AGENDA ITEM NO 12

REVENUE BUDGET, CAPITAL PROGRAMME AND COUNCIL TAX 2016/17

Committee: Council

Date: 25 February 2016

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[Q203]

1.0 ISSUE

1.1 This report sets out the Council's proposed revenue and capital budgets, and the required level of Council Tax in 2016/17. The report assesses the robustness of the budgets, the adequacy of reserves and updates the Council's Medium Term Financial Strategy.

2.0 RECOMMENDATION(S)

2.1 To approve:

- The formal Council Tax Resolution which calculates the Council Tax requirement as set out in Appendix 1.
- The draft 2016/17 revenue budget as set out in Appendix 2, including a proposed Council Tax freeze.
- The Statement of Reserves as set out in Appendix 3.
- The 2016/17 Fees and Charges as set out in Appendix 4.
- The Capital Programme and financing as set out in Appendix 5.

3.0 BACKGROUND/OPTIONS

3.1 At the Council meeting on 26th February 2015, Members approved a 2015/16 net budget of £8,481,178 and a frozen Council Tax. The budget had a planned draw of £789,987 from the Surplus Savings Reserve. The Medium Term Financial Strategy (MTFS) at that time showed significant budget deficits in FY2017/18 and FY2018/19.

3.2 The outturn position for the FY 2014/15 was reported to the Corporate Governance and Finance Committee at its meeting of the 20th July 2015. This showed that due to proactive actions taken by management to reduce the Council's cost base during FY 2014/15, and overly prudent estimates for government grants and business rates, that instead of drawing £82,911 from the Surplus Savings Reserve, that a contribution to that Reserve of £857,234 was made.

3.3 Management has continued to reduce the Council's cost base during the current financial year. This work has lead to further on-going savings of around £1 million being made; which both contribute to a projected outturn underspend in this financial year; but also provides savings throughout the term of the MTFS. In

parallel, work has taken place in reviewing the estimates for government grants and business rates.

3.4 In July 2015 the Chancellor announced an Emergency Budget. This set the scene for the forthcoming Spending Review, seeking savings from non-protected government departments (such as DCLG) of between 25% and 40% by 2019/20. Such reductions in Government grant support were greater than local government had been projecting in their forecasts.

3.5 In October 2015 the Chancellor announced that:

- By 2020 councils will retain 100 per cent of local taxes, including the £26bn from business rates
- The uniform business rate will be abolished
- The core grant from Government will be phased out

3.6 The strategy for responding to the budget challenges in the medium to long term are to focus on the Council's commercialisation agenda, rationalisation of support services, channel shift in the delivery of services, and the use of reserves to fund initiatives with revenue benefits.

4.0 GRANT SETTLEMENT

4.1 The Provisional Settlement was announced on Thursday 17th December 2015, with then the Final Settlement being announced to Parliament on the 10th February 2016. The Government has assumed that as local authorities can fund its services from other sources; they can offset reductions in Government grant through increases in Council Tax (at 2% per year); increases in the taxbase, business rates; and the Government has projected these through to FY 2019/20. The Government's assumption is that councils will be able to accommodate these reductions in Revenue Support Grant and New Homes Bonus, through increases in these sources of funding. This approach does not reflect the cost pressures in either service demand or inflation faced by local authorities.

4.2 The announcement comprised a number of individual issues set out below:

4.3 The Revenue Support Grant (RSG) was announced for FY 2016/17 through to FY 2019/20 (the year when the core grant will cease). The reductions are at a faster pace than had been assumed in the MTFS:

	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Previously assumed in MTFS	£1,386,259	£1,086,259	£786,259	£442,925	0
Settlement	£1,148,916	£659,999*	£353,703*	£11,576*	0
Shortfall	£237,343	£426,260	£432,556	£431,349	0

*Provisional allocations

4.4 The allocation for FY 2016/17 is confirmed; while the projections for FY 2017/18 to FY 2019/20 remain provisional. The Chancellor has invited each local authority which wishes to accept the four year grant Settlement, to agree the position as set out above. For those authorities that do not accept and agree it; then they will be

subject to further variations as the settlement is reviewed annually. The assumption is that the grant Settlement is the best which will be offered. However, details have yet to emerge and members are advised not to make a decision until firmer information is available. A formal decision with regard to either accepting or rejecting the four year deal does not need to be made until October, by which time; more information will be available.

4.5 The RSG now incorporates Council Tax Freeze Grant, which has previously been allocated as a separate grant. There is no reference to any new Council Tax Freeze Grant operating in future years.

4.6 The New Homes Bonus has been announced for FY 2016/17 based on the scheme which has operated to date. For this Council, the provisional allocation is £2,020,718, which compared to the assumption made in the MTFS of £2,099,552 is a reduction of £78,834.

