Policy, Finance and Development Committee	Tuesday, 31 January 2017	Matter for Information and Decision

Title: **Overall General Fund Revised Financial Position 2016/17 and Draft Budget 2017/18**

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1. Introduction

This report contains the overall revised General Fund revenue budget for 2016/17 and the draft General Fund revenue budget for 2017/18.

Much of the financial information 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 21 February 2017 budget meeting.

In addition, the impact of the Chancellor's Autumn Statement, in particular modifications to the capping of Council Tax increases, the four-year settlement, retention of Business Rates and amendments to the New Homes Bonus scheme, means the Council needs to adjust its medium-term financial strategy to reflect these changes in national policy.

2. Recommendations

2.1. That the Committee consider and approve the overall revised General Fund revenues budget position for 2016/17 (Appendices 1 and 2).

2.2. That the Committee recommend in principle to Council the overall draft general Fund revenue budget for 2017/18. This will be the subject of a further and fuller report to Council on 21 February 2017 (Appendices 1 and 3).

2.3. That Committee approve the use of reserves as outlined in Appendix 4

2.4. That Committee agree that the Council will remain in the Business rate Pool for 2017/18.

3. Information

3.1. In February 2016 the Council agreed its Corporate Plan and set a Council Tax and budget for 2016/17 to support the delivery of the nine key commitments and the wider objectives set out in the Plan. In April 2016 the Council's approved its forward forecast to 2020/21 as set out in the revised Medium Term Financial Strategy (MTFS).

The forecasts included 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 September 2016 the Policy, Finance and Development Committee approved the budget strategy for financial year 2017/18. The strategy identified a continuing deficit

position in the General Fund being projected to 2019/20 and to address this, options would be developed corporately to provide savings to deliver a balanced budget for 2017/18 and for future years. These options included:

- 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

The provisional financial settlement was received from the Department for Communities and Local Government (DCLG) in December 2016. The final settlement is expected in February.

3.3. **Government Grants and Local Taxes**

The provisional local government finance settlement has increased the pressure on local authorities to find further savings in their expenditure on day-to-day services and to look for alternative sources of income as central government grants continue to be reduced.

The four-year settlements that were offered in the 2016-17 settlement were confirmed in the settlement. Certainty about the levels of grant for the next four years allows better forecasting and planning of resources allocation.

The following funding streams are included in the four-year settlement:

- Revenue Support Grant
- Business rates tariff and top up payments
- Rural Services Delivery Grant
- Transition Grant

In calculating the financial support to be provided in the settlement the Government has assumed that local authorities will increase their Band D council tax by the maximum amount possible. For this Council the maximum increase for 2017/18 over 2016/17 is £5.00, and the figures in this report are based on a Council Tax increase of this amount in 2017/18.

3.4. **Revenue Support Grant**

The major reduction in funding to the Council relates to Revenue Support Grant (RSG). 2016/17 the Council received £718,275 to support the delivery of General Fund services. For 2017/18 RSG has been reduced by £357,897, to £360,378. The Government has previously announced plans to reduce RSG to zero for all local authorities by 2020.

3.5. **New Homes Bonus**

There has been a reduction in the planned New Homes Bonus (NHB) payments (down from £1.493bn to £1.251bn at a national level), and a change in the way that local authority allocations are calculated. For 2017/18 the Council's NHB has reduced by £37,000 compared to 2016/17 (from £408K to £445K). The Government proposed changes in a consultation paper issued in December 2015, with the intention of reducing the amount that is paid out through the NHB. The target set in the settlement last year was that total payments reduced from nearly £1.5bn in 2016/17 to £900m in 2019/20, with the saving used to fund adult social care. The pressures on social care

has meant that the reduction has been moved forward. There is now a planned reduction of nearly £250m in NHB in 2017-18, and this has gone to create the new adult social care fund (see 3.7 below). The key changes to the NHB scheme are as follows:

- To reduce legacy payments from 6 years to 5 years in 2017/18 and then to 4 years in 2018/19.
- A “deadweight” factor or national baseline will be introduced, so that no NHB payments will be made to a local authority for housing growth of less than 0.4%.
- From 2018/19 the Government will withhold payments from authorities not supporting housing growth. This will potentially include no or reduced payments for houses that are built following a successful appeal and to local authorities who do not have an approved Local Plan.

