FOR PUBLICATION

GENERAL FUND REVENUE BUDGET SUMMARY(R000)

MEETING:	1. CABINET 2. LEADER
DATE:	1. 26 JANUARY 2016 2. 19 JANUARY 2016
REPORT BY:	CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER
WARD:	ALL
COMMUNITY FORUM:	ALL
KEY DECISION REF:	457

FOR PUBLICATION

Background papers - Working papers in Accountancy Services

1.0 PURPOSE OF REPORT

1.1 To provide the Cabinet with an update on the development of the General Fund Revenue Budget for 2016/17 and future years, and to provide an update on the actions currently being taken to address the forecast budget deficits.

2.0 RECOMMENDATIONS

2.1 To note the updated budget projections for 2015/16 and future years (**Appendix A**).

2.2 That work continues to refine the draft estimates and to develop budget saving proposals.

3.0 BACKGROUND

3.1 The Council's Budget Strategy is to set a sustainable and affordable budget over the medium term. The budget forecasts included in this report cover the current and five future financial years.

3.2 The first draft of the portfolio budget reports were considered by the Cabinet on 15 December. The reports included details of any significant budget variances between years.

3.3 It was not possible to produce a reliable overall budget summary report for the December meeting as some of the key financing information (Government grant, Business Rates income and Council Tax income) was not available at that stage. It was, however, apparent at that stage, based on estimates of the financing elements of the budget, that an overall budget deficit in 2015/16 and in all future financial years was likely. A number of actions have been put in place to help reduce the deficit forecasts including a freeze on non-essential expenditure, strict vacancy control and the setting up of a series of a budget challenge sessions to review in detail the first draft of the portfolio budgets.

3.4 Estimates of the financing sources have now been produced. This report provides details of the overall budget situation covering the period 2015/16 to 2020/21 (**Appendix A**).

4.0 PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 Once again this year the Provisional Settlement, which provides details of the Government funding allocations, was announced in mid-December, some weeks later than had been the norm previously. The Provisional Settlement is dependent on the outcome of the Government's Spending Review and this was not announced until late November. The Provisional Settlement was announced on 17th December, but much of the detail was released over the ensuing days. The late announcement is a major concern as it only leaves a few weeks in which to address the issues that arise from it.

4.2 The Settlement is "provisional" in that it is subject to a period of consultation before the final settlement is announced, probably at the end of January. The Provisional Settlement provides some clarity over the funding available to the Council potentially for the next four financial years. Key elements of the Settlement are explained below.

4.3 **Settlement Funding Assessment** (SFA) – this is the funding that the Government proposes to make available to the Council and includes elements for Revenue Support Grant and other rolled-in grants such as previous Council Tax Freeze grants and Efficiency Support Grant. The table below show the provisional SFAs for each financial year and compares them to what we assumed in the medium term financial forecast at this stage last year:

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Provisional - SFA	£5,634k	£4,923k	£4,388k	£4,100k	£3,779k
Change between years: £		-£711k	-£535k	-£288k	-£321k
%		-12.6%	-10.9%	-6.6%	-7.8%
SFA assumed in MTFP		£4,658k	£4,038k	£3,792k	£3,563k
Change in SFA		+£265k	+£350k	+£308k	+216k

The table above shows that:

- The reduction in each year is not as great as that assumed in the previous medium term financial plan.
- There is significant reduction in the SFA in 2016/17 but the scale of the reduction decreases in future years; and
- The cumulative reduction from 2015/16 to 2019/20 is £1.8m or 33%.

4.4 **Council tax** – there will be no tax freeze grant scheme in 2016/17. For district councils a referendum will be required for increases of 2% or more. However, there is a special concession for district councils in the lower quartile of the Council Tax league table which will allow them to increase the Council Tax by £5 per annum. CBC is one place outside of lower quartile, missing out by 31 pence; a £5 increase would be equivalent to a 3.45% increase which would generate an extra £60k above the 1.99% referendum limit. There is also an additional 2% concession for adult care authorities, which applies only to the upper-tier councils in two-tier areas.

