Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

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Portfolio: **Finance**

Subject: **Council Budgets 2016/17**

Officer contacts for further information: **Bob Palmer (01992 – 56 4279)**

Democratic Services Officer: **Rebecca Perrin (01992 - 56 4532)**

Recommendations/Decisions Required:

(1) That the Committee considers the Council's 2016/17 General Fund budgets and makes recommendations to the Cabinet meeting on 4 February 2016 on adopting the following:

(a) the revised revenue estimates for 2015/16, which are anticipated to decrease the General Fund balance by £1.55m;

(b) confirmation of an increase in the target for the 2016/17 CSB budget from £13.0m to £13.25m (including growth items);

(c) an increase in the target for the 2016/17 DDF net spend from £0.55m to £0.70m;

(d) no change in the District Council Tax for a Band 'D' property to keep the charge at £148.77;

(e) the estimated decrease in General Fund balances in 2016/17 of £36,000;

(f) the four year capital programme 2016/17 – 19/20, including the use of £3 million of the General Fund balance in 2015/16;

(g) the Medium Term Financial Strategy 2015/16 – 19/20;

(h) the Council's policy on General Fund Revenue Balances to remain that they are allowed to fall no lower than 25% of the Net Budget Requirement.

(2) That the Committee recommends to the Cabinet that the 2016/17 HRA budget including the revised revenue estimates for 2015/16 be agreed;

(3) That the Cabinet be requested to note that rent reductions proposed for 2016/17 will give an average overall fall of 1%;

(4) That the Committee notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2016/17 budgets and the adequacy of the reserves.

Executive Summary:

This report sets out the detailed recommendations for the Council's budget for 2016/17. The budget uses £36,000 from reserves but the Council's policy on the level of reserves can be maintained throughout the period of the Medium Term Financial Strategy (MTFS). Over the course of the MTFS the use of reserves to support spending peaks at £345,000 in 2017/18 and reduces to £3,000 in 2019/20.

The budget is based on the assumption that Council Tax will not increase and that average Housing Revenue Account rents will decrease by 1% in 2016/17.

Reasons for Proposed Decisions:

The decisions are necessary to assist Cabinet in determining the budget that will be placed before Council on 16 February 2016.

Other Options for Action:

Members could decide not to approve the recommended figures and instead specify which growth items they would like removed from the lists, or Members could ask for further items to be added.

Report:

1. On 4 February 2016 the Cabinet will receive the minutes and recommendations contained therein of this meeting and will then make recommendations to Council for the setting of the Council Tax and budget on 16 February 2016.

2. The annual budget process commenced with the Financial Issues Paper (FIP) being presented to this Committee on 20 July 2015. This continued with the earlier start to the process that had been initiated last year and reflected concerns over the reform of financing for local authorities and highlighted the uncertainties associated with:

   a) Central Government Funding
   b) Business Rates Retention
   c) Welfare Reform
   d) New Homes Bonus
   e) Development Opportunities
   f) Income Streams
   g) Waste and Leisure Contracts
   h) Transformation

3. There is now greater clarity on some issues but several are subject to consultations and will not be resolved for some time. The key areas are revisited in subsequent paragraphs.

4. In setting the budget for the current year Members had anticipated using £42,000 from the General Fund reserves. This was possible as the MTFS approved in February 2015 showed a combination of net savings targets and limited use of reserves which still adhered to the policy on reserves over the medium term. The limited use of reserves in 2015/16 was not significant as the MTFS at that time was predicting the use of just over £0.84m of reserves to support spending in the following three years.

5. The revised MTFS presented with the FIP took into account all the changes known at that point and highlighted the additional reductions in support grant. This projection showed a need to achieve additional net savings of £150,000 on both the 2016/17 and 2017/18 estimates, followed by £350,000 in both 2018/19 and 2019/20 to keep revenue balances comfortably above the target level at the end of 2019/20.

6. Members adopted this measured approach to reduce expenditure in a progressive

and controlled manner. The budget guidelines for 2016/17 were therefore established as:

i. The ceiling for CSB net expenditure be no more than £13m including net growth/savings.
ii. The ceiling for DDF net expenditure be no more than £0.55m.
iii. The District Council Tax to increase by 2.5%.

