



**Policy, Finance and
Development
Committee**

**Tuesday, 20
September 2016**

**Matter for Information
and Decision**

Title: Budget Strategy 2017/18 - 2018/19

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1. Introduction

- 1.1 This Report provides an update of the Council's projected annual financial position during 2016/17 and 2017/18. A reconciliation is provided against the position forecast in the Medium Term Financial Strategy (MTFS) approved by Council on 19 April 2016. The Report includes updated projections in the light of announcements since the MTFS Report was finalised in April 2016. The Report also outlines the initial proposals for the preparation of budgets for 2017/18 onwards.

2. Recommendations

That Members:-

- 2.1 Note the latest financial projections
- 2.2 Consider the Draft Budget Strategy set out in this report
- 2.3 Approves the principles set out in this report to form the basis of the budget strategy for the financial years 2017/18 and 2018/19.

3. Information

3.1 Updating Medium Term Financial Strategy

The Council's MTFS is the planning mechanism that ensures the Council has the financial resources to meet its major corporate priorities. The strategy's assumptions will be used as the parameters for the budget strategy which will be developed for the preparation of the 2017/18 and 2018/19 revenue and capital budgets. The MTFS projects future levels of income, other resources and expenditure over the next two years and was last approved at Council on 19 April 2016. Although approved annually, the projections within the plan are kept under constant review as circumstances change. Appendix 1 to this Report provides an updated position and extends the projections to include 2019/20.

The new Chancellor of the Exchequer's Autumn Statement is expected towards the end of November. However, in July, the Chancellor said that although he was minded to 'reset' the Government's economic policy given the decision for the UK to leave the Economic Union, he said that at present he had no plans to reverse the spending plans set out by his predecessor at the moment. Given these comments, the Council's MTFS assumes the same national targets as those set out in the Comprehensive Spending Review in 2015:

- By the end of the Parliament, local government will be able to retain 100 per cent of local taxes, including all £26 billion of revenue from business rates, to spend on local government services.
- Core grant (Revenue Support Grant) will be phased out and local government will take on new responsibilities.

- Local areas which successfully promote growth and attract businesses will keep all of the benefit from increased business rate revenues.

- The Government will also abolish the Uniform Business Rate and give local authorities the power to cut business rates to boost enterprise and economic activity in their areas.

The MTFS will be updated and reported to future Policy, Finance and Development (PFD) Committee meetings after details of the Autumn Statement are known as part of the 2017/18 Budget Report.

The MTFS projects a deficit, after allowing for use of reserves, on the General Fund Revenue Account of £862,000 for 2017/18 and a further £273,000 in 2018/19.

MTFS 2016/17 to 2019/20				
	2016/17	2017/18	2018/19	2019/20
	£	£	£	£
Total Expenditure	18,733	18,146	18,324	18,504
Total Income	(11,886)	(11,901)	(11,821)	(11,741)
Net Cost of Services	6,847	6,245	6,503	6,763
Capital Charges	627	891	929	960
Use of Reserves	(422)	(100)	(100)	(100)
Budget Requirement	7,052	7,036	7,332	7,623
Total Funding	(6,287)	(6,174)	(6,197)	(6,220)
Savings Provision	765	862	1,135	1,403

The projections included in the Tables are provisional and estimated based on the information which the Council has to date. The detail of this work will be incorporated in the next Budget Report. The details and overall figures are very likely to change and future reports will be provided regarding this position. Explanations of the changes are provided in the paragraphs which follow.

3.2 Revenue Support Grant (RSG)

The current MTFS reflects previous trends in reductions of this core grant. However, as has previously been mentioned, as a result of the Governments proposals to increase business rates retention it is assumed that RSG will be phased out entirely by the end of the current Parliament in 2020.

3.3 Council Tax Freeze Grant

The Freeze Grant scheme offered to Councils in previous years was At this point, it is not known whether a Council discontinued from 2016/17 and the MTFS assumes that there will be no similar offer in future years. The current MTFS assumes a 1.99% rise in the Council Tax rate for 2017/18 and subsequent years. The decision on the actual level of Council Tax for 2017/18 will be taken by Council in February 2017.

3.4 New Homes Bonus

It has been assumed for the MTFS financial projections that this scheme will continue for 2017/18 onwards. It should also be pointed out that each financial year's income only continues for 6 years. Consequently, the first years NHB for 2011/12 will cease to be received in 2017/18. This will cause a slowdown in the increase in NHB received. It has also been assumed that the whole amount of NHB is used for non-

earmarked funding of General Fund revenue. Consequently, any increase or decrease would affect the level of budgeted net expenditure possible.

