



Policy, Finance and Development Committee	Tuesday, 02 February 2016	Matter for Information and Decision
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Title: **Overall General Fund Revised Financial Position 2015/16 and Draft Budget 2016/17**

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1. Introduction

- 1.1. This report contains the overall revised General Fund revenue budget for 2015/16, the draft General Fund revenue budget for 2016/17, and the draft capital programme for 2016/17.
- 1.2. 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 18 February 2016 budget meeting.
- 1.3. In addition, the impact of the Chancellor's Autumn Statement, the Government's Comprehensive Spending Review and the Local Government Financial Settlement means the Council needs to produce a robust strategy for the future to meet the challenges of the economic climate.

2. Recommendations

- 2.1. That the Committee consider and approve the overall revised General Fund revenues budget position for 2015/16 (Appendices 1 and 2).
- 2.2. That the Committee recommend in principle to Council the overall draft General Fund revenue budget for 2016/17. This will be the subject of a further and full report to Council on 18 February 2016. (Appendix 1 and 3)
- 2.3. That the Committee recommend in principle to Council the overall draft Capital programme for 2016/17 and note the forward programme to 2018/19. This will be the subject of a further and full report to Council on 18 February 2016 (Appendix 4).
- 2.4. That Committee approve the use of reserves as outlined in Appendix 1
- 2.5. That Members agree that the Council will remain in the Business Rate Pool for 2016/17.

3. Information

- 3.1. In February 2015 the Council set the Council Tax and budget for the 2015/16 General Fund budget. In March 2015 the Council's forward forecast to 2017/18 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 the Council's financial position was based on the best information available at that time.

3.2. In October 2015, the Policy, Finance and Development Committee approved the budget strategy for financial year 2016/17. 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 2016/17 budget this process would be continued. Additionally, it highlighted that the key issues that would impact this budget are:

- The Council's Corporate Priorities
- The current financial climate
- Demographic issues
- The Government's austerity strategy

3.3. The provisional financial settlement was received from the Department for Communities and Local Government (DCLG) in December 2015. The final settlement should be published later this month.

4. Government Grants and Local Taxes

4.1. The most significant news for local authorities was the Chancellor's announcement that the local government revenue support grant will be phased out by the end of this Parliament. This is expected to be balanced by access to income from business rates. Local authorities will retain 100% of business rate revenues and the uniform business rate will be abolished, giving local authorities control over the level of business rates for their area. The Chancellor made it clear in the Spending Review that the Government sees the abolition of the uniform business rate as an opportunity for local authorities to cut business rates to attract business but with business rates taking on greater significance to the overall funding of local government, local authorities may increasingly see a need for high business rates. The Chancellor said that this will give local government control of £13 billion of additional local tax revenues and £26 billion in total business rate revenues. In practice this could mean big differences between local areas, with those with a high concentration of businesses able to generate significantly more for local authority services than those areas which have fewer businesses but no fewer people in need of public services. Even those local authorities with the potential to attract businesses will have difficult decisions to make about setting business rates.

4.2. The Statement has confirmed that there is no Council Tax Freeze Grant available for 2016. As a consequence Council will be asked in February to consider an increase in Council Tax of 1.99% to help address the funding gap.

5. Other Sources of Income

5.1. In an environment without access to the central grant currently available, whilst retention of business rates and use of income from asset disposals will provide funding opportunities for local authorities, Councils are likely to need to look for other ways of generating income and making savings. Reviewing the extent to which they are making all possible use of charging and trading powers and seeking options for alternative service delivery and collaboration with other service providers could help their position. Harborough, for instance, have just introduced a £40 a year charge for green waste collection/disposal.

- 5.2. Given the current national economic position and consequential impact on local government resourcing it is clear that the Council needs to reassess likely levels of future funding; the ability to raise revenues from other sources (including Council Tax); and to focus on ensuring that expenditure is carefully aligned with the Council's strategic objectives and focusses on the delivery of front-line services. As central funding declines the Council will need to maximise opportunities from alternative funding arrangements that are primarily driven by business and residential growth in the borough.
- 5.3. The 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 principles affecting the General Fund. The MTFS will be updated once Council approves the 2016/17 budget, and a report will be presented to this Committee in March 2016.