The Current Position

7. The draft General Fund budget summaries are included elsewhere on the agenda. The main year on year resource movements are highlighted in the CSB and DDF lists, which are attached as Annexes 2 and 3. In terms of the guidelines, the position is set out below, after an update on each of the key areas highlighted in the FIP.

a) Central Government Funding

8. The draft figures supplied immediately before Christmas set out the now familiar Settlement Funding Assessment (SFA) and also introduced the new concept of Core Spending Power. This means it is necessary to provide two comparative tables below to illustrate the reductions in funding. The first table deals with the SFA.

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Revenue Support Grant	2.45	1.53	0.74	0.26	-0.28
Retained Business Rates	3.02	3.05	3.11	3.20	3.30
SFA	**5.47**	**4.58**	**3.85**	**3.46**	**3.02**
Decrease £		0.89	0.73	0.39	0.44
Decrease %		16.3%	15.9%	10.1.%	12.7%

9. This paints a rather bleak picture for the next four years with the SFA reducing over the period by £2.45m or nearly 45%. There has been a lot of talk about full retention of business rates but the reality in the draft figures is disappointing. The table above shows our retained business rate funding increasing from £3.02m in 2015/16 to £3.30m in 2019/20, an increase of £0.28m or 9.3%. During this time the tariff we pay to the Treasury increases by a similar percentage from £10.23m to £11.17m. This lack of any relative improvement in the balance between retention and tariff is disappointing. However, on top of this because our retained business rates exceeds our SFA in 2019/20 we are penalised with an additional tariff that I have shown in the table above as negative Revenue Support Grant. This is a worrying new addition and a disincentive to local authorities to devote resources to economic development.

10. The concept of Core Spending Power is another addition to the draft settlement and is useful in setting out Government thinking on Council Tax and the New Homes Bonus.

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
SFA	5.47	4.58	3.85	3.46	3.02
Council Tax	7.6	7.8	8.0	8.3	8.5
New Homes Bonus	2.1	2.7	2.7	1.7	1.6
Core Spending Power	**15.17**	**15.08**	**14.55**	**13.46**	**13.12**
Decrease £		0.09	0.53	1.09	0.34
Decrease %		0.6%	3.5%	7.5%	2.5%

11. The overall funding reductions across the period using Core Spending Power (CSP) are much lower, with a fall of £2.05m or 13.5%. This seems far more palatable but

there are questions on how realistic the assumptions are that support the Council Tax and New Homes Bonus figures. There is a separate section later on the New Homes Bonus but at this point it is worth looking at the Council Tax as the draft settlement marked a significant change in Government policy on the Council Tax.

12. In recent years we have included an assumed increase in the Council Tax when updating the MTFS that is presented with the Financial Issues Paper. Later in the process when the Government has offered a freeze grant it has been possible to drop the Council Tax increase and replace it with the freeze grant. The policy of providing additional grant to limit increases in Council Tax is now over. As we have already seen above with our Revenue Support Grant turning negative the Government now wants to remove grants from the funding system and wants local authorities to fund themselves from Council Tax and retained business rates. The draft settlement states that the figures shown above for Council Tax are increased by 1.75% per annum throughout the period, although it is evident that significant increases have been assumed in the taxbase as well to get to the overall increases.

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Starting Council Tax	7.6	7.6	7.8	8.0	8.3
Increase of 1.75%	n/a	0.133	0.1365	0.140	0.145
Increase in Taxbase	n/a	0.067	0.0635	0.160	0.055
Assumed Council Tax	**7.6**	**7.8**	**8.0**	**8.3**	**8.5**
Increase £		0.2	0.2	0.3	0.2
Increase %		2.6%	2.6%	3.75%	2.4%

13. As we have not increased the Council Tax since 2010/11, the increases we have seen in overall income from the Council Tax have come from increases in the taxbase. For 2016/17 if we assume no change in Council Tax charge the overall income would increase by £157,919, for 2015/16 the amount was £76,900 and for 2014/15 £75,902. Alternatively this can be looked at in percentage terms and this shows an increase in the taxbase for 2016/17 of just over 2% and for 2015/16 and 2014/15 of just over 1%. In view of this pattern of growth in the taxbase the assumptions used look reasonable.

14. In constructing the updated MTFS it has been assumed that Members will not want to increase the Council Tax while the General Fund balance remains comfortably above the minimum requirement. There is limited flexibility to increase Council Tax by more than the assumed 1.75% as the draft settlement maintains the referendum limit at 2%.