There will be a further consultation on these elements. To calculate the 2017/18 NHB payment, the increase in the number of dwellings (converted to Band Ds) is calculated, and the national baseline of 0.4% is deducted. Payments are only made on the increase in the number of houses above the national baseline; no payments are made for growth in housing below this threshold. This approach ensures that there are no cliff edges for authorities above and below the threshold.

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.

3.6. **Council Tax Base**

In calculating the settlement figures, the DLCG has used optimistic assumptions for the amount of Council Tax that local authorities can generate. At the national level it is assumed that Council Tax income will increase by 5.60% in 2017/18: to achieve this every authority would be increasing their Band D council tax by the maximum amount permitted without a local referendum as well as an average 1.2% growth in the tax base (i.e., the increase in the overall stock of housing). In 2016/17, the Council’s tax base grew by 1.47%.

For 2017/18 the Council Tax Base has increased from 16,944.2 to 17,155.7 an increase of 1.25%.

Using the 2016/17 level of Council Tax, the increase in the base would increase income by £43,703 in 2017/18.

Most classes of authority in aggregate will receive marginally more in 2017/18 in this settlement. Shire districts like Oadby & Wigston Borough Council are the only class with an appreciable reduction in spending power. This is caused by the cuts of £240m in NHB which are felt more strongly in shire districts (partly because districts have an 80% share of NHB in two-tier areas).

3.7. **Adult Social Care**

For 2016/17, local authorities that provide adult social care (such as Leicestershire County Council) were able to levy an additional precept of up to 2%.The settlement for 2017/18 included allowing local authorities that provide adult social care to levy a precept on Council Tax that will allow for a maximum 6% increase over the next three years, with a maximum increase in any one year of 3%. (So an authority could set the precept at 2% in each of the next three years, or 3% in the first two years and then 0% in the final year).

However, it should be noted that no **additional** resources are being made available to the sector over the next three years. The additional annual 1% precept only brings forward the additional Council Tax yield (the maximum increase over the next 3 years is still only 6%). And the extra resources from NHB in 2017-18 is a transfer from one grant to another, albeit with some of the losses of NHB coming from shire districts who do not have any social care responsibilities. There will be additional funding available for adult social care of £900m over the next two years at the national level. This includes the additional yield from the additional 1% precept (£208m in 2017/18 and £444m in 2018/19) plus the additional funding that is being transferred from New Homes Bonus (£240m), see 3.5 above. The additional yield from the adult social care precept assumes all authorities use the full precept allowance in the next two years.

3.8. **Local Council Tax Support Scheme**

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 2016/17 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 2017/18.

3.9. **Business Rates**

Although local authorities are not able to set the level of business rates under the current scheme, it is devised to rewards 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.

A technical consultation paper dealing with the implementation of the 100% business rates retention system has been published by the Government. 100% business rates pilots have been announced for the following areas:

- Greater Manchester
- Liverpool City Region
- West Midlands
- The West of England (Bath and North East Somerset, Bristol, South Gloucestershire)
- Cornwall Council
- Greater London Authority

The success or otherwise of the pilot schemes will determine the timetable for the roll-out of the 100% rates retention system to other local authorities.

Under the Local Government Finance Act 2012, Councils can form pools for the purposes of business rate retention. This is beneficial if in the period there is a real term rise in business rates for the sub-region. At its meeting on 2 February 2016, this Committee agreed that the Council would remain in the pool with other Leicestershire authorities for 2016/17. Provisional outturn for the pool in 2016/17 suggests £4.6 million gain in funding for Leicestershire. The Leicestershire Treasurers' Association met on 9 January 2017 to discuss the potential for continuing the pool in 2017/18. As a result of that meeting and the significant gain in 2016/17, the Chief Financial Officer recommends that the Council continues in the scheme in 2017/18.

3.10. **Council Tax Thresholds**

Core principle of a maximum 2% increase. This applies to counties, London Boroughs, unitaries, fire authorities and metropolitan authorities.