4.7 The government has launched a consultation on a new scheme to operate from FY 2017/18 onwards. The proposals in that consultation include reducing the timeframe over which New Homes Bonus is payable from six years to four years; and also to reduce the overall size of the national pot from £1.485 billion (2016/17) to £900 million (2019/20); with potentially an additional £800 million being allocated to fund pressures in Social Care budgets.

4.8 It is therefore difficult to make accurate projections for New Homes Bonus in future years. A prudent approach has been taken at this time, reducing future year's assumptions of £2,068,552 down to £1,269,581. As the Council has previously had a policy of taking one-third of New Homes Bonus to a reserve, it is recommended that this policy ceases from FY 2016/17 onwards. The overall impact on the Council's MTFS is effectively cost neutral.

4.9 The Business Rate retention scheme continues as previously. The baseline has been uplifted by inflation. Growth in this Council's business rates has been ahead of assumptions made in the Council's revenue budget and MTFS in previous years. However, there is always a risk that appeals against business rates can be lodged and, if successful, can be backdated for some years. This has occurred with regard to some GP surgeries, for which a provision will be made in the current financial year in case refunds need to be paid. However, in future years, the full benefits of previous business rate growth have been factored into the MTFS, with a small provision for future year on year growth.

4.10 The government will be commencing a considerable piece of work to develop the new Business Rate retention scheme, expected to come into effect from FY 2019/20. A consultation process is expected to commence in the summer of 2016. This creates considerable opportunity and uncertainty for local authority funding; and is an issue which will require engagement and monitoring; this so that the Council can both influence the final scheme and adjust its MTFS as new information becomes available. Due to the uncertainties, the MTFS has only reflected reasonable and prudent growth assumptions around business rates in the MTFS period up to 2020.

4.11 The Settlement includes an allocation to the most rural authorities, a specific Rural Services Grant which amounts to £160,608 in FY 2016/17; dropping back to

£129,684 by FY2019/20. The FY2016/17 allocation is significantly greater than the £39,903 announced in the provisional settlement. Members may wish to consider whether this additional funding is used to reduce the call on the Surplus Savings Reserve (as shown) or whether it is used to fund rural initiatives within the District. The settlement also includes a reduced grant allocation for Housing Benefit administration (as fraud work is being transferred from local authorities to a national body). There has been no announcement yet on the grant allocation for Council Tax administration (anticipated sometime in February 2016).

4.12 Finally, the Settlement makes provision for the vast majority of district authorities to increase Council Tax by up to 2% or up to £5, whichever is greater, without the need for a referendum. To put a value to this, a year on year increase of £5 (so £15 by FY 2018/19) generates additional income of £877,569 over a three year period. The MTFS currently assumes that Council Tax is increased by 2% in each year from FY 2017/18 onwards.

5.0 THE 2016/17 BUDGET

5.1 The key aspects influencing the budget - the proactive action taken by management to reduce costs and the Settlement - are set out above. The impact of these issues is that the revenue budget for FY 2016/17 and FY 2017/18 are funded; with significant budget deficits in subsequent years.

5.2 The draft budget for 2016/17 is set out in Appendix 2 to this report. It shows a freeze in the Council Tax and limited drawing from the Surplus Savings Reserve. The budget actually provides for a net contribution to corporate reserves, which is a robust financial position to be in.

5.3 The following key assumptions have been made to prepare the draft budget:

- The employers have made an offer of a staff pay award of 1% effective from 1st April 2016 and a further 1% effective from 1st April 2017. Budgetary provision has been made for this;
- Pension costs have increased based on the profile agreed following the most recent actuarial valuation as at March 2013;
- Inflation on other expenditure has only been included where there is a contractual inflationary increase eg utilities, insurance, waste contract. Other budgets have not been increased by inflation;
- The budgetary implications of the Local Authority Trading Company are cost neutral to the Council's revenue budget. No provision for any surplus on any loan funding or any dividends paid to the Council have been assumed;
- The budgetary implications of the new Leisure Centre have not been incorporated, as this has not been formally approved by Full Council. However, as the current funding strategy for the new Leisure Centre is that it should be revenue cost neutral; then there will be no adverse impact from a decision to proceed.

5.4 The draft budget is presented in summary form, with internal recharges and capital costs excluded. The two key movements between FY2015/16 and FY2016/17 are in relation to:

- Housing Benefits, where the budget reflects the latest information from Anglia Revenues Partnership (ARP) and shows an increased deficit on Housing Benefit costs. It is felt best that a prudent approach be adopted at this time;

- Contingencies, where corporate provision has been created for the lump sum pension contribution required from the Authority to make good the current deficit on the Pension Fund.