6. Local Government Financial Settlement

- 6.1. The provisional financial settlement for 2016/17 was announced in December 2015 and is detailed below:

	2015/16	2016/17	Inc/(dec)
	£'000	£'000	£'000
Revenue Support Grant	1,130	718	(412)
Non Domestic Rates	1,357	1,411	54
New Homes Bonus	318	446	128
	2,805	2,575	(230)

- 6.2. These settlement proposals confirm that Local Government continues to bear a significant part of the Governments overall plans to reduce public spending. Further reductions are anticipated until at least the end of the decade.
- 6.3. Revenue Spending Power
 Since 2011/12 the Government has used the concept of revenue spending power which is an estimate of the amount of funding available to each authority to spend on their core services. It is made up of estimated Council Tax and Business Rate income, Revenue Support Grant and New Homes Bonus plus a number of government grants excluding those for education and policing. Based on this methodology, the Council's overall spending power has reduced by 3.1% in 2016/17 compared to 2015/16. Between 2014/15 and 2016/17 the reduction in spending power was 11%. The table below details the Government's assessment of revenue spending power for the Council:

Spending Power	Actual 2015/16 £000s	Provisional 2016/17 £000s	Reduction 15/16 to 16/17 %
Settlement Funding	2,568	2,130	(17.1)
Assessment	318	445	40.1
New Homes Bonus			
Total Government Funding	2,886	2,575	(10.8)
ADD Council Tax Requirement	3,383	3,501	3.5
Total Spending Power	6,269	6,076	(3.1)

7. New Homes Bonus

- 7.1. There are proposals to reduce the funding for New Homes Bonus by £800 million, which is a cut of two-thirds. The current allocation of NHB is about £1.2 billion. The Government's stated objective is to 'sharpen the incentive' and to focus funding on new homes. The length of payments will be reduced from 6 to 4 years. In 2016/17 the Council anticipates receiving NHB of around £445,000
- 7.2. 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 the worst among the districts of Leicestershire and in fact receives one of the lowest levels of NHB in the country.

New Homes Bonus Allocation Leicestershire Districts	2016/17 Allocation £000s	6 Year Cumulative £000s
Oadby and Wigston	445	1,326
Melton	1,028	4,001
Blaby	2,062	5,930
North West Leicestershire	2,778	7,910
Hinckley and Bosworth	2,916	8,369
Harborough	2,989	9,269
Charnwood	4,500	15,297

8. Business Rates

- 8.1. Although local authorities are not able to set the level of business rates under the current scheme, it is devised to reward Councils where there is an increase in the amount of rates collected as a result of increases in the rateable values of local businesses. Authorities that see a decline in the overall rateable value of businesses in their area will see a relative reduction in their resources. The scheme does include a levy on disproportionate increases that is used to provide safety net funding for Councils that are impacted by significant decreases.
- 8.2. Under the current 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 decrease (for instance when a local firm closes or relocates outside the borough). Part of the Council's budget strategy for 2016/17 is to review the current list of rateable values to ensure that the assessed rateable values of local businesses are correct, and seek to have the Valuation Office adjust the values where the Council believes them to be too low.
- 8.3. 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 there is a real term rise in business rates for the sub-region. Under delegated powers, the Chief Financial Officer agreed that the Council would join a pool with other Leicestershire authorities in 2015/16. Provisional outturn for the pool in 2015/16 suggests £3.8m additional funding for Leicestershire. Given the amendments to the scheme proposed in future years and the likely outturn for 2015/16, the Leicestershire Treasurers' Association met on 11 January 2016 to discuss the potential for continuing the pool in 2016/17. As a result of that meeting, the Chief Financial Officer recommends that the Council continues in the scheme in 2016/17.