15. The draft settlement includes a consultation with 17 detailed questions. However, as there are few exemplifications to inform responses and the consultation closes on 15 January it is not proposed to make a response.

16. As part of abolishing Council Tax Benefit and introducing Local Council Tax Support the DCLG had to determine whether parish councils would be affected by the reduction in council tax base or left outside the calculations. Despite the consultation responses on the scheme being massively in favour of tax base adjustments only at district level the DCLG decided that parish councils should also be affected. One of the problems with that decision was that DCLG does not have a legal power to make grant payments direct to parish councils. This meant the funding for these councils had to be included in the grants to districts and it was then for districts to determine how much of the grant was passed on. Members determined for 2013/14 that parish councils should be fully protected, a decision not shared by many authorities across the country. This meant that the figure notionally relating to parishes of £312,812 was topped up with an additional £7,460 to £320,272.

17. We do not have separate figures now for Local Council Tax Support, let alone a detailed split between the district and the parishes. In the absence of this information it is fair to assume the overall reduction in SFA of 16.3% is common to each element of the Funding Assessment. Funding to parish councils has been reduced on that basis in previous years and a consistent approach is proposed to reduce this by 16.3% for 2016/17 (£39,192). These amounts need to be seen in the light of the total parish precepts for 2015/16 being over £3m. There is a separate report elsewhere on the agenda setting out the amounts for individual parishes and this information was circulated to parish colleagues before Christmas.

b) Business Rates Retention

18. We are now coming towards the end of the third year of business rates retention and it is evident that DCLG have under estimated the Council's income from business rates. This is illustrated in the table below.

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
DCLG	2.91	2.97	3.02	3.05	3.11	3.20	3.30
Actual/Est.	2.97	3.64	4.32	4.38	4.30	4.35	4.45
Surplus	**0.06**	**0.67**	**1.30**	**1.33**	**1.19**	**1.15**	**1.15**
Levy	0.03	0.34	tbc	tbc	tbc	tbc	tbc

19. For both 2013/14 and 2014/15 as the Council was not in a business rates pool we had to pay over half of the income above the DCLG estimate as a levy, in addition to the tariff that had already been paid. This meant payments for these years of £28,000 and £335,000 in addition to payments £9.85m and £10.04m. As the Council is in a business rates pool for 2015/16 and likely to be in a pool again for 2016/17 no levy should be payable to the Treasury but some of the growth will be shared with Essex County Council and Essex Fire Authority.

20. The table above illustrates that the rate of growth in business rate income has been far higher than DCLG estimated. Part of this divergence may have been caused by the number of adjustments to the scheme after it was constructed. These include the extension of small business rate relief, the capping of increases and the introduction of retail rate relief. As all of these adjustments reduce the bills that Councils would have issued compensation is paid under what is known as Section 31 grant. This has become so significant now that for 2015/16 revised and 2016/17 it has been shown separately in the MTFS. In 2014/15 the Council received over £0.75m in Section 31 grant, this is anticipated to reduce to £0.7m in 2015/16 and £0.4m in 2016/17 due to retail relief coming to an end.

21. Whilst the amounts included in the MTFS exceed those calculated by DCLG they are still felt to be prudent. There is very little growth anticipated after 2015/16 despite the building of the retail park and other known likely developments within the district.

22. One of the other theories for why many authorities have seen income in excess of the DCLG estimates is that the DCLG allowed amounts in their calculations for losses on appeal. This is plausible but seems strangely generous and out of character. Calculating an appropriate provision for appeals remains extremely difficult as there are over 450 appeals still outstanding with the Valuation Office. Each appeal will have arisen from different circumstances and it is difficult to produce a uniform percentage to apply. This is a particular concern at the moment as there is one property in the south of the district which has a rateable value approaching £6 million and is currently being appealed. If a full provision was included in our calculations for the owners of this property being completely successful in their appeal there would be a significant shortfall.

23. Based on previous experience and discussions with the Valuation Office a provision has been calculated that is felt to be prudent, but given the size of the financial risk here it is worth mentioning the potential problem. The total provision against appeals is currently close to £4m.

24. Where losses arise on the Collection Fund due to appeals being settled they are accounted for in the General Fund in subsequent periods. In the MTFS this is shown together with any loss or surplus on the Council Tax in the Collection Fund Adjustment line. The revised 2015/16 figure includes losses on business rates of £253,000 and a surplus on Council Tax of £211,000. The 2016/17 figure includes losses on business rates of £544,000 and a surplus on Council Tax of £275,000.

