection rates for Council Tax due to the impact of the Local Council Tax Support Scheme
- The New Homes Bonus for 2015/16 has been included as given by the Department for Local Government and Communities.

## **12. Risk Assessments**

There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. The Council has a strong track record of good financial management as recognised in the recent Annual Audit letter. This risk is further minimised by adopting the following methodology when preparing the draft estimates:-

- Maintaining the amount reserved for potentially unbudgeted expenditure.
- Adopting clear guidelines and control systems (revenue monitoring procedures, financial regulations etc.) to alert Heads of Service and Members if variances become significant
- Using professional expert advice and economic forecasts where these are available, e.g. treasury management interest rates
- Maintaining a rolling review of the forecast expenditure of estimates beyond the current year
- 2015/16 will continue to see risk imposed upon the Council with the Business Rates Retention System and the Local Council Tax Support Scheme. Both of these have significant risks associated with them, particularly around growth forecasts on collection rates. The Council will seek to minimise these risks by adopting the methodology detailed above together with robust financial monitoring systems.

### **13. Council Tax Referendum**

As part of the 2015/16 Local Government Finance Settlement announced in December, the Government is proposing that local authorities will be required to seek the approval of their local electorates in a referendum if they set Council Tax increases above an assumed percentage. The Government has confirmed the threshold as 2% for 2015/16.

For comparative purposes the Council Tax Freeze Grant is equivalent to a 1% Council Tax increase which for this Council is £38,290. This equates to what the Council would receive if it increases Council Tax by 1.49% which produces extra Council Tax of £12,140 (after allowing for the resulting loss of the Council Tax Freeze Grant).

### **14. Capital Expenditure and Income**

Capital Expenditure and Income plans have been prepared through the Council's Service and Financial Planning cycle. The Council's capital resources are dependant on Government funding, external contributions or through the ongoing disposal of assets. A fully updated capital programme for 2015/16 to 2017/18 is presented at Appendix 4 for approval. All known and expected levels of capital receipts have been taken into account in the resource statement, however, the level of these items can show some potential variability.

It is recommended to Members that the Capital Programme 2015/16 – 2017/18 is approved in principle and that further detailed information regarding various schemes be submitted to Senior Management Team for consideration.

Although the forecast shows sufficient resources to fund the current programme to the end of 2017/18, this is dependant on the realisation of useable receipts from asset disposals which will have associated risk.

Consequently, no new schemes will be contractually committed unless funding is available. Should resources from external funding and/or capital receipts not generate the level of receipts forecast or there is a delay in disposal of assets, then the capital programme will need to be re-visited to ensure funding is sufficient to meet proposed expenditure. Monitoring and reviews of the programme resources available are carried out regularly during the year and the Policy, Finance & Development Committee will be informed of developments.

Members are also reminded of the impact on the revenue account of using uncommitted capital resources. While they remain uncommitted the resources are invested and generate revenue income to the general funds. Consequently for every £1m spent the revenue account loses around £7,000 per annum at current interest rates. This figure increases by an additional £10,000 per annum for every 1% increase in interest rates.

## **15. New Leisure Facilities**

In 2013/14 the Council undertook a major procurement project in relation to the letting of leisure management services. The successful contractor commenced the management of the Council's leisure centre and two swimming pools on 1 April 2014 for a period of 20 years. As well as the management of the facilities, the contract also involves considerable redevelopment and refurbishment at a total cost of £9.6m to be completed by the last quarter of 2015. The contract will save, over the life of the contract £3.6m compared to the previous one. However, the profile of the savings is not evenly spread over the lifetime of the contract with the savings contracted to accrue after the first three years as the contractor will still be establishing their business model. This has been included in the General Fund revenue budget for 2015/16 whilst the redevelopment costs have been included in the capital programme.

## **16. Salaries**

As has already been stated, an agreed average pay award of 2.2% effective from 1 January 2015 to 31 March 2016 has been included in the 2015/16 budgets.

## **17. Welfare Reform**

The welfare Reform Act provided for the introduction of a Universal Credit to replace a range of existing means tested benefits and tax credits for people of working age (including housing benefit) which started from 2013. These include for the administration of this Universal Credit direct payment of housing support to the tenant instead of the current arrangement of directly paying the landlord. The Universal Credit was introduced on a pilot basis from October 2013. From October 2013 a benefit cap operated which meant that no household received more than £500 per week in total benefits.