9. Local Council Tax Support Scheme

- 9.1. The 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. Current projections for outturn 2015/16 indicate that the current scheme is operating within the assumptions about collection built into the estimates. The current arrangements have been reviewed and it is proposed that there be no change to the 15% level of support reduction to working age claimants for 2016/17.

10. Council Tax Base Calculation

Council Tax Base	
2016/17	2015/16
16,944.2	16,698.9

Using the 2015/16 level of Council Tax, the increase in the base would increase income by £50,000 in 2016/17.

11. Draft Budget 2016/17

- 11.1. The MTFs ensures that the commitments made to deliver the Council's priorities are funded not only in the year for which formal approval of the budget is sought (2016/17), but for future years as well, within a reasonable tolerance.
- 11.2. The October Committee received an updated financial forecast to 2018/19 showing a funding gap for the three years of £1.130m including a gap for 2016/17 of £522,000.
- 11.3. Given the current national economic climate, forecasting for future years is challenging. In particular, the levels of support from Government are only announced annually, so for the purposes of the MTFs, the figures are assumed to reduce year on year in line with the Autumn Statement announcement. An updated MTFs will be produced following the confirmation of then 2016/17 settlement which is expected in February, and will be submitted to this committee at its March meeting.
- 11.4. In consultation with members, the Council's Senior Management Team and other lead officers have been involved in a process of priority setting and the continued implementation of service transformation in order to produce a balanced budget for the financial year 2016/17. The achievement of further efficiencies in future years whilst maintaining excellent services will present considerable challenges for the Council.
- 11.5. The current strategy is not to use the General Fund reserve to fund forecast deficits in future years. The Government has expressed concerns that local authorities are not making effective use of the reserves they hold. It is proposed that in future years the Council considers setting a target of holding a minimum unallocated General Fund reserve of 5% of net expenditure and a maximum of 10%, with any amount above this 'ceiling' being identified for a specific purpose (e.g., transformation, contribution to capital) or applied to the revenue account. For 2016/17 this would have had the effect of applying £342k to the revenue account. The actual proposals contained in the draft budget only require a contribution of £145,000 (See Appendix 1).
- 11.6. Funding for the majority of the Council's priorities for 2016/17 is included in the MTFs by rolling forward spending plans in this year's budget without the requirement

for any specific growth in expenditure.

- 11.7. A summary of the proposed General Fund revenue budget for 2016/17 is set out in Appendix 1.

12. Assumptions in the Budget Forecast

- 12.1. The forecast makes a number of assumptions which are necessary to achieve a balanced budget in 2016/17 and help deliver the Council's medium term financial strategy.

- 12.2. The main assumptions for the 2016/17 budget and the MTFS are as follows:

- Council Tax increase of 1.99% in 2016/17
- Council Tax base increase of 1.5% in 2016/17
- Pay award of 1%
- Increase in pensions contribution
- Inflation – general assumed nil
- Inflation – contractual by RPI
- Interest rates – no change
- Fees and charges as agreed at this committee in October 2015
- Collection rates for Council Tax and Business Rates as per 2015/16
- Local Council Tax Support Scheme as per 2015/16
- New Homes Bonus increased by £128k

- 12.3. The Council will balance its medium-term financial plans over the next three years by addressing the following issues:

- Use of balances
- Efficiency Review
- Improved asset management and utilisation
- Use of new technology to transform service delivery
- Better procurement

The impact of these assumptions for 2016/17 is set out in Appendix 1

- 12.4. Clearly, each of these assumptions and the overall budget process carry elements of risk, and the next paragraph of this report sets out how these risks are mitigated as far as possible.

13. Risk Assessments

- 13.1. There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. However, the Council has a strong record in financial management as recognised in the recent annual audit letter from external auditors. Risks are further mitigated by adopting the following methodology when preparing the draft estimates:

- Maintaining the minimum reserves calculated to be required for contingencies in year.
- Ensuring that budget guidelines are clear and adequate control

systems are in place (e.g., monthly monitoring, adherence to financial regulations, etc.) to alert management and members at an early stage of any significant variances from plan.