25. It is unlikely that we will now get any more fresh appeals on the current rating list so no further losses are anticipated beyond 2016/17. No surpluses are anticipated on the Council Tax going forward as the taxbase calculations have allowed for growth and it would not be prudent to anticipate surpluses on top of growth in the taxbase. As neither business rate deficits nor Council Tax surpluses are anticipated beyond 2016/17 the Collection Fund Adjustment line has no amount included from 2017/18 to the end of the MTFS.

26. It has been mentioned above that the Council is in a business rates pool for 2015/16. Monitoring so far indicates that this should still prove beneficial but we are reliant on the outcomes from the other pool members. Some of these authorities have indicated they want to leave the pool for 2016/17 and some others are joining. If it becomes evident either through the subsequent outturns for 2015/16 or monitoring for 2016/17 that this Council will not benefit financially from pooling a recommendation will be made not to pool in 2017/18.

c) Welfare Reform

27. At the time of the Financial Issues Paper there was considerable concern about the Chancellor's plans to reduce welfare spending through large reductions in tax credits. However, by the time of the Spending Review the Office for Budget Responsibility had managed to find another £27 billion and the Chancellor decided that with these additional funds the changes to tax credits were no longer required.

28. It had been feared that reductions in tax credits would increase demand for local council tax support (LCTS). This was a particular concern as it was already predicted that the LCTS scheme would fall short of being self-financing in 2016/17. In order to try and limit the shortfall the scheme was changed for the first time since its introduction with the maximum level of support being reduced from 80% to 75%. Now with no significant reduction in tax credits and the introduction of the National Living Wage the trend of reductions in the LCTS caseload may continue and bring the scheme back closer to self-financing.

29. It is worth taking this opportunity to mention one of the other welfare reforms. The Benefits Cap was introduced to limit the total amount of benefits a household could receive in a year to £26,000. The introduction of this cap did not have a dramatic impact across the district. However, the reduction by £6,000 to £20,000 is likely to cause greater changes in people's behaviour and working patterns. The lower cap will be phased in across the country during 2016/17 and we have not yet been advised by the DWP when it will be applied to this district. As this will be a part year implementation, depending on the exact date, the effects of this change may be more evident in 2017/18 than 2016/17.

30. A change that has now been implemented is the Single Fraud Investigation Service (SFIS). This saw the staff that investigated housing benefit fraud transfer to the DWP. To prepare for this transfer both the Internal Audit and Housing Benefit functions were

restructured and these changes have proved positive with both areas continuing to provide good services.

31. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit. Despite delays, confusion and critical reports from the National Audit Office the scheme still continues to progress (slowly). This district is in the fourth tranche of the roll out and so will start dealing with UC cases in February 2016 for new single claimants. However, UC will not cover couples, families or the disabled and so we will be operating the current housing benefit system in parallel with UC. The latest estimate from the Major Projects Authority is that UC will not be fully operational until April 2020. There is still no clarity over the time period and process for the migration of our existing housing benefit claims to UC. The DWP is still to decide on the role it wants local authorities to perform under the new system.

32. One other aspect of welfare reform that continues is the DWP achieving their savings through reducing the grant paid to local authorities to administer housing benefit. Following a relatively modest reduction of £22,000 in 2015/16 we have been advised that the reduction for 2016/17 will be £73,000, which is a cut of over 16%.

d) New Homes Bonus

33. The amount of NHB payable for a year is determined by the annual change in the total number of properties on the council tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average council tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years. This Council has done relatively well from NHB and the amount the Council will receive for the first 5 years of NHB in 2015/16 is nearly £2.1 million.

34. In the Financial Issues Paper I suggested that in view of possible changes to the scheme the amount taken to the CSB should be capped at £2.2m. As part of the draft settlement the Government issued a technical consultation on NHB which is entitled "New Homes Bonus: Sharpening the Incentive". Whilst sharpening the incentive the various proposals are also aimed at reducing the cost by £800m, this is approximately 55% of the projected cost for 2016/17. In the paragraphs below I will set out each of the proposals in the consultation and state what assumption I have made in coming to the figures for NHB that are included in the MTFS.