5.5 In conjunction with the Cambridgeshire Chambers of Commerce, a letter has been sent to local businesses requesting comments on the budget, but to-date no feedback has been received.

6.0 COLLECTION FUND AND COUNCIL TAXBASE

6.1 The MTFS assumed that the Collection Fund for Council Tax would be in balance as at 31st March 2016. However, an increased number of houses give a forecast surplus as at 31st March 2016, of which £91,933 would come as income to this Council in FY2016/17.

6.2 The taxbase for FY2016/17 was previously estimated at an equivalent of 28,433 Band D properties. The impact of the increased growth in housing means that the current forecast is for 28,682.1 Band D properties, generating additional council tax income to this Council of £35,393.

6.3 The MTFS assumed that the Collection Fund for Business Rates would be in balance as at 31st March 2016. However, growth in business rates gives a forecast surplus of £316,608 as at 31st March 2016. This provides for all known appeals. Due to the uncertainty over a new business rates retention scheme, prudent estimates of future growth in business rates have been made.

7.0 RESERVES

7.1 The Council holds reserves, at levels which have remained prudent. It is important to review the reserves on a regular basis, in particular to ensure that potential liabilities not in the Council's base budget can be funded from earmarked reserves; and that unearmarked reserves are at a sufficient level to cover any unforeseen events.

7.2 As part of the process of preparing this budget, officers have reviewed each reserve to ensure its purpose and level is appropriate. A Statement of Reserves is attached at Appendix 3.

7.3 The sole unearmarked reserve is the General Fund Balance. This stands at £1,796,930. There is no statutory minimum level set for a local authority's reserves; it is a matter for each local authority's own judgement after taking into consideration the strategic, operational and financial risks it faces. Typically, local authorities tend to set the level of the unearmarked reserve at around 10% of their net operating budget, which for us is £8.209 million. This would give a minimum level of unearmarked reserve at £820,900. It is recommended that to be prudent, a minimum level is set at £1 million.

7.4 The remainder of the balance, £796,930 is unearmarked and available for use. It is not recommended that such monies be made available to support the Council's base budget, however due to the uncertainties in the assumptions made in the Medium Term Financial Strategy, members are advised that should an unforeseen event take place, for which a significant change to the Council's base budget is

required, that these monies be used to cover this shortfall. A new MTFS Reserve will be established to achieve this.

8.0 FEES AND CHARGES

8.1 Officers have reviewed the fees and charges, and details of the proposals are shown at Appendix 4. The proposed budgets include increases as a result of both volume and price.

8.2 As external funding from other sources is projected to reduce over the term of the MTFS, the Council's approach to fees and charges will become more critical.

9.0 CAPITAL PROGRAMME

9.1 The capital programme has been reviewed, and is attached at Appendix 5. The programme is largely a continuation of the previous programme, with one major addition. Funding of the Council's LATC will be treated as capital expenditure, which will be funded from borrowing. In reality, as the Council holds cash balances which are invested in short term deposits, it is proposed to use these cash balances pending potential capital expenditure in the new Leisure Centre, at which point the Council may seek an external loan.

9.2 The funding of the capital programme includes the £5 million borrowing to fund the LATC loan. The funding also assumes the capital receipt for Barton Close, Witchford and the deferred capital receipts from the LATC for Barton Road and the Vineyards - which are part of the funding strategy for the new Leisure Centre.

9.3 Other funding sources also exist for the new Leisure Centre (e.g. CIL, Sport England funding) but will only be released if the project is approved by Full Council. Subject to Council approval, the capital funding of a new district-wide Leisure Centre will be included in the capital programme, along with the sources of funding.

9.4 There are no additional revenue implications in funding the capital programme,

10.0 COUNCIL TAX

10.1 It is proposed that the Council freezes its Council Tax for a Band D property at the current level of £142.14, based on the Council Tax Requirement of £4,076,874 divided by the taxbase of 28,682.1 properties.

10.2 Freezing the Council tax will no longer attract new funding from the Council Tax Freeze Grant.

10.3 The County Council, Fire, Police and parish budgets and precepts will be known in advance of the meeting and will form part of the formal Council Tax Resolution as detailed in Appendix 1. However the County Council's precept was not available at the time this agenda was dispatched, so the appendix will be tabled at the meeting.

11.0 RISK AND SENSITIVITY ANALYSIS

11.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 officer in determining the Council's budget and Council Tax. Under

section 25, the Section 151 officer must advise on the robustness of the estimates included in the budget. The advice given to the Council on these issues is that the estimates have been produced on a prudent basis, with a strong emphasis on ensuring all cost pressures are included. Budget estimates have been developed with senior officers, with regular updates and discussions at Management Team.

