FOR PUBLICATION

2016/17 BUDGET AND MEDIUM TERM FINANCIAL PLAN

MEETING:	1. COUNCIL 2. CABINET 3. LEADER IN CONSULTATION WITH THE DEPUTY LEADER
DATE:	1. 25 FEBRUARY 2016 2. 23 FEBRUARY 2015 3. 16 FEBRUARY 2016
REPORT BY:	CHIEF EXECUTIVE & CHIEF FINANCE OFFICER
WARD:	ALL
COMMUNITY ASSEMBLY:	ALL
KEY DECISION REF:	601

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1.0 PURPOSE OF REPORT

1.1 To consider the draft General Fund budget report and to make recommendations to the full Council on the budget allocations and council tax level for 2016/17.

2.0 RECOMMENDATIONS

2.1 Cabinet recommends to Council that it:

2.1.1 Approves the revised budget for 2015/16 (Section 5).

2.1.2 Notes the Local Government Finance Settlement (Section 7).

2.1.3 Supports in principle the offer of a four-year settlement subject to receiving a full report on the implications of the offer once they are known (paragraph 7.2).

2.1.4 Notes the Collection Fund and the Tax Base forecasts (Section 11).

2.1.5 Approves the Portfolio budgets and the overall revenue budget summary for 2016/17 (Section 13 and Appendix A).

2.1.6 Delegates authority to the Chief Finance Officer in consultation with the Leader, Deputy Leader and Chief Executive to review what is required to submit an Efficient Strategy for the Council to ensure that maximum opportunity is taken from the flexibility in relation to capital receipts (paragraphs 13.8).

2.1.7 Notes the budget forecasts for 2016/17 and the medium term (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).

2.1.8 Approves the estimates of reserves including:

a) Maintaining the General Working Balance at £1.5m (Section 16 and Appendix H).
b) Allocating £40k from the Invest to Save Reserve and £110k from the Service Improvement Reserve to finance the £150k budget growth request for support to deliver the Council's savings targets (para's 16.5 and 16.6) ;
c) Allocating £245k from the Property Repairs Fund to fund capital programme schemes (para. 16.7).

2.1.9 Notes the budget risks and sensitivity analysis (Section 19).

2.1.10 Agrees to cease the Local Business Rate Retail schemes for which the Government will no longer be providing funding. (para. 20.2).

2.1.11 Approves the Cabinet's recommended £5 Council Tax increase for 2016/17.

2.1.12 Approves the 2016/17 Council Tax Requirement and financing (Appendix J).

2.1.13 Notes the Chief Financial Officer's assurances (Section 24).

3.0 BACKGROUND

3.1 This report covers the General Fund revenue budget and is one part of a suite of budget reports which together make up the Medium Term Financial Plan. The other budget related reports include the HRA Budget, HRA Rent Setting, HRA Capital Programme, General Fund Capital Programme and Treasury Management reports.

3.2 The Council's Budget Strategy (**Appendix C)** is to set a sustainable and affordable budget over the medium term. This report looks ahead over the coming five financial years to determine the resources available, what are the spending pressures/priorities and how a balanced budget can be achieved.

3.3 The major funding sources for the General Fund are Government grant, business rates growth, fees & charges (particularly car parking income), rental income from the Council's extensive industrial & commercial property portfolio and the council tax. The Government is, therefore, able to regulate a large proportion of the resources available to the Council through the grants it provides and by placing restrictions on Council Tax increases.

3.4 At a national level the Government is committed to balancing the public finances and the cuts in the funding for local government will continue over the next few years. The Chancellor's Autumn Statement in November 2015 indicated that the cuts in public expenditure are likely to continue through to 2019/20 when a budget surplus is forecast.

3.5 The Autumn Statement/Spending Review in November 2015 also included a number of other changes that will impact on local government, including:

- The introduction of an apprenticeship levy from April 2017. It will be set at 0.5% of an employer's pay bill less an allowance of £15k. For the council the cost could be around £70k, to be shared between the General Fund and Housing Revenue Account.
- Flexibility for local authorities to use capital receipts to fund revenue costs on transformation projects which produce on-going savings.

3.6 The Local Government Association and others have issued warnings about councils' ability to continue to deliver services, both discretionary and statutory, in the future and about the increasing likelihood that some councils could be reaching a tipping point.

3.7 The Local Government Finance Review introduced major changes to the funding arrangements for Local Government from April 2013. The continuing late announcement of funding settlements and the complexities of the Business Rate Retention scheme have made the budget setting process very difficult again this year.

3.8 **This report does not allow for the impact of the possible award of 80% business rates mandatory relief to the local NHS Trust**. An agent acting on behalf of a number of NHS Trusts has written to their local councils claiming that the Trusts are entitled to 80% mandatory relief. The Council did not receive one of the claimed 100 letters that went to billing authorities requesting the relief at the end of January. Nationally, this is a very significant issue given the size of the premises concerned, the potential on-going loss of Business Rate income is significant and the cost of up to six years back-dating will be enormous. For the Council the on-going loss of income from its 40% share is approximately £0.3m per annum (80% x £0.8m) and £2m of a back-dated refund (40% x £5m). At the national level the Local Government Association has taken up the issue and is currently seeking legal advice from counsel. If there any developments on this issue by the date of the Council meeting an update will be provided at the meeting.