- Using professional expert advice where necessary (e.g., treasury managers for interest rates; chartered surveyors for valuing assets).
- Maintaining a rolling review of the forecast expenditure of estimates beyond the current year.
- Remaining alert to changes in the external financial environment and their likely impact on local government and the communities the Council serves (e.g., changes to business rate retention, roll-out of Universal Credit, etc.).

14. Council Tax Referendum

- 14.1** As in previous years, the 2016/17 Local Government Finance Settlement announced in December confirmed that local authorities will be required to seek the approval of their local electorates in a referendum if they decide to set Council Tax increases above 2%.

15. Capital Expenditure and Income

- 15.1.** Capital Expenditure and Income plans have been prepared through the Council's Service and Financial Planning cycle. The Council's capital resources are dependent on Government funding, other external contributions, the disposal of surplus assets and borrowing. A fully updated capital programme for 2016/17 to 2018/19 is set out in Appendix 4 for consideration and recommendation to Council. All known and expected levels of capital receipts have been taken into account in the resource statement, but obviously these may prove to be variable in terms of both realised value and the timing of individual receipts.

- 15.2** Although the forecast shows sufficient resources to fund the current programme to the end of 2018/19, this is dependent on the realisation of useable receipts from asset disposals which will have associated risks.

- 15.3.** To be clear, no new schemes included in the Capital Programme will be contractually committed unless funding is available, confirmed by the Council's Chief Financial Officer. Should contributions from external funding and/or capital receipts not generate the levels of resources forecast, or there is a delay in the disposal of assets, the Programme will be re-visited to ensure all planned expenditure is properly funded. Monitoring and reviews of the Programme, including available resources, will be carried out throughout the financial year and reported to Policy, Finance & Development Committee.

16. Review of Specific and General Reserves

- 16.1** An important part of the Council's budget strategy is the review and consideration of its reserves. The Council's current forecast of uncommitted general fund reserves that will be held at 31 March 2016 is £1,014 (see Appendix 1). The strategy applies a robust but prudent use of these balances to cushion the impact of the challenging economic environment while maintain the minimum level of reserves required by the Council over the period of the MTFs. The minimum level of reserves required will continue to be reviewed as part of the scrutiny of the Council's financial plans

16.2. The Council also has a number of reserves that are earmarked for specific purposes and these are detailed in Appendix 5. Again, the requirement to hold these reserves will continue to be reviewed as part of the scrutiny of the Council's financial plans.

17. Fees and Charges

17.1 The proposed levels of fees and charges for 2016/17 were considered at the October cycle of committee meetings and approved by this Committee at its meeting on 27 October 2015.

18. Financial Implications

18.1. Current Year – 2015/16

For the current financial year of 2015/16 the forecast overall financial outturn position is shown in Appendix 1. The variations between original budget and projected outturn are listed in Appendix 2 with further explanations regarding significant differences.

18.2. Budget for 2016/17

The draft revenue budget for 2016/17 is set out in Appendix 1. It shows planned net expenditure for the year of £6,465,938. Appendix 3 shows the headline additional pressures that have been incorporated in the budget and the major savings that have been included in the calculations to achieve a balanced budget in 2016/17.

18.3. Member's instructions to officers have made it clear that the financial gap should be bridged through a combination of operational and efficiency savings that do not significantly impact on front line services to the communities the Council serves. The budget outlined in this report reflects this guidance.

19. Legislation and Policy

19.1 There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget. There are no specific legal implications as a result of this report, however, any implications of specific savings proposals will be set out in individual business cases to inform consultation and final decision making.

20. Risk Management Implications

20.1. The implications are set out in Appendix 6 of this report.

21. Glossary of Abbreviations

21.1	MTFS	Medium Term Financial Strategy
	HRA	Housing Revenue Account
	DCLG	Department of Communities and Local Government
	CSR	Comprehensive Spending Review
	NHB	New Homes Bonus

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Implications	
Financial	Implications contained in the report.
Legal	Implications contained in the report.
Risk	Implications contained in the report.
Equalities	Implications contained in the report.