35. The first proposal is to reduce the number of years that the bonus is payable for from 6 to 4. In what could be seen as an attempt to head off any protests about this the consultation also says another option would be to reduce the number of years to 3 or 2. In moving from 6 to 4 years alternative scenarios are provided of either an immediate reduction or a phased change with a reduction to 5 years in 2017/18 followed by the full reduction to 4 years in 2018/19. The figures provided for Core Spending Power (see para 10 above) indicate that the funding change is most likely to be phased so that is the assumption used for the MTFS and it has been assumed that payments will not reduce below 4 years.

36. The second proposal is to withhold NHB from authorities that have not got a Local Plan in place. Under this proposal authorities would not get any new NHB but would continue to get NHB relating to earlier years. A possible refinement mentioned is to give credit for progress made. This could mean that an authority that has published a Local Plan but not yet submitted it to the Secretary of State would receive 50% of any new NHB. For the purpose of the MTFS I have assumed that some credit will be given for progress made and that is the position we will be in for 2017/18 before reverting to full entitlement in 2018/19.

37. The next proposal is to reduce the amount of NHB payable where planning permission has only been granted on appeal. Two alternative proposals are suggested with the size of the reduction being either 50% or 100%. This would appear to be what the Government means by sharpening the incentive, although it does not sit well with the concept that planning decisions should be made purely on planning issues. As there is a time lag between planning approval and homes being built it would be quite difficult to try and analyse how much of the NHB that we have received could be lost and in any case it is questionable how reliable such past data would be as a guide to new developments coming forward and whether they will get planning permission with or without appeal. Given this level of uncertainty I have made no adjustments to the MTFS for this possible change.

38. Another proposal aimed at improving the incentive is to remove the deadweight. This is an interesting turn of phrase that means building some baseline into the calculation so NHB is only payable on growth above what would normally happen anyway. This could be achieved through a general baseline of 0.25% or a more complex formula could be applied to each authority individually based on their previous growth. However, the Government does acknowledge the concern that in introducing a baseline it could reduce the significance of NHB for some authorities and have the perverse impact of eroding the incentive effect. Given the uncertainty about the implementation of this measure and the form it might take I have made no adjustments to the MTFS for it.

39. The final proposal is to protect authorities that are particularly adversely impacted by changes to NHB. No indication is given of an amount or percentage reduction that would qualify for help or how long such help might be phased over. Even though we may well qualify for some assistance, given the likely reduction of over £1m, to be prudent no additional support has been anticipated in the MTFS.

40. Having gone through the potential changes it is now appropriate to set out the cumulative effect below by comparing the MTFS projections with the Government's Core Spending Power figures.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
NHB in Core Spending Power	2.7	2.7	1.7	1.6
NHB in MTFS	2.7	2.2	1.4	1.6

41. The amounts are lower in 2017/18 and 2018/19 due to the assumed reduction of 50% for new NHB in 2017/18 due to the Local Plan still being work in progress. By 2019/20 the figure has improved as the relatively poor year of NHB due to lower than average growth in 2014/15 drops out of the calculation and is replaced by a year assumed to be closer to the average. The amounts that will be included in the CSB and DDF in the MTFS are set out below.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
CSB	2.1	2.1	1.6	1.6
DDF	0.6	0.1	-0.2	0
NHB in MTFS	**2.7**	**2.2**	**1.4**	**1.6**
Change in CSB	0	0	0.5	0

42. The consultation on the proposed changes to NHB closes on 10 March and it is intended to submit a draft response to the Resources Select Committee on 9 February. It will be necessary to adjust future versions of the MTFS once the exact nature of the changes is known but I believe what is set out above is sufficiently prudent at this time.

e) Development Opportunities

43. Previous budget reports have mentioned the various development sites but amounts have only ever been included in the MTFS for a particular site when there is sufficient certainty around its delivery. As the Council now has sole ownership of the Langston Road site and has awarded the contract for highways works it is appropriate to start building approximate amounts into the MTFS. There has been very high levels of interest from retailers as this is the only retail park currently being constructed inside the M25 and so demand for retail space exceeds supply. In this climate our professional advisers have stated that an annual rental income of £2.5m is achievable. I have taken a prudent view and reduced this to £2m to allow for any shortfall, management costs and interest. As the first attempt to let the main construction contract was unsuccessful the projected opening date for the park has moved back from Christmas 2016 to Easter 2017. As some leases will have initial rent free periods I have structured the net rental income in the MTFS so that £0.26m is included in 2017/18, increasing to £1.65m in 2018/19 and then the full £2m in 2019/20. As the project progresses the amounts in the MTFS will be refined but it is now unrealistic to not include some income for this project, particularly as the cost of construction is in the capital programme.