3.5 Business Rates

The position regarding business rates remains unclear ahead of the Autumn Statement. In order to achieve the required cuts to achieve a budget surplus by 2019/20 (as required under the previous Chancellor's economic policy) the Government would have to both 'substitute' business rates for existing sources of income (that is, allow Council to retain rates in exchange for cutting other grants) and transfer over significant areas of new responsibilities.

The position remains that under the reforms Councils will have the power to cut but not raise rates, except in limited cases for elected mayors to raise rates following consultation with the business community in order to pay for infrastructure.

The doubling of small business rates relief has been extended to 2016/17 and it is assumed in the MTFs that this arrangement will continue in future years.

The Valuation Office (part of HMRC) has carried out a revaluation of all business properties and the draft lists will be published on 1 October, although Councils will have access to their own lists from 29 September. The impact of the revaluation will be included in the Budget report in February 2017.

3.6 2016/17 Budgetary Control

Budget monitoring is carried out on a monthly basis and meetings are held with managers every quarter. Significant efficiency targets were incorporated within the 2016/17 Council Budget totalling £765,000. Managers are continuously looking for efficiencies which will contribute to this target. The ongoing review of staffing and the conversion from agency to permanent is likely to yield around £300,000 in 2016/17

3.7 Proposed 2017/18 Budget Strategy

The proposed Budget Strategy explains the approach to setting a balanced budget for 2017/18 and Appendix 2 sets out the timeframe for this. Through the MTFs updated corporate issues have been addressed that alter the position from the budget that was approved at Council on 18 February 2016.

There is a continuing deficit position being projected to 2019/20 and to address this, options are being developed corporately to provide savings which are required to deliver a balanced budget for 2017/18 and for future years. Members will be asked to consider the range of options put forward and which are to be consulted on. These may include:

- Increase in income through reviewing existing fees & charges and exploring new revenue streams
- Reducing costs by improving service efficiency
- Reduction of costs through cutting overheads
- Alternative service delivery mechanisms and business transformation

In addition, the detailed service and capital budgets will be reviewed to ensure that these remain reasonable with reference to the 2015/16 outturn, monitoring during 2016/17 and the Heads of Services' knowledge of any changes due to take effect over the budgeting timeframe.

Committee should note that it may not be possible to achieve a balanced budget for 2017/18 despite these actions, in which case consultation on the impact on services of further

reductions in budget will be necessary, and appropriate recommendations brought back to relevant Committees and Council ahead of setting the budget in February 2017.

3.8 General Fund Services

The savings identified through the organisational review and previous corporate savings exercises have been built into the base budgets as part of the 2016/17 approved budget. The overall General Fund Service budget strategy is that:

- Budgets will be updated by Finance for known, externally driven changes to salaries, inflationary increases in contracts, capital charges and other recharges.
- All establishment changes must be treated as growth bids and forwarded to Finance at the appropriate time.
- Virements of less than £25,000 (gross) up to 30 September 2016 will be included in base budgets by Finance. No growth or savings bids will be required.
- Any virements that exceed £25,000 (gross) will need to be submitted as savings and growth bids, signed off by the Head of Service.
- Where actual spend has consistently been under budget for the previous 3 years, the base budget will be reduced to reflect this.
- Where actual spend on any code-line of the 2016/17 budget has been nil to 30 September 2016, the code-line will be reduced by 50% for 2017/18 unless the budget profiling of the scheme when originally approved anticipated that expenditure would only commence in the second half of 2016/17.
- Any capital schemes that have not commenced by 30 September 2016 will be deleted from the programme unless the budget profiling of the scheme when originally approved anticipated that expenditure would only commence in the second half of 2016/17.
- All other changes including those that are statutory or demand led, will need to be brought forward as savings and growth proposals, signed off by the Chief Financial Officer and Head of Service.

Salary budgets will be treated in the following way:

- Known incremental advances will be included.
- A 1% inflationary pay award for 2017/18 and onwards.
- A 3% reduction will be allowed for vacancies and staff turnover on all salary cost centres.
- Posts which are currently vacant will be budgeted at the bottom point of the band.
- Employers National Insurance and superannuation contribution rates will be updated appropriately.

No allowance will be made for inflation in expenditure budgets unless contractually committed or unavoidable, (e.g. energy, fuel and utility bills), the current inflation assumptions built into the base will be reviewed and updated where necessary. Future years income based budgets already have inflationary growth and any new sources of income will be built into them. Where this cannot be met or managed through reductions in expenditure, this will be identified as a growth bid.