3.9 The Council Tax must be set at the Council meeting on 25th February, which means that the Cabinet must now finalise its proposals for achieving a balanced budget.

4.0 POLICY & FINANCIAL PLANNING FRAMEWORK

4.1 A copy of the Council's Financial Strategy is attached at **Appendix D.** Its overall aim is to establish a framework for aligning the revenue and capital spending proposals with the Council's strategic priorities. This report covers the application of the strategy for the next five years. The Medium Term Financial Plan (MTFP) itself is supported by other financial strategies including the Capital Strategy, the Treasury Management Strategy and the Asset Management Plan.

4.2 The MTFP is just one of a number of plans and strategies that link into the overall Corporate Plan; others include the Workforce Plan, the HRA Business Plan, the Local Development Framework, etc. These are designed to help ensure that the Council provides efficient and effective services, delivers value for money and achieves continuous improvement.

4.3 The Corporate Plan should guide the Council's resource allocation and performance management arrangements. The Corporate Plan has been developed in tandem with the preparation of the Medium Term Financial Plan and both plans will be included on the same agendas for the Council and Cabinet meetings.

5.0 REVISED BUDGET 2015/16

5.1 The Council approved the original budget for 2015/16 on 26th February 2015. The original budget allowed for a reduction in General Government Grant (Settlement Funding) of £0.9 million and a reduction in retained Business Rates income of £0.7 million. The Council Tax was frozen at £144.89 for a Band 'D' property. After allowing for planned savings of £586k this left a balance of £94k to be met from other savings to be identified in the year or from reserves.

5.2 2015/16 has proved a difficult year in terms of budget management. There have been many significant budget variances, both increases and decreases. Budget monitoring reports were presented to the Cabinet and full Council during the year and the position changed quite significantly at each stage. The table below provides a summary of the net forecast at each reporting stage and a commentary on the key reasons for the changes:

Table – 2015/16 Surplus / (Deficit) Forecasts Through the Year

Date	Net surplus / (deficit)	Change on previous
Feb 15 – approved budget	(94)	
July '15 – to end of month 4	(490)	(396)
Sept – end of quarter 2	(393)	97
Dec'15 – revised budget	(102)	291
Feb'16 – this final budget report	225	327

The revised portfolio budgets for 2015/16 were reported to the Cabinet on the 15th December as part of the first draft budget report. Full details of variances on the portfolio budgets were included in the respective reports.
Since then further work has been undertaken through budget monitoring and challenge sessions to identify other possible variances for inclusion in the final budget report. The updated revised budget forecast for 2015/16 shows a surplus of £225k (**Appendix A)**.

5.3 The revised budget assumes a contribution of £366k from the Derbyshire Business Rate Pool. This is based on the figures supplied by each of the Pool members to the end of December 2015.

Since that time the possibility of NHS Trusts being eligible for 80% Mandatory Charity Relief on business rates has arisen as outlined in paragraph 3.8. If the NHS Trusts do become eligible for the relief there will be no pooling gain in 2015/16. This represents a significant risk for the Council.

5.4 Every effort will be made through strict budgetary control to achieve and maximise the surplus by the end of the financial year. Any final surplus will be transferred to the Budget Risk Reserve or a deficit met from the reserve.

6.0 2016/17 FUNDING SOURCES

6.1 Significant changes to the way in which local government is funded were introduced in April 2013, so 2016/17 will be the fourth year of the new system. Under the previous funding system a large element of the Council's budget requirement was financed by a pre-announced and fixed level of funding but this has been replaced with one which transfers more risk to local authorities. The most significant changes relate to the amount of Business Rates income retained through the retention scheme and the impact on Council Tax income as a result of the Localisation of Council Tax Support. At the same time the Government's austerity measures have resulted in significant cuts in Government funding. The impact of these changes and the other major income sources available to the Council are described in more detail below.

7.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

7.1 The Provisional Settlement was announced late again this year, on the 17th December 2015. Details of the Final Settlement were published on the 8rd February and were approved by the House of Commons on the 10th February.

7.2 The Settlement provided final figures for 2016/17 but also included indicative figures for the following three years. The Government has stated that it will offer any council that wishes to take it up a **four-year Settlement to 2019/20**. Councils will need to request this and have an Efficiency Plan in place (linked to the Efficiency Strategy mention later in this report at para. 13.8). The Government, however, have not stated what such a plan should look like.

It is important to note that the Government has qualified the offer by stating that final grant determinations (of the funding figures produced) in future years will still be subject to change as the business rate multiplier changes and to reflect transfers of functions and mergers etc. The Government also says that future years could change owing to unforeseen events but does not indicate if this includes unforeseen economic events such as failing to meet its fiscal targets.