Adult social care precept: Maximum increase of 3% in each of 2017/18 and 2018-/19, with a maximum increase over the next 3 years of 6%. Authorities can still set a precept 2%/ 2%/ 2% over the next 3 years. The intention of the change in the way the precept works is that authorities can bring forward the increase in the precept shire districts (such as Oadby & Wigston) can increase council tax by 2% or £5, whichever is the higher.

3.11. **Other Sources of Income and Potential Savings**

As Revenue Support Grant continues to be phased out the Council will need to identify alternative funding opportunities. Reviewing the extent to which it makes all possible use of charging and trading powers forms a key element of the proposed budget for 2017/18 and for the Medium Term Financial Strategy. The Council has recently set up a wholly owned company to address pressing housing issues and to generate additional revenue. The Council will continue to look at options for alternative service delivery and collaboration with other service providers. For instance the Council currently buys in legal advice and support from North West Leicestershire District Council.

Given the current national economic position and consequential impact on local government resourcing it is clear that the Council must continue to reassess likely levels of future funding; the ability to raise revenues from other sources; and to focus on ensuring that expenditure is carefully aligned with the Council's strategic objectives and focuses 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.

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 2017/18 budget, and a report will be presented to this Committee in March 2017.

3.12. **The Council's Four-Year Efficiency Plan**

In October 2016 the Council submitted its four-year efficiency plan to the DCLG. This was in response to the invitation from the Secretary of State in March 2016 for local authorities to engage with Government to secure a multi-year settlement for Revenue Support Grant, thus helping to strengthen the Council's financial management.

The provisional financial settlement for 2017/18 was announced by the Secretary of State on 15 December 2016 and as anticipated the Council's plan had been accepted and therefore the levels of Revenue Support Grant for the next four years are known which aids medium-term financial planning and target setting.

The features of the Council's efficiency plan are:

- Active asset management.
- Service review and redesign.
- 'Invest to save' schemes – capital 'one-off' spending to achieve continuing

savings in day-to-day running costs or increased income.

- Not adopting any scheme, project or services that are not first demonstrated to be at least cost neutral.
- Commitment to building more houses.

The draft budget for 2017/18 and the updated Medium Term Financial Strategy anticipates significant savings from these efficiencies.

3.13. **Local Government Financial Settlement**

The provisional finance settlement for 2017/18 was announced in December 2016 and is detailed below:

3.14. **Revenue Spending Power**

Revenue Spending Power is the Government's estimate of the amount of funding available to each authority to spend on their core services. It comprises Council Tax and Business rate income, Revenue Support Grant and New Homes Bonus plus a number of other specific Government grants. Based on this methodology, the Council's overall spending power has reduced by 3.89% in 2017/18 compared to 2016/17. The table below details the Government's assessment of Revenue Spending Power for the Council:

Summary	2016/17	2017/18	Change (£)	Change (%)
Council Tax	3,501,180	3,630,690	129,510	3.70%
SFA	2,129,737	1,800,656	(329,081)	(15.45%)
New Homes Bonus	445,097	407,743	(37,354)	(8.39%)
Transition Grant	20,390	20,311	(78)	(0.38%)
Core Spending Power	**6,096,404**	**5,859,401**	**(237,003)**	**(3.89%)**

3.15. **Draft Budget 2017/18**

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 (2017/18) but for future years as well within a reasonable tolerance.

The September meeting of this Committee received an updated financial forecast to 2019/20 showing a funding gap for the three years of £1.403m, including a gap for 2017/18 of £862,000. As mentioned above, the Council's four-year efficiency plan was accepted by DCLG and as a result there is certainty over the level of Government grants over the planning period to 2020. An updated MTFS will be produced following the confirmation of the 2017/18 settlement which is expected in February, and this will be submitted to this Committee at its March meeting.

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 2017/18. For 2017/18 it is proposed to use General Fund reserves of £150,000 to balance the budget. The current strategy is not to use the General Fund reserve to fund forecast deficits in future years. The Council's MTFS and budget strategy contains a target for General Fund reserves to be no less than 5% and no more than 10% of annual net expenditure. At the current time the Reserve holds £869,000 against an annual net expenditure for 2016/17 of £6.465m (just over 13%). The use of £150,000 to balance the 2017/18 budget has the effect of reducing the Reserve to

£719,000 (just over 11% of 2016/17 net expenditure).