Fees and charges need to be consistent with income budgets. This process must involve a:

- Review of 2015/16 outturn and any relevant multi-year trends.
- Review of the current 2016/17 budget position.
- Review of future years' income budgets.
- Assessment of the options for any changes to fees (structures as well as tariffs) and the impact of this on the income budget.

Growth bids will be kept to a minimum and will only be released into the budget process when a balanced budget is achieved. An element of growth is built into the MTFS figures with £191K in 2017/18 growing to £549K by 2019/20.

Reserves will be used in accordance with their agreed policies with the fundamental principle that they are not used to fund any recurring expenditure.

Capital

The approach to setting the Capital Programme will be as follows:

A longer-term view will be taken on spending needs to balance priorities and resources more evenly over the life of the capital programme. The Council will commission property advisors who will be consulted on an ongoing maintenance programme with the aim being to develop a ten year programme for recurring capital costs.

Bids for new initiatives which do not recover the investment in a five year period will be kept to a minimum. Capital bid documents will be required prior to a scheme being accepted as part of the Capital Programme. These are to be signed off by the relevant Head of Service and Chief Financial Officer and will be prioritised by the Place Shaping Working Group as part of developing the 2017/18 – 2018/19 Capital Programmes.

Schemes which attract external funding should be considered in the light of capacity to deliver these and need to be prioritised with reference to the Council's Corporate Plan.

Existing schemes within the programme will also be reviewed with reference to their progress in any external funding restrictions.

Capital receipts will only be committed once they have been received.

Although there are known sources of capital receipts (Right to Buy), future aspirations will take into account resources required to support unavoidable recurring costs.

Given the current funding gap, it may be necessary to curtail the existing capital programme and postpone any new proposals to avoid borrowing costs, until a balanced budget for 2017/18 can be achieved. If this proves to be the case then consultation on the impact on services will be necessary, and appropriate recommendations brought back to relevant Committees and Council ahead of setting the budget in February 2017.

3.9 Budget Process

The approach to the review of the current year budget based on budget monitoring will continue. The three year position will be set out as part of the process.

Regular budget reports will be provided to inform Members on the emerging issues. This will integrate information from the review of base budgets, higher level factors (such as the grant settlement) represented in the MTFS and the corporate savings process. A timetable is attached as Appendix 2.

Following approval of this proposal Heads of Services and Finance staff will work together on the preparation of budgets based on the strategy set out (ensuring consultation with the relevant Committee Chair). Work will continue to be undertaken on refining the options for reducing the deficits currently projected and inclusion in the future budget reports.

3.10 Consultation

This report provides a framework for the preparation of budgets for 2017/18 onwards and will ensure the Council directs its financial resources to delivering the priorities within the Council's Corporate Plan. Budget briefing sessions will be provided for Members. The Draft Budget and Council's Corporate Plan will be further consulted on.

3.11 Alternative Options

The proposals in this report are a practical expression of measures to ensure that 2017/18 and 2018/19 annual budgets are prepared on a sound basis within an agreed corporate framework. Alternative assumptions are possible, some of which will be worked up and brought to future committee meetings as part of the 2017/18 budget setting exercise.

3.12 Links to Council Priorities

The proposals are based on forecasts that recognise the need for resources to be identified for implementation of the approved Council commitments.

Setting a sound framework for budget preparation, assists in the delivery of all corporate outcomes. This strategy has been developed within the context of the MTFS.

The approved Council commitments are:

- Protect the borough
- Maintain front line services
- Offering choice when possible
- Save money through service re-design
- Involve residents and partners
- Economic development
- Greening the borough
- Improving the health of residents
- Value for money

Background Documents:-

- The Council's Medium Term Financial Strategy
- The Budget Proposals 2016/17 Report approved by Council on 18 February 2015
- Government Consultation Papers
- 2016/17 Local Government Finance Settlement: Technical Consultation

Appendix 1: Medium Term Financial Strategy – General Fund: October 2015

Appendix 2: Budget Process Timetable

Appendix 3: Opportunities and Risk Matrix

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Implications	
Financial (CR)	The proposals aim to safeguard the Council's financial position and ensure a balanced budget for 2017/18 and 2018/19 and an improved

	position in the years that follow.
Legal (AC)	As set out in the report.
Risk (CR)	As set out in the report.
Equalities (CR)	No significant implications.
	Equality Assessment:-
	<input type="checkbox"/> Initial Screening <input type="checkbox"/> Full Assessment <input checked="" type="checkbox"/> Not Applicable