In the Final Settlement it was announced that the deadline for submitting the request has been extended to the 14th October 2016. The offer of a four-year settlement is to be welcomed in principle, in that it will provide some certainty and stability, but until the final details of the offer are known it is not possible to make a firm recommendation on whether to accept it.

7.3 The **Settlement Funding Assessment (SFA)** is calculated by the Government and sets the starting position in terms of the estimate of the funding available to the Council. The funding is a combination of Formula Funding and other funding streams that were previously paid as specific grants. The Assessment is calculated by using the Formula Funding Methodology that has been used in previous years, subject to some minor changes. The Funding Assessment is made up of two elements, Business Rates Baseline Funding and Revenue Support Grant.

Table – Settlement Funding Assessments

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Revenue Support Grant	2,572	1,836	1,240	859	445
Business Rates Baseline	3,062	3,087	3,148	3,241	3,334
Settlement Funding Assess't	**£5,634k**	**£4,923k**	**£4,388k**	**£4,100k**	**£3,779k**
Change between years: £		-£711k	-£535k	-£288k	-£321k
%		-13%	-11%	-7%	-8%
Cumulative change fm 15/16 :£		-£711k	-£1,246k	-£1,534	-£1,855k
%		-13%	-22%	27%	-33%

The Settlement no longer provides a guaranteed level of funding as the Business Rate Funding element is just the Government's estimate of income and this will be replaced by the Council's own estimate when setting the budget.

7.4 **Revenue Support Grant** (**RSG**) – The RSG system continues to provide a mechanism for the Government to retain control over, and reduce the level of, local government funding. The actual and forecast levels of RSG in the Settlement Funding Assessment table in para.7.3, shows that RSG is being cut dramatically each financial year. The Secretary of State for Communities and Local Government recently confirmed that RSG will disappear altogether as we move to 100% business rates retention, which is planned for 2020.

8.0 BUSINESS RATES RETENTION

8.1 At the start of the scheme (April 2013) the Government estimated a Business Rate income target for each Billing Authority as their share (the proportionate share) of the national target. The table below shows how this estimate was shared between the Government (50% Central Share), the Major Preceptors (9% to the County Council and 1% to the Fire Authority) and the Council (40%). The Council's share was then compared to its BR Baseline Funding level for 2013/14 (£2,947k) and the excess was to be paid to the Government as a '**tariff**' (£10,635k).

Calculation of Tariff at the start of the BR system (2013/14)		
	Share of Total %	**Amount £'000**
Estimated BR Aggregate (EBRA) – national total	100%	**21,797,109**
CBC Billing Authority proportionate share (0.155777%)		**33,955**
Government/Central share Major preceptors share CBC BR Baseline	50% 10% 40%	**16,977** **3,396** **13,582**
Total	100%	**33,955**
CBC – BR Baseline **Less BR Baseline Funding Level**		**13,582** **(2,947)**
Tariff		**10,635**

8.2 The calculation above was used to set the 'tariff' at the start of the scheme but the tariff is then increased each year by the increase in the Small Business Rate Multiplier (SBRM) which in turn was to be linked to RPI (Retail Price Index). The actual increases, however, have been capped as follows:

- In the 2013 Autumn Statement the Chancellor announced that for 2015/16 the increase in the SBRM is to be capped at 2% rather than the 3.2% RPI rate; &

- In the 2014 Autumn Statement the Chancellor announced that for 2016/17 the increase in the SBRM is to be capped at 2% rather than the 2.3% RPI rate.

In 2016/17 business rates will rise in line with the RPI for September 2015 i.e. 0.8%. The SBRM has, therefore, increased from 48.0p to 48.4p in 2016/17. The Council's tariff payment for 2016/17 has similarly increased to **£11,141,329** (£11,049,252 in 2015/16).

8.3 The actual level of income from Business Rates to be included in the budget for 2016/17 will be based on the Council's estimate of income as shown on the NNDR1 Return. The NNDR1 return was approved by the Employment & General Committee on the 25th January 2016. The NNDR1 return shows an estimated Net Yield of £36,631,510 with the Councils 40% share as £14,816,238. The Councils share is then reduced by the **tariff** payment of £11,141,329 leaving £3,674,909. At the same time the Council will qualify for £600,222 of Section 31 grants to make up for the loss of income from the changes to business rates announced in the Autumn Statement (small business rate relief extension, etc). The excess of the combined amount (£4,275,131) over the Baseline Funding Assessment of £3,087,390 i.e. £1,187,741 is then subject to a 50% 'Levy'. In 2016/17, because the Council has joined the Derbyshire Business Rates Pool, the Levy will not be paid to the Government but instead will form part of the Pooling calculation which will return some of the money back to the Council, currently estimated to be £412k (subject to a national decision on NHS trusts' entitlement to 80% Mandatory relief).