4.5 **New Homes Bonus** – the Council achieved by far its best growth in new homes in the last year. The allocation for Year 6 of the scheme (for growth recorded to October 2015) is £296k, almost double the allocation received for the previous year and well above the £121k average in the first five years of the scheme. The cumulative allocation for Years 1 to 6 which will be paid in 2016/17 is £902k which is in line with what we had included in recent updates to the medium term financial plan. Whilst this is good news for 2016/17, the Provisional Settlement also included details of proposed changes to the scheme after 2016/17. The proposed changes, which will be subject to a consultation process, are designed to reduce the cost of the scheme and to free up resources for adult social care. The proposals include reducing the period for which each year's allocation is paid from 6 to 4 years and reducing the allocations in any year:

(a) If a Local Plan is not in place;

(b) Where planning permission is granted on appeal; and

(c) To allow for an element of natural growth (possibly 0.25%).

It is not yet clear if the reduction to a four-year allocation will be introduced in 2017/18 and whether there will be a stepped reduction e.g. to 5 years in 2017/18 and then to 4 years from 2018/19.

4.6 **Flexible use of capital receipts** – the general rule is that capital receipts can only be used to finance new capital expenditure or to repay debt. The Government is proposing introducing a relaxation to this rule, for three financial years commencing April 2016, which will allow capital receipts to be used for revenue expenditure on transformation projects which are designed to save money. There will be a requirement to produce and approve an Efficiency Strategy before the start of the year as part of the budget setting process which will include;

- For each project that will make use of the flexibility, a cost benefit analysis, showing the planned expenditure and the forecast savings.
- From 2017/18 and in future years, a report on the performance achieved compared to that planned on projects approved in previous years.

4.7 **4-year settlement offer** – Indicative Settlement Funding figures for future years were included in the Provisional Settlement but the Government has said that it will offer any council that wishes to take it up a four-year funding settlement. The 'offer' is likely to include a requirement to produce an Efficiency Plan. The benefits and risks of accepting or rejecting the offer have not yet been made clear and further details are awaited.

5.0 2015/16 REVISED BUDGET

5.1 At the start of the year, there was a budget savings target of £586k which if achieved would have left a deficit of £94k which was to be met either from reserves or further savings. The quarterly budget reports during the year highlighted the fact that the savings targets were not being met but increasing income and reduced expenditure in other areas helped to mitigate this issue. At the end of Quarter 2 the deficit forecast stood at £393k.

5.2 The latest revised budget for 2015/16 (**Appendix A**) shows a deficit of £102k. The Portfolio budget figures are those that were reported to the Cabinet in December. Since then a lot of work has been done, and is still in progress, to identify budget savings. There is a line in the budget summary in Appendix A, described as "Savings Identified", which shows a figure of £445k in the 2015/16 Revised Budget column. The 'savings identified' total includes numerous budget adjustments, the most significant of which are an increase in planning fee income (£119k), a one-off income from commuting sub-station leases (£105k), car parking income (£35k) and the business rates saving on the old Queen's Park Sport Centre following its closure (£27k).

5.3 The "financing section" of the budget, showing income from Council Tax, Government grants and retained Business Rates, generally remains fixed at the original budget estimates. There are, however, elements of the retained business rates income which are subject to in-year changes, namely the Business Rates Pooling gain and the Levy payable to the Government. 2015/16 has been another bad year in terms of the impact of back-dated business rate appeals. One issue in particular, purpose-built doctors surgeries, has had a significant impact on the amount of money that has had to be set-aside as a provision for refunds (£1.4m), thereby reducing the income available for distribution. This is an issue that was only confirmed after the start of the financial year and is, therefore, likely to impact on the income of the other Derbyshire authorities and thereby reduce the amount available for distribution under the local Pooling arrangement. At this stage it has been assumed that the Council's pooling gain will reduce to £200k (from £404k per the original budget) but this revised estimate is subject to confirmation once all authorities have completed their business rates forecasts which they must do by the end of January. The other element of the business rate account that will be adjusted in the year is the Levy due to the Government. The Levy will reduce as the income on which it is based has reduced dramatically due to the provision for appeals issue. The £383k saving on the Levy will be transferred into the Business Rates Risk Reserve so that it can then be used in 2016/17 to help offset the Council's share of the estimated deficit on the Business Rate Account at the end of March 2016.