It is a concern that payment of housing benefit directly to tenants (rather than to their landlords) has increased rent arrears and resulted in additional transaction cost. Moreover the capping of the Universal Credit at £500 per household per week has meant that some tenants fall into arrears as a consequence. It was estimated that the combination of these factors could increase arrears as a proportion of the total rent roll from 3% to 7% nationally. Six pilots for the Universal Credit were completed and reports suggest that arrears levels in these pilots are running at between 10% and 20%.

## **18. Review of Specific and General Reserves**

An important part of any budget strategy is the review and consideration of reserves. The Council's current forecast on uncommitted General Fund reserves up to 31 March 2015 is £948,000 (See Appendix 1). The

strategy applies a robust but prudent use of these balances to cushion the impact of the economic climate but maintaining the minimum level of reserves for the Council over the medium term. However, due to the uncertainties relating to future resource and expenditure forecast the level of reserves and the minimum level of the General Fund balance will be reviewed as we progress through the budget process.

The Council also has a number of earmarked reserves put aside for specific purposes. These are detailed in Appendix 5. The level of each of these reserves for purposes and prospective use will be reviewed as part of the budget report to Council in February 2015.

## **19. Fees and Charges**

The proposed fees and charges for 2015/16 were considered at the October cycle of committee meetings and approved by this committee at its meeting on 28 October 2014.

At the Council's Leisure Centres the annual price increase, of RPI has been applied to those activities and class of users that are specified by the Council. Other than these specified pricing requirements the Contractor is free to set their own prices for the use of facilities, services and/or Users that are not specified in the Service Specification. The Contractor only has to provide its own pricing policies for information on an annual basis and are not required to be formally approved by the Council. Attached at Appendix 7 is the proposed scale of charges for the Council's pricing requirements for Members to note.

## **20. Financial Implications**

### **Current Year 2014/15**

For the current financial year of 2014/15 the overall revised financial position is as shown in appendix 1. As a result of increased income streams and efficiencies found in year, net expenditure would have shown a net saving of £356k against the original budget for 2014/15. However, the Business Rates Retention Scheme can leave the Council's revenue funding vulnerable, either showing a deficit or a surplus. Therefore, to guard against future adverse movements it is recommended that a further contribution of £300k be made to the Budget Equilibrium Reserve to smooth this effect. All reserves including earmarked reserves have been challenged and decisions will be taken as to the priority of these reserves. The revisions made to the original estimates are shown in appendix 2.

### **Budget for 2015/16**

A draft summary of the budget for 2015/16 is also shown in appendix 1. It shows net expenditure for the year of £6,471,292. Appendix 3 shows

the headline additional pressures that have been incorporated in the budget and the major savings that have been included in the budget to balance it for the financial year 2015/16.

Member's instructions have been clear in that the financial gap should be bridged by officers identifying a combination of operational and efficiency savings that do not cut front line services to residents.

The draft budget as presented has achieved this. If members wish to make any further savings then this will require members to make policy decisions that may affect the delivery of front line services.

## 21. Legislation/ policy

The law governing the setting of the billing authority's council tax requirement and the calculation and the basic amount of council tax is found in sections 31a and 31b respectively of the Local Government Finance Act 1992 as amended by the Localism Act 2011. The duty to set Prudential Indicators is found in sections 1, 2 to 6 and 13 of the Local Government Act 2003. Local authority borrowing and investment are subject to the provisions of statute (e.g. the Local Government Act 2003 and supplementary statutory instruments) together with codes of practice and other statutory guidance. In addition to the relevant primary legislation local authorities are also bound by regulations and other secondary legislation including codes of practice.

## 22. Risk Management Implications

The implications are included within appendix 6 of this report.

## 23. Glossary of Abbreviations

MTFS	Medium Term Financial Strategy
HRA	Housing Revenue Account
DCLG	Department of Communities and Local Government
CSR	Comprehensive Spending Review
NHB	New Homes Bonus
HPDG	Housing and Planning Delivery Grant
ERDF	European Regional Development Fund
SFA	Settlement Funding Assessment

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Implications	
Financial (JD)	Incorporated within the body of the report
Risk (JD)	Included as Appendix 6
Equalities (KG)	The budget setting process requires an EIA. Need to ensure compliance with appropriate legislation and equality to avoid any potentials for disparity.

Legal (KG)	The Council has a statutory obligation to compile a balanced budget.
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