8.4 There is also a **Safety Net** mechanism in place to protect authorities from excessive decreases in BR income below their BR Funding level. A safety net payment will be triggered if an authority sees its share of BR income in any year decline by more than 7.5% of its BR Funding Baseline. The Council's **Safety Net threshold is £2,855k** (i.e. £3,087,390 x 92.5%). This means that the Council's share of the BR **income could fall by £232k** below its Funding Baseline of £3,087k before it qualifies for a safety net payment. If a Council is a member of a Business Rates Pool it is the Pool that must fund the Safety Net and not the Government. The estimate of BR income per the NNDR1 return is well above the Baseline level so it is highly unlikely that the Safety Net provisions will apply.

8.5 The major issue regarding the BR system has again been the impact of back-dated appeals. At the end of the 2013/14 financial year there was a deficit of £1.1m on the BR account due to having to create a £1.7m provision for back dated appeals. In addition, although £1.5m of appeals have been settled during 2015/16 to date it is estimated that the provision for outstanding appeals needs to be increased up to £5.0m, creating a further deficit on the BR account in 2015/16. The combined effect, of these provisions and other movements on the account, is to create a deficit of £4.6m which must be made good in 2016/17. The Councils share of the deficit, at 40%, equates to £1,851k and this has been included in the budget for 2016/17. The estimated reduced Levy payment in 2015/16 (£372k) will be transferred into the Business Rate Reserve Account which together with sums previously set aside will be used to help finance the £1.85m deficit in 2016/17, but this still leaves a balance of £666k to be funded from the revenue budget.

9.0 OTHER GOVERNMENT GRANTS

9.1 Details of the other grants included in the budget forecasts are included at **Appendix G**. Further detail on the most significant grants is included below.

9.2 **Council Tax Freeze Grant** –The previous grant allocations relating to 2011/12, 2014/15 and 2015/16 have been rolled into an Adjusted Settlement Funding Assessment for 2015/16 which is then used in the calculation of Settlement Funding Assessments (SFA) for the next four years (2016/17 to 2019/20). Each year the SFA's are reduced by a scaling factor which means that the value of the freeze grants is also reduced. There is no tax freeze grant scheme on offer for 2016/17.

9.3 **Efficiency Support Grant** (ESG). The ESG was first introduced in 2013/14 to replace the Transition Grant Scheme. It is designed to help authorities suffering the greatest reductions in their '**Revenue Spending Power**' (RSP) which is the aggregate of the funds available to the Council from Council Tax, Settlement Funding and other Government grants. The limit was set at 8.8% in 2013/14 and only seven councils qualified for the additional funding; the Council's reduction in its RSP was 8.7% so it narrowly missed out. For 2015/16 the threshold was changed to 6.9% and the Council, with a loss of 7.2%, qualified for a grant of £39k; the £39k grant has also been included in the funding settlement for 2016/17. In addition, because the Councils RSP reduction exceeded the threshold again in 2016/17 (7.9% versus the threshold of 6.4%) it qualifies for a further grant allocation of **£137k** in 2016/17. The Council's situation relative to that of similar authorities is due to its low council tax income base and the low rate of growth in the New Homes Bonus grant. There is no equivalent grant scheme in 2016/17 but the previous years' allocations have been merged into the SFA calculation (as described in para.9.2 in relation to Council Tax Freeze Grants).

9.4 Housing & Council Tax Benefits Administration Grant – the main admin grant generally reduces each year due to assumed efficiency savings. From 2009/10 to 2013/14 the Council also received a supplementary grant which was designed to compensate authorities for the additional workload caused by the recession. **Appendix G** and the table below provide a comparison of the allocations over recent years:

Benefits Admin Subsidy				
Year	**Status**	**Grant allocation**	**Change on previous year**	
			£'000	**%**
2012/13	Actual	876,040		
2013/14	Actual	838,812	-37,228	-4%
2014/15	Actual	764,879	-73,933	-9%
2015/16	Actual	725,600	-39,279	-5%
***2016/17**	Estimate	**619,480**	-100,120	-15%
**2017/18	Estimate	587,910	-31,570	-5%
**2018/19	Estimate	558,430	-29,480	-5%

*For 2016/17 it is estimated that £133,035 (£152,815 in 2015/16) relates to Council Tax Support which is funded by the Department for Communities and Local Government (DCLG). The £486,445 (£572,785 in 2015/16) allocation relating to Housing Benefit which is funded by the Department for Work and Pensions (DWP) has been confirmed.

The large reduction in 2016/17 (£100k or 15%) is due to the transfer of Benefit Fraud work on Housing Benefits to DWP in October 2015. The Benefit Fraud staff were employed by Arvato and some resource has been retained to deal with Council Tax and other fraud work. A change control request has been submitted to Arvato to get a reduction in the charge to the Council for fraud work. No specific reduction has been built into the Benefits Service budget but instead it will contribute to the PPP savings target.