44. Unfortunately progress on the site in the St Johns area of Epping has been much less encouraging. It appears that not all of the parties involved in the project have the same desire as this Council to take forward this exciting mixed use development. An amount has been included in the capital programme to allow the land purchase to proceed but no other amounts have been allowed for in the MTFS.

f) Income Streams

45. The Council generates significant revenues from its various chargeable activities and these are closely monitored throughout the year. The position on the key income streams at the end of December is –

Activity	Original Estimate	Estimate for 9 months	Actual for 9 months	Possible Shortfall/(Surplus)
Off Street Parking	£1,200,790	£851,896	£889,099	(£50,000)
Building Control	£386,000	£290,360	£360,564	(£75,000)
Dev. Control	£595,000	£425,620	£642,536	(£200,000)
Land Charges	£215,000	£164,640	£143,353	£50,000
Licensing	£295,060	£242,930	£246,918	on target
Fleet Ops.	£230,340	£175,250	£173,403	on target

46. Overall this is a very positive position, particularly for off street parking and development control. Whilst it is pleasing that Building Control is performing so well it does need to be remembered that this is a ring fenced account that cannot contribute more widely to the General Fund.

47. The other key income stream worth commenting on is the market at North Weald. After many years of declining income the decision was taken to re-let this contract. The tender exercise was successful and has stopped the decline. The new operator has made a positive start and the contract includes an income share, so our revenue may grow again in subsequent periods.

g) Waste and Leisure Contract Renewals

48. Two of the Council's high profile and high cost services are provided by external contractors, Biffa for waste and SLM for leisure. Following an extensive competitive dialogue procedure Biffa took over the waste contract in November 2014. The contract hand over and the first six months of the new service went well. However, in May the service was re-organised on a four day week basis and considerable difficulties were encountered. The service has now been stabilised with Biffa committing significant additional resources. The service was procured at a lower cost and the savings were included in the MTFS. Biffa are confident that they will be able to fulfil their obligations at the price they tendered and have indicated that the additional resources will stay in place until the transition is completed.

49. The leisure management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. A Leisure Strategy has been prepared and this included the intention to follow a similar route to the waste procurement with the use of competitive dialogue. The new contract will not be let before the old contract has expired so a negotiation has been undertaken to further extend the current contract. The MTFS anticipates that the new contract will commence during 2016/17 and includes CSB savings of £75,000 in 2016/17 and a further £175,000 in 2017/18. The size and timing of these savings will be kept under review as the competitive dialogue procedure progresses.

h) Transformation

50. A budget of £150,000 was included in the DDF for 2014/15 to allow the Chief Executive to take forward Transformational Projects. This funding has now been re-phased with £33,000 in 2015/16 and £77,000 in 2016/17. The bulk of the money, approximately £110,000, is being spent on a fixed term 18 month contract for the Head of Transformation. The remaining £40,000 is being used by Legal Services for electronic records and document management.

51. During 2015 a recruitment exercise was conducted for a Head of Transformation and the successful candidate has now been in post for a couple of months. The MTFS includes a saving of £100,000 from transformation in 2016/17 and the Head of Transformation is working on a number of ideas to deliver efficiencies.

52. As part of the revised estimates for 2014/15 Members created an Invest to Save budget of £0.5m. This fund is intended to finance schemes which can produce reductions to the net CSB requirement in future years. There have been a number of schemes coming forward including the use of LED lighting in the car parks and investing in additional equipment for the Grounds Maintenance Service. Just over half of the fund has been allocated so far and the balance will remain available for other projects coming forward during 2016/17.

The ceiling for CSB net expenditure be no more than £13m including net growth

53. Annex 2 lists all the CSB changes for next year. The MTFS in July included net CSB savings of £660,000 for 2016/17 and the revised 2015/16 budget had net savings of £573,000. The most significant item not already covered above is a change in the rate at which local authorities have to pay National Insurance contributions. Currently to reflect the provision of an occupational pension scheme local authorities pay contributions at a discounted rate of 10.4%. From 2016/17 the discount is removed and contributions increase to 13.8%, which adds £450,000 to the CSB. No adjustment had been made to the MTFS in July for this change as the Local Government Association had been campaigning for funding for this change in accordance with the New Burdens Doctrine. This doctrine requires the Government to match new costs imposed on local authorities with new funding. However the Government has determined that the doctrine does not apply in this case.