5.4 In the remaining few months of the financial year every effort will be made to eliminate the £102k revised forecast deficit. Also, in order to avoid any 'surprises' at the end of the year, budget holders will continually monitor their budgets and report any changes so that they can be included in the final budget report which will go to the Cabinet in February.

6.0 BUDGET FORECAST 2016/17

6.1 The forecast for 2016/17 in **Appendix A** shows a deficit of **£1.5m** but this is before savings targets are included. The budget assumes that full amount of the estimated New Homes Bonus allocation (£902k) will be used to support the budget and that the Derbyshire Pooling gain is restored to the £400k level. The Business Rates income forecast has been reduced to reflect the on-going loss of income due to successful appeals.

6.2 The budget saving proposals are still being developed and will have to be subjected to a rigorous risk assessment before they are included in the final budget report.

6.3 The Government Funding Settlement has not yet been confirmed but the expectation is that it will not change significantly from that announced in the Provisional Settlement. The Business Rates Pooling Gain figure (£412k) is also provisional at this stage and could be subject to considerable variance depending on the final business rate income forecasts for each of the Derbyshire districts.

6.4 Once again, the challenges for 2016/17 will be:

(a) Setting a balanced budget; and

(b) Delivering the savings proposals in time and at the required level.

7.0 MEDIUM TERM FORECASTS

7.1 The draft estimates in **Appendix A** assume cuts in the Funding Settlement of 10.9% in 2017/18, 6.6% in 2018/19, 7.8% in 2019/20 and 5.0% in subsequent years. Retained business rate income is forecast to grow steadily in future years and remain £1.2m above the target in all years. The assumption on council tax increases in future years is for 1.99% in each year.

7.2 Business Rates Pooling - From 2017/18 it has been assumed that the £412k Derbyshire Pooling gain will cease. Whilst there has been no formal announcement of this change, at a recent CIPFA training event a well-informed source indicated the change was likely and, therefore, it would be prudent to assume this loss. It is however possible that the loss could be offset by a new revenue steam from another pooling arrangement, this time a ‘virtual pool’ within the Sheffield City Region (SCR) which is designed to retain the Government’s share of business rates growth (which is quite distinct from the Levy saving in the Derbyshire pool). It would not however be prudent to budget for any income from this source at this stage as:

(a) No scheme has yet been agreed with DCLG and

(b) It is not possible to estimate what the amount would be.

7.3 New Homes Bonus – beyond 2016/17 it is difficult to know how the grant will be affected by the proposed changes referred to in paragraph 4.5. For now the medium term forecast assumes that the grant will be stepped down to £750k in 2017/18 and then to £600k in 2018/19 and all future years.

7.4 The latest forecast deficits are £2.2m in 2017/18 and increasing to £3.5m by 2020/21, this is <u>after</u> allowing for the estimated savings from the GPGS programme but <u>before</u> the recurring impact of any other savings plans which are yet to be agreed.

7.5 The forecasts will be updated when the grant settlement figures are finalised and as other variances are identified. The scale of the forecast deficits is such that further significant savings will have to be found in future years.

8.0 RESERVES

8.1 The **General Working Balance** was reduced from £1.75m to £1.5m at the start of this financial year, with the £250k being used to support this year's budget. The on-going financial risks associated with the business rates retention scheme and other funding sources would suggest that it would be imprudent to consider reducing the level any further until a more stable financial footing is established. In addition to the General Working Balance the Council maintains a number of other reserves. Many of the reserves are earmarked and committed for specific purposes, such as property repairs and vehicle & plant replacements.

8.2 Over recent years the Council has operated three major reserves where it has wider discretion on how they are used – the Budget Risk Reserve, the Invest to Save Reserve and the Service Improvement Reserve. The Budget Risk Reserve and the Invest to Save Reserve are both virtually fully committed leaving only the Service Improvement Reserve with a sizeable uncommitted balance (£611k).

8.3 Given the size of the current budget deficit forecast for 2016/17 and the significant lead-in time inherent in many savings initiatives it is likely that the Council will need to use reserves to balance the budget. The options for doing this are limited due to the current forecast level of reserves and the fact that there are other competing demands for their use. The Capital Receipts Flexibility Scheme could provide some relief, allowing the previously planned use of reserves to fund transformation projects to be replaced by capital receipts, but this clearly is dependent on:

(a) Generating the required capital receipts; and

(b) Using them for transformation projects being preferable to using them for capital projects or repaying debt.