****** It is difficult to forecast the likely level of grant after 2016/17 as the Government could use the localisation of Council Tax support from April 2013 and the introduction of Universal Credit as a reason to reduce the level of funding. If funding is reduced the Council will need to negotiate corresponding reductions in the cost of the service which is provided by Arvato.

9.5 New Homes Bonus (NHB) – The grant is paid as a reward/incentive for increasing the housing supply and is intended to help councils finance the costs which new housing and an increased population create. The allocation for each year is paid for a period of six years and is “un-ringfenced”, which means that there are no restrictions on its use.

When the grant was first announced in the Spending Review 2010, it was recognised that the new funds made available for the scheme would not be sufficient to fund the scheme in future years as the payments accumulated, and that money would have to be transferred from the Formula Grant allocation to make up any shortfall. In 2016/17 £1.3bn has been top-sliced from the Local Government Finance allocation to fund NHB. There is, therefore, a strong argument for using some, if not all, of the allocations to support the revenue budget. This view is supported by the Minister of State for Housing and Planning’s comment in the 2016/17 Provisional Allocations letter that “*Councils are free to spend the Bonus as they choose, including on front-line services and keeping council tax low*”.

The allocations form part of the Government’s calculation of the Core Spending Power for each authority. This reinforces the argument that the grant is available to support the revenue budget.

The table below shows the receipts and uses of the grant based on performance and allocations to date. 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.

Table – New Homes Bonus Grant

Delivered in \ Paid in	2011/12	2012/13	2013/14	2014/15	2015/16	**2016/17**
Year 1 - actual	127	127	127	127	127	127
Year 2 - actual		101	101	101	101	101
Year 3 – actual			123	123	123	123
Year 4 - actual				101	101	101
Year 5 – actual					154	154
Year 6 - actual						296
One off adjs- returned funding			25	10	10	-
Cumulative	127	228	376	462	616	**902**
<u>Commitments</u>:						
Waterside	-127	-81				
Emp Homes Officer		-10	-29			
New schemes				-	-	**-**
Revenue Budget		-137	-347	-462	-616	**-902**
Balance in year	**0**	**0**	**0**	**0**	**0**	**0**

Estimating future years’ allocations is difficult as the Provisional Local Government Finance 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:

(a) Reducing the period for which payments are made from 6 to 4 years.

(b) To withhold NHB in areas with no published Local Plan.

(c) Reducing payments for when planning permission for a development was only given on appeal.

(d) Only making payments for delivery above a baseline 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 of if there will be a stepped reduction e.g. to 5 years in 2017/18 and then to 4 years from 2018/19. The budget forecast in Appendix A assume that there will be a stepped reduction, to £750k in 2017/18 and then down to £600k per annum from 2018/19.

10.0 FEES AND CHARGES

10.1 The Council's policy for Fees and Charges (**Appendix E**) requires charges to be set at a level to at least recover costs but reduced concessionary rates are permissible to ensure equal access to services. Following a review of concessions by the Overview and Performance Scrutiny Forum in 2015, a standard concession rate of 20% is to be introduced across all services. Charges are reviewed annually taking into account comparisons with other similar authorities, the case for continuing concessions, the cost recovery position, etc. Fees & Charges represent a significant income to the Council and total more than the income raised through the council tax. For 2016/17 the budget includes £8.9 million (£8.4m in 2015/16) from fees and charges compared to only £4.2 million from the council tax. The main income sources and the assumed increases for 2016/17 are summarised in **Appendix F**.

11.0 COUNCIL TAX

11.1 Income raised locally through the council tax represents the other major financing source for the General Fund revenue budget.

11.2 **Collection Fund Balance** – before calculating the council tax for the coming year the estimated balance on the current year's Council Tax elements of the Collection Fund must be established and taken into account. The balance on the Collection Fund was reported to the Cabinet on 26th January 2016. There is an estimated surplus balance of £658,115 at the end of March 2016. The surplus is shared amongst the major precepting authorities; the Borough's share is £68,221 (10.4%).

11.3 **Tax Base** - the Tax Base provides an estimate of how much each £1 of Council Tax would raise. The Tax Base is expressed as the equivalent number of Band 'D' dwellings in the borough. The Employment and General Committee approved the Tax Base on 25th January 2016 as:

Tax Base – Band 'D' Properties

Area	2015/16	2016/17	Increase / (Decrease)	
			No.	%
Brimington Parish	**2,231.39**	**2,243.44**	12.05	0.8
Staveley Town	**3,964.47**	**4,019.61**	55.14	1.4
Unparished areas	**21,585.71**	**22,008.53**	422.82	2.0
Total	**27,781.57**	**28,271.58**	490.01	1.8

Since April 2013 the tax base has been reduced as a result of the support given under the Localised Support Scheme being treated as a 'discount'. This reduced the tax raising ability of the precepting authorities but this is compensated to some extent by the receipt of grant direct into the General Fund and by other changes to discounts and council tax support criteria which are designed to increase the tax base.