54. As greater savings have been achieved than had been allowed for in July, the inclusion of the additional £450,000 for the change in national insurance payments has only pushed the projected CSB £250,000 above the target. The updating of the estimates for business rate income has meant that despite this increase in the CSB the projected use of the General Fund in 2016/17 has reduced by £115,000 and so the higher level of CSB is clearly affordable.

55. The General Fund summary at Annex 1 shows that the CSB total is £250,000 above the July CSB target of £13m and it is therefore proposed to increase the CSB target to £13.25m.

<u>The ceiling for DDF net expenditure be no more than £0.55m</u>

56. The DDF net movement for 2016/17 is £0.697m, Annex 3 lists all the DDF items in detail. The largest cost item is £552,000 for work on the Local Plan. The Local Plan is a substantial and unavoidable project and from 2015/16 to 2018/19 DDF funding of £1.47m is allocated to it. The Director of Neighbourhoods has been asked to provide regular updates to Cabinet to monitor this project and the expenditure incurred on it. Other significant items of expenditure include £110,000 for the planned building maintenance programme and £68,000 for document scanning in Development Management.

57. At £0.697m the DDF programme is £147,000 above the target for 2016/17. However, this needs to be balanced with the reduction in 2015/16 as the predicted spend in the previous MTFS of £1.844m has been reduced by £0.795m to £1.049m. Taking the two years together there is a net decrease in DDF spending of £0.648m. Therefore, it is proposed to increase the DDF ceiling for 2016/17 from £0.55m to £0.697m. The DDF is predicted to continue to have funds available through to the end of the period covered by the MTFS.

<u>The District Council Tax be frozen</u>

58. Members have indicated that they want to continue to freeze the Council Tax over the life of the MTFS.

<u>That longer term guidelines covering the period to March 2018 provide for</u>

The level of General Fund revenue balances to be maintained within a range of approximately £4.0m to £4.5m but at no lower level than 25% of net budget requirement whichever is the higher;

59. Current projections show this rule will not be breached by 2019/20, by which time reserves will have reduced to £7.38m and 25% of net budget requirement will be £3.11m.

Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.

60. The outturn for 2014/15 used £591,000 (including a transfer of £0.5m to the Invest to Save Reserve) from reserves and the revised estimates for 2015/16 anticipate a further reduction of £1.55m (including the use of £3m to fund capital projects). This would leave the opening revenue reserve for 2016/17 at £7.74m and with the estimates for 2016/17 showing a use of £36,000, reserves at the end of 2016/17 would be just over £7.7m. The Medium Term Financial Strategy at Annex 5 shows deficit budgets throughout the period. The level of deficit peaks at £345,000 in 2017/18 and reduces to £3,000 in 2019/20, although this is achieved through additional CSB savings of £250,000 in 2017/18, £150,000 in 2018/19 and a further saving of £100,000 in 2019/20.

The Local Government Finance Settlement

61. This has already been covered in some detail above and whilst the figures are currently subject to consultation it is not anticipated that they will change significantly.

The 2016/17 General Fund Budget

62. Whilst the position on some issues is clearer now than it was when the FIP was written there are still significant risks and uncertainties. The consultation on New Homes Bonus sets out a range of possible changes to the scheme and a wider consultation is likely to follow on the future funding and responsibilities of local authorities. It is clear whatever the changes are to New Homes Bonus our income will reduce the question is by how much.

63. An area of concern highlighted in the section on Business Rates Retention is the transfer of financial risk to billing authorities. The key risk here is the large number of appeals that are still outstanding against previous rating assessments and the difficulty in calculating an appropriate provision. The backlog of appeals with the Valuation Office is reducing but the single largest appeal against us, on the property with the £6m rateable value, is still to be settled and so remains a significant financial risk.

64. It is clear that the Government now wants local authorities to be reliant on income from their activities and local taxation rather than central grants. This is a direction that we had seen coming and the work done to move the Council towards self-sufficiency means we are in a better position now than many other authorities.

65. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 5. Annexes 5a and 5b are based on the current draft budget with no Council Tax increase (£148.77 Band D) throughout the period of the strategy.

66. Members are reminded that this strategy is based on a number of important assumptions, including the following:

- Future Government funding will reduce as set out in the draft settlement, with Revenue Support Grant turning negative in 2019/20.
- CSB growth has been restricted with an adjusted CSB target for 2016/17 of £13.25m achieved. Known changes beyond 2016/17 have been included but if the new leisure contract and the accommodation review do not yield the predicted savings other efficiencies will be necessary.
- It has been assumed that the retail park will achieve its revised opening date of Easter 2017 and that income will be in line with the consultant's projections.
- It has been assumed that 50% of new homes bonus will be payable to authorities who can demonstrate substantial progress and that our progress will be deemed substantial.
- All known DDF items are budgeted for, and because of the size of the Local Plan programme the closing balance at the end of 2019/20 is anticipated to reduce to £0.83m.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets during the period will reduce the closing balances at the end of 2019/20 to £7.3m or 59% of NBR for 2019/20, although this can only be done with further savings in 2017/18 and subsequent years.

The Housing Revenue Account

67. The balance on the HRA at 31 March 2017 is expected to be £2.01m, after deficits of £69,000 in 2015/16 and £493,000 in 2016/17. The estimates for 2016/17 have been compiled on the self-financing basis and so the negative subsidy payments have been replaced with borrowing costs.

68. The process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other is no longer with us. What we have for the next four years is a requirement to reduce rents by 1%. This change was one of several that have impacted on the HRA Business Plan and a review will be undertaken during 2016/17 to determine the necessary measures to respond to these changes.

69. Members are recommended to agree the budgets for 2016/17 and 2015/16 revised, noting that in 2016/17 the contribution to the Self-Financing Reserve has been suspended and that although there are deficits in both years the HRA has adequate ongoing balances.

The Capital Programme

70. The Capital Programme at Annex 6 shows the expenditure previously agreed by Cabinet. Members have stated that priority will be given to capital schemes that will generate revenue in subsequent periods and this has been strengthened by stating that new borrowing should only be taken out to finance schemes with positive revenue consequences. This position has been included in previous Capital Strategies and has been reinforced by the new position that capital spending will require borrowing and thus impacts on the general fund revenue balance through interest payments.

71. Annex 6f sets out the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, which exceeds £171m over five years, it is anticipated that the Council will still have £3.5m of capital receipt balances at the end of the period (although these are one-four-one amounts to be used in the house building programme). It should be noted that a number of schemes are currently being considered and that these could involve additional expenditure to fund developments.

Risk Assessment and the Level of Balances

72. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2016/17. Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council at its meeting on the 16 February will consider the recommendations of the Cabinet on the budget for 2016/17 and will determine the planned level of the Council's balances. Members will consider the report of the CFO at that meeting.

The Prudential Indicators and Treasury Management Strategy 2016/17

73. Since 2004/05 it has been necessary to set affordable borrowing limits, limits for the prudential indicators and a Treasury Management Strategy. These elements of the budget requirements will be set out in a separate report to Cabinet on 4 February.

74. Due to the £190m of debt for the HRA self-financing the Council is no longer debt free and the Prudential Indicators and Treasury Management Strategy have been amended for this. Ongoing difficulties persist in financial markets but higher capital requirements have eased concerns about some banks, Arlingclose still advise a very restricted counter party list but have allowed some increase in suggested investment periods.

75. The size of the Capital Programme means additional borrowing will be required during 2016/17. Members have indicated that borrowing should only be undertaken to finance schemes that produce net savings overall and this principle will be included in the updated Treasury Management Strategy.

Resource Implications:
The report details proposed growth items and potential savings, the implications are set out above and will vary depending on the course of action decided by Members.

Legal and Governance Implications:
None.

Safer, Cleaner, Greener Implications:
Items related to the Safer, Cleaner, Greener initiative are included in the report.

Consultation Undertaken:
This Committee previously considered the draft growth lists and various invest to save suggestions.

Background Papers:
Financial Issues Paper – see agenda of 20 July 2015
Draft Growth List – see agenda of 12 November 2015

Impact Assessments:
The Directorate proposing the growth or savings will have considered the equalities impacts for each budget proposal.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although if the necessary savings highlighted are not actively pursued problems could arise in the medium term.