8.4 The opportunities and implications of using reserves to support the budget will be explored further and proposals included in the final budget report in February.

9.0 CONCLUSIONS & NEXT STEPS

9.1 This report presents the first draft of the budget for 2016/17 but there are some elements of the budget that are still to be confirmed and other budget variances could be identified during the coming weeks.

The latest forecast shows deficits in each financial year which are increasing as the cuts in funding continue.

9.2 The full Council will approve the final budget and the Council Tax for 2016/17 at its meeting on 25 February. The Cabinet will have to agree its final budget proposals ahead of the Council meeting. In the meantime, the budget forecasts will continue to be updated as the Provisional Local Government Finance Settlement proposals and other budget savings/variances are confirmed. The Budget Workshop sessions for Cabinet Members and the Corporate Management Team will continue to meet in the run-up to setting the budget in order to consider the updated forecasts and agree further savings proposals for inclusion in the final budget.

10.0 RISK MANAGEMENT

10.1 There are a number of significant risks inherent in any budget forecasting exercise and the risks increase as the period covered increases. The most significant budget risks at the moment include:

- Business rate pooling opportunities (SCR) and threats (Derbyshire Pool).
- Business Rate appeals, valuation changes, etc. - particularly the full revaluation due in 2017. An increase in the 80% Mandatory Relief costs as schools convert to academies.
- New Homes Bonus allocations – the implications of the changes to the scheme which are currently being consulted on, particularly the reduction in the period of entitlement from 6 to 4 years.
- Achieving income targets for rents, fees, charges and interest.
- Delivering the required budget savings on time and to the value required. It is important that a rigorous risk assessment is undertaken for each saving proposals before they are included in the final budget report.
- The introduction of Universal Credit – the full implementation at a future date. There are unknowns in terms of the extent, timing and funding of these changes.
- Retender of the Waste Collection contract in 2018, a provisional sum has been built into the forecasts.

These and other financial risks will be evaluated more fully in the Budget Risk & Sensitivity Analysis, which will be included in the final budget report in February.

11.0 <u>LEGAL CONSIDERATIONS</u>

11.1 It would be unlawful for the Council to set a deficit budget. Section 33 of the Local Government Finance Act 1992 requires the Council to set a balanced budget.

12.0 <u>EQUALITIES IMPACT ASSESSMENT</u> (EIA)

12.1 The budget process and forecasts produced do not require an EIA but any decisions to vary budgets and service provision later in the process might well require EIA's specific to those options.

13.0 <u>RESOURCE IMPLICATIONS</u>

13.1 This report provides details of the revised budget for 2015/16, the first draft budget for 2016/17 and updated forecasts for future years.

14.0 <u>RECOMMENDATIONS</u>

14.1 To note the updated budget projections for 2015/16 and later years (**Appendix A**).

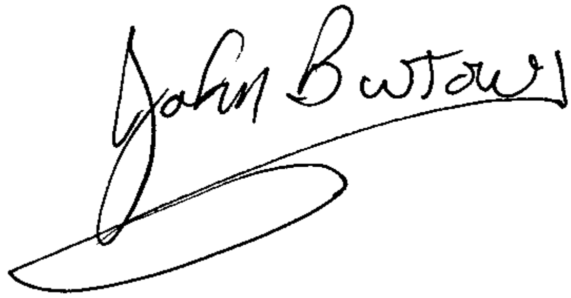
14.2 That work continues to refine the draft estimates and to develop budget saving proposals.

15.0 REASONS FOR RECOMMENDATIONS

15.1 To keep Members informed on the development of the budget proposals for 2016/17 and to provide an update on the medium term financial forecasts.

H. BOWEN	**B. DAWSON**
CHIEF EXECUTIVE	**CHIEF FINANCE OFFICER**

Officer recommendation supported.



Signed: Cabinet Member

Date: 19 January, 2016

Further information on this report can be obtained from Barry Dawson, Chief Finance Officer (Tel: 01246 345451).