11.4 **Referendum Limit** – the capping regime was replaced some years ago with a requirement to hold a referendum if the proposed council tax increase exceeds a limit set by the Secretary of State. The limit for 2016/17 has been set at 2% or more but with a concession for district councils which allows them to increase their council tax by a maximum of £5 or 2%. The £5 increase is equivalent to an increase of 3.45%. The Local Government Finance Settlement only included the referendum principles for 2016/17 but other documents within it (relating to the Core Spending Power estimates) suggest that the £5 option will be available in each of the four years through to 2019/20.

11.5 **Evaluation of the Options** – the table below compares the options of either increasing the council tax by 1.99% or £5:

Table - 2016/17 Council Tax Options

	Yield from increase £	**Band 'D' tax £**	**Band 'A' tax £**
2015/16 Council Tax	0	144.89	96.59
1.99% increase	81,422	147.77	98.51
£5 pa on Band 'D'	141,358	149.89	99.92
Difference £5 v 1.99%	**£59,936**	£2.12 pa or 4.1p per week	£1.41 pa or 2.7p per week

For local tax payers the impact of a £5 per annum increase on the Band 'D' tax, compared to the current council tax, is 3.45% in percentage terms, but low in monetary terms, for a;

- **Band 'A'** property (more than half the properties in the Borough) equivalent to £3.33 per annum or 6.4 pence per week;
- **Band 'D'** equivalent to £5.00 per annum or 9.6 pence per week.

The Council's share of the overall tax bill is approximately 10% so the increase will only have a relatively small impact on the total shown on the bill.

The MTFP in **Appendix A** assumes that the £5 option will be available and taken-up in each of the four years from 2016/17 to 2019/20. The cumulative gain over the four years, compared to the 1.99% alternative, is therefore £240k.

11.6 **Council tax support** is treated as a 'discount' which means that the Council's Tax Base is reduced. The Tax Base is used to calculate how much income the Council can raise through the Council Tax, a reduction in the base reduces the potential income. To help compensate for this loss the Government pays a grant to Billing Authorities and Major Precepting Authorities. In 2013/14 the grant was separately identified, and for the Council was £856k. From 2015/16 the grant has been 'rolled-in' to the overall funding settlement and is no longer separately identifiable. The original grant funding included £66k relating to the parished areas and the Government said that there was an expectation that this element of the grant would be passed on to parished areas. The Cabinet agreed at its meeting on 22nd October 2013 to reduce the grant passed over to the parishes by 10%, i.e. £6,600, in 2015/16 and to apply the same reduction (£6,600) in future years.

11.7 The initial grant allocation was less than the amount received in previous years under the national Council Tax Benefit Scheme. In setting up the first Local Support Scheme for 2013/14 the Council agreed a number of measures to help address the funding gap. The Local Scheme has to be approved before the start of each financial year. On the 16th December 2015 the Council agreed to continue with the 2015/16 Council Tax Support Scheme in 2016/17. The measures designed to recover some of the cost of the scheme were grouped into two packages as follows:

The first package of measures relate to reductions in the benefit/support entitlement for those of working age only, as pensioners are protected, and included the requirement to pay 8.5% of the liability and the removal of the Second Adult Rebate.

The second package of measures relate to maintaining the changes to other Council Tax discounts, including:

- Reducing the period of 100% empty and unfurnished property relief to just 3 months (from 6 months);
- Removing the remaining 10% of Second Homes discount; &
- Introducing a 50% surcharge for properties that have been empty for more than 2 years.

11.8 In previous years the Council received a reducing amount of 'New Burdens' grant to help with the set-up and operation of the new system. The allocation in 2015/16 was only £31k and no announcement has been made about allocations for 2016/17.

11.9 The financial risks associated with providing council tax support have now effectively transferred from central to local government. If, for example, a number of local people were made redundant and they then qualified for Council Tax Support, the discount given will remove a proportion of their properties from the Tax Base. It also presents an opportunity because when people move off support the tax base will increase. The risks are shared by all of the precepting authorities through the workings of the Collection Fund.

12.0 DRAFT BUDGETS

12.1 The following assumptions have been made in preparing the draft budgets:

Table – Budget Assumptions					
	15/16 Orig	**2016/17**	**2017/18**	**2018/19**	**18/19 >**
Pay inflation	1.2%	1%	1%	1%	1%
Energy inflation	10%	3%	5%	5%	5%
Business rates increase	2%	3.0%	3.0%	3.0%	3.0%
Vacant posts allowance	£150k	£150k	£150k	£150k	£150k
Council tax increase / freeze grant	Freeze/ 1% grant	£5	£5	£5	£5
Settlement Funding	-13.8%	-16.2%	-14.5%	-13.7%	-6.5%
Fees & Charges Increase	+3%	+3%	+3%	+3%	+3%
Future service pension contribution rate	13.2%	13.2%	13.2% + £140k	13.2% + £140k	13.2% + £140k
National Insurance		+3.4% = 33% increase			
Investment returns (gross)	0.84% (revised to 0.57%)	0.82%	1.29%	1.69%	1.69%

The risks and uncertainties related to the assumptions are considered in the Risk Management section later in this report.