Funding for the majority of the Council's priorities for 2017/18 is included in the MTFS by rolling forward spending plans in the current year's budget without the requirement for any specific growth in expenditure.

A summary of the proposed General Fund revenue budget for 2017/18 is set out in Appendix 1.

3.16. **Assumptions in the Budget Forecast**

The forecast makes a number of assumptions which are necessary to achieve a balanced budget in 2017/18 and help deliver the Council's medium term financial strategy.

The main assumptions for the 2017/18 budget and the MTFS are as follows:

- Council Tax increase of £5 at Band D
- Council tax base increase of 1.125% in 2017/18
- Pay award of 1%
- Inflation – general assumed nil
- Inflation – contractual by RPI
- Interest rates – no change
- Fees and charges as agreed at this Committee in November 2016
- Collection rates for Council Tax and business rates as per 2016/17
- Local Council tax Support Scheme unchanged from 2016/17
- New Homes Bonus to decrease by £37,000

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

- Use of balances.
- Building on the proposals set out in the four-year efficiency plan.
- Service redesign and improved asset management – in particular, the review will focus on community assets like Brocks Hill, the depot and waste management services, management restructure, cash handling, facilities, Council offices and the use of a wholly owned company to deliver housing services.
- Use of new technology to transform service delivery.
- Better procurement.

The impact of these assumptions is set out in Appendix 1.

3.17. **Risk Assessments**

Clearly each of the budget assumptions referred to above and the overall budget process carry elements of risk. This section of the report sets out how these risks are mitigated as far as possible. The Council has a strong record of financial management which has been recognised in the recent annual audit letter from external auditors. Risks are further mitigated by adopting the following methodology when preparing 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 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.

3.18. **Capital Expenditure and Receipts**

The Council's capital programme for 2017/18 requires careful consideration as it depends heavily on external funding from central government or borrowing which has a direct impact on the Council's Revenue Budget. It is important therefore that any capital programme is both affordable and deliverable in year. Any decisions on capital schemes has therefore be delayed until after the revenue budget has been completed which will allow the Council to develop a robust programme.

Priority will be given to those schemes which a mandatory such as Disabled Facility Grants, those which are externally funded and those of urgent priority to the Council such as Horsewell Lane Pavilion.

No new schemes will be contractually committed to unless available funding is confirmed by the Council's Chief Financial Officer.

3.19. **Review of Specific and General Reserves**

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 2017 is £869,000 (see Appendix 1). The Council's financial strategy applies a robust but prudent use of these balances to cushion the impact of the challenging economic environment whilst maintaining the necessary level of reserves over the planning period to 2020.
The Council also has a number of reserves that are earmarked for specific purposes and these are detailed in Appendix 4. The requirement to hold these reserves will continue to be reviewed as part of the scrutiny of the Council's financial plans.

3.20. **Fees and Charges**

The proposed level of fees and charges for 2017/18 was considered and approved by this Committee at its meeting in September 2016.

3.21. **Financial Implications**

For the current financial year of 2016/17 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. The draft revenue budget for 2017/18 is also set out in Appendix 1. It shows planned net expenditure for the year of £6.604m. 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 2017/18.

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 that the Council serves.

The budget outlined in this report broadly reflects this guidance. However, Committee should note that the planned service redesigns referred to above will involve considering a range of options for delivery that could impact on the ways in which services are provided. No decisions will be taken without the full involvement of Members and appropriate consultation.

3.22. **Legislation and Policy**

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 finance 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.

3.23. **Risk Management Implications**

The implications are set out in Appendix 5 of this report.

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Implications	
Financial (CR)	As set out in the report.
Legal (AC)	As set out in the report.
Risk (CR)	As set out in the report and appendix 5.
Equalities (CR)	No significant implications.
	Equality Assessment:-
	☐ Initial Screening ☐ Full Assessment ☒ Not Applicable