11.2 The key risks are around funding of the Council. The Settlement provides some information, but there is insufficient clarity to put forward a robust MTFS based on confident assumptions. The risk increases further from 2020, where there is no real information on likely sources of funding and indeed the value of any funding to be received. The Government has announced that it intends for local authorities to retain all Business Rates generated - but there will continue to be the need to share resources across the Country - and there will also be additional new burdens placed on local authorities - which are unknown at this time.

11.3 To mitigate the above risk, officers will continue to report on a frequent basis to Management Team and members. With the greater risk around funding, emphasis will be given to income being generated through Council Tax, Business Rates, and the broader commercial agenda.

11.4 The Section 151 officer is also required to report on the adequacy of reserves. The projected level of reserves, and their use in 2016/17, are **prudent** and show a minimal net contribution to reserves in year. The budget for 2018/19 assumes the remaining balance on the Surplus Savings Reserve is utilised, which will reduce the overall levels of reserves to **adequate**. The Council has a track record of delivering additional savings and generating extra income in advance of the budget requirement, so work done during 2016/17 will hopefully lead to a reduced drawing from the Surplus Savings Reserve in that and later years through the MTFS period.

11.5 The key risk around reserves is the risk exposure the Council can afford to take in loan funding the LATC. Should the LATC encounter any financial difficulties, then the Council, as sole shareholder and guarantor, will be liable. In such an event, the Council would need to draw on reserves to meet such a liability.

12.0 MEDIUM TERM FINANCIAL STRATEGY

12.1 The Council's Medium Term Financial Strategy is to set a robust financial framework for the Council's plans over the next five years which support the delivery of the Council's priorities within a context of an annual balanced budget. Specifically, the MTFS:

- Looks to the longer term to help plan sustainable services within an uncertain external economic and funding environment;
- Maximises the Council's financial resilience and manage risk and volatility, including managing adequate reserves;
- Helps ensure that the Council's financial resources are directed to support delivery of the Council's priorities over the medium term.

12.2 The MTFS covers the period 2015/16 to 2019/20. The FY 2019/20 is the final year of the current Government core grant scheme and the final budget to be approved by the current administration. Any plans to develop a new MTFS to cover the period 2020 and beyond requires information around the new Business Rate Retention Scheme and new burdens.

12.3 Officers have therefore extended the current MTFS for a further year; to 2019/20. The assumptions which have been used are described below:

- Government funding through Revenue Support Grant continues to fall and ends by 2020, as per the grant Settlement;
- New Homes Bonus reduces to levels projected in the grant Settlement;
- Council Tax increases by 2% per annum from 2017-18;
- The Council's Business Rate growth continues, projected to increase by £0.2 million per annum throughout the term of the MTFS;
- No increase in waste costs when the current contract ends in 2019;
- The Pension Fund valuation in 2016/17 will show a small increase in contributions from the last valuation in 2013/14;
- No change to Planning Fees, although Government are currently reviewing these charges;
- The Council has a track record of delivering cost reductions; and has established a LATC to drive a broader commercial agenda. It is anticipated therefore that a significant contribution to the budget deficit forecast will be achieved during the term; however, to be prudent, no new savings or income generating opportunities are shown within the forecasts within this report.

12.4 The impact from the above assumptions is attached at Appendix 2. This shows the budgets for FY2016/17 and FY2017/18 are fully funded based on those assumptions. However, there are significant budget shortfalls projected in the subsequent years. Clearly many things will change between now and then, so members should not focus on the precise numbers. What is more important is that members appreciate the direction of funding facing this and all local authorities, and the likely scale. It will be necessary to continue to implement agreed strategies around commercialisation and transformation to meet these shortfalls. The Council does have time to put the necessary plans in place. The Council also has access to a good level of reserves, as described in section 7 of this report.

13.0 ARGUMENTS/CONCLUSIONS

13.1 The proactive actions taken have lead to a balanced budget for 2016/17 and 2017/18. This budget has minimal risks attached to it, although the Medium Term Financial Strategy and the new funding regime post 2020 do contain significant uncertainty.

14.0 FINANCIAL IMPLICATIONS

14.1 The proposed net operating budget of £8,209,404 will be financed by Revenue Support Grant, retained Business Rates, reserves and Council Tax.

15.0 APPENDICES

Appendix 1 - Formal Council Tax Resolution (To Follow)
Appendix 2 - Draft Budget 2016/17
Appendix 3 - Statement of Reserves
Appendix 4 - Schedule of Fees and Charges
Appendix 5 - Capital Programme and Financing

Background Documents	**Location**	**Contact Officer**
(List any background documents used in preparation of report not attached as appendices, or state 'none')	Room 203 The Grange Ely	Andy Radford Chief Financial Officer (01353) 616269 E-mail: andy.radford@eastcambs.gov.uk