12.2 Since the draft Portfolio budgets were considered by the Cabinet on 15th December 2015, a number of actions have been implemented in order to produce savings, the actions included:

- **Budget Challenge sessions** with SLT members and the relevant service Manager;
- **Tighter control** on expenditure and filling vacant posts;
- **Budget Action Plan** – which includes some of the big ticket items such as Voluntary Redundancies/Retirements, review of terms and conditions, etc (Appendix B);
- ”**Stop or reduce**” programme of reviews - To date the Corporate Cabinet and SLT has identified savings of £201k for 2016/17, increasing to £325k in later years, through this process. This programme has so far targeted a limited number of service areas but in time all services should be reviewed through this process;
- Budget monitoring by Service Managers and Accountancy.

A summary of the overall budget including the latest changes is shown in **Appendix A**. The Budget Book for 2016/17 with the updated portfolio budgets will be included with the report to the full Council.

13.0 2016/17 NET EXPENDITURE ESTIMATES

13.1 The Medium Term forecast approved a year ago, by the Full Council on 26th February, showed a deficit, before savings targets, of £1.4m in 2016/17.

13.2 The table below provides a summary of the budget deficit forecasts which have been reported to the Cabinet during the current financial year:

(Deficit) / Surplus Forecasts			
Stage	**Cabinet**	**2015/16 £'000**	**2016/17 £'000**
Start of the year	17th Feb	(680)	**(1,379)**
After 4 months	22nd Sept	(490)	**(1,793)**
Revised budget report after 6 months	1st Dec	(393)	**(1,560)**
1st draft budget report	26th Jan	(102)	**(1,506)**
Latest Forecast	23rd Feb	225	**(236)**

13.3 The budget forecast for 2016/17 in **Appendix A** assumes a £5 Council Tax increase. The forecast shows a deficit of £209k but this is after a net savings target of £1.04m from the GP:GS programme and other savings initiatives. The deficit before allowing for the savings target is, therefore, **£1.25m** which represents a slight improvement on the deficit forecast 12 months ago of £1.4m, but still a very challenging figure.

13.4 Investment interest provides an important source of income to support the revenue budget. It is very difficult to predict how and when interest rates will move in the current economic climate. Gross returns of 0.82% in 2016/17 are currently forecast. Each ¼% movement is equivalent to +/- £80,000, of which only approximately 44% or £35k impacts on the General Fund. Further details are included in the Annual Treasury Management and Annual Investment Strategy report.

13.5 Budget Saving Proposals – a number of savings proposals were identified at a series of budget workshops. The savings that were agreed have been included in the budget at **Appendix A**. A summary of the savings is included in **Appendix B**. A risk assessed provision for non-achievement for each proposal has been built into the budget forecasts in **Appendix A**.

13.6 Budget Growth Requests – the draft budgets are based on current service levels and do not include any provision for growth. The future budget deficit forecasts make it difficult to earmark resources to fund growth requests at this stage. Any growth funding will have to be restricted to:

a) Priority activities where corresponding savings can be found from another budget (i.e. virement);

b) True invest-to-save projects where the initial funding can be met from the Invest-to-Save Reserve; or

c) Funding one-off corporate priority projects from the Service Improvement Reserve.

Given the pressure on the Council's budget there is only one growth request to consider, and that relates to delivering savings targets. A budget allocation of £150k is requested to enable additional support to be brought in to help with the delivery of the extensive range of service reviews and budget saving initiatives which are required to achieve a sustainable financial future for the Council. The funding can be met from the Invest-to-Save Reserve (£40k) and the Service Improvement Reserve (£110k).

13.7 Living Wage - The budget for 2016/17 and future years includes a provision of £73k to cover the cost of implementing an allowance scheme to bring lower pay scales up to the Living Wage.

- All staff currently on NJC Green Book terms and conditions who receive a basic hourly rate of pay of less than £8.25 will receive an additional allowance for the living wage to bring their basic pay to that level.
- This will not apply to craft workers as they receive bonuses which take their hourly pay above this level.
- This allowance will be awarded from April to April each year and will be reviewed annually taking into account any increases in the voluntary Living Wage set in November and annual increases negotiated through the pay settlement agreement.
- This allowance will only be awarded on basic pay and overtime payments will continue to be paid at the current rate of pay without the additional allowance.
- This allowance may be withdrawn at any point in the future if budget dictates.

13.8 Capital Receipts Flexibility - 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.

To date no more detail has been issued on the required format of the Efficiency Strategy or if, like opting for a four-year Settlement (which also requires the Efficiency Strategy), whether it will be deferred until October 2016. In the absence of any clear guidance is recommended that delegated authority be given to the Chief Finance Officer in consultation with the Leader, Deputy Leader and Chief Executive to review what is required and take the required action to ensure the maximum flexibility for the council in relation to capital receipts.

13.9 Council Tax Options – the draft budget assumes that the £5 Council Tax increase option is taken in 2016/17.

13.10 Strategy for funding the deficit –The Council's key response to tackling future budget deficits is its transformation programme called "Great Place: Great Service" (GPGS), the "Cease or Reduce" reviews and the Budget saving Action Plan. The planned savings of £1.0m in 2016/17 will, provided they are delivered in full and in good time, still leave a deficit of £236k to be covered by other new savings proposals yet to be identified. It is important to remember that the planned savings proposals include some big figures against options that will be difficult to implement e.g. voluntary redundancies, changes to terms and conditions and changes to the PPP contract. To recognise these risks a significant provision for non-achievement has been built into the budget. Every effort will be made to avoid having to use reserves to support the budget as the reserves would be better spent on things that will produce on-going revenue budget savings.

14.0 MEDIUM TERM FORECAST - 2016/17 through to 2020/21

14.1 It is good financial practice for authorities to consider their budgets over the medium term and not just for the year ahead. The publication of indicative grant figures for three further years in the 2016/17 Settlement has helped to make future forecasts more robust. However, to obtain the certainty and stability of a **four-year funding settlement,** Councils will have to apply to the Department for Communities and Local Government to take up the Government's offer by the 14th October 2016; the other condition is that Councils have published an **Efficiency Plan**. As described in para. 7.2, the offer of a longer term settlement is to be welcomed in principle but the more information is required before a final decision on the offer can be made.

14.2 The MTFP assumes that the £5 Council Tax increase option will be applied in all years. The medium term forecast has been prepared based on the best available information in order to help with the longer term planning of priorities and transformation change.

14.3 The assumptions made in drafting the medium term forecast are set out in the table at para.12.1 above. Some of the assumptions built into future years' budgets may also be subject to considerable variation as described in the Risk Management section below. The table below provides a summary of the deficits/savings targets over the medium term:

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
Deficit forecast before planned savings	(1,265)	(1,998)	(2,213)	(2,867)	(2,731)
GP:GS savings	156	428	465	465	465
Stop or Reduce proposals	201	325	325	325	325
Net Budget Action Plan savings (Appendix B)	672	1,273	1,446	1,446	1,446
Net Surplus / (Deficit)	**(236)**	**28**	**23**	**(631)**	**(495)**
Change on previous year – deficit (increase)/ decrease		264	(5)	(654)	136

Any recurring savings made in the early years will also help to reduce the deficit forecasts in the later years.

The forecasts are based on current levels of service provision with no allowance for future growth.

The scale of the forecast deficits means that work must continue to monitor progress on the planned savings proposals and to identify new savings in order to be able to produce balanced and sustainable budgets for future years.

15.0 BUDGET SAVINGS

15.1 The Council has a good track record of delivering balanced budgets. The scale of the savings required in 2016/17 and future years means that delivering savings must continue to be a priority for the Council. This, however, will become progressively more difficult since the easier options have already been implemented. The Council's key response to tackling future budget deficits is its transformation programme called "Great Place: Great Service" (GPGS). The GPGS Programme focuses on the four key strategies of Customer Service, ICT, Workforce and Asset Management to transform and modernise service delivery. The "Stop or Reduce" programme of service reviews must continue until all service areas have been covered.

15.2 The budget forecasts highlight the need to deliver significant budget savings year after year. Details of the savings proposals developed by the Corporate Cabinet and the Corporate Management Team are included in **Appendix B**. Delivering these savings quickly and at the same time planning for further savings in future years will be a huge challenge. Individual budget saving proposals will require tight programme management to ensure that they are delivered on time and produce the required level of saving. The Corporate Cabinet and CMT will have to continue to develop other proposals which are needed to address the medium term deficit forecasts. The Financial Planning Group and Overview and Performance Scrutiny Forum must continue to monitor the progress.

16.0 RESERVES AND BALANCES

16.1 The Council maintains a General Working Balance plus a number of other earmarked reserves. A review of all the reserves and provisions has been undertaken as part of the budget process.

16.2 **General Working Balance** – the working balance provides a cushion for cash flow shortages and a contingency for unforeseen events. The minimum prudent level for the working balance is a matter of professional judgement based on past experience, the level of other earmarked reserves and an assessment of future risks. The balance is being maintained at £1.5m to recognise the range of risks the Council is currently exposed to, particularly those relating to the Business Rates Retention scheme as described in para 19.1 below. The Retained Business Rates risks relate to back-dated appeals and the possible increase in claims for 80% mandatory relief. An updated financial risks assessment is provided in **Appendix I,** which indicates that a balance of £1.5m should be adequate. A balance of £1.5m is equivalent to 14% of the Council's budget requirement. Over the medium term the Council will need to continually review the minimum balance required as budget risks and the level of other earmarked reserves change.

16.3 **Earmarked reserves** are held to meet known or anticipated liabilities. Details of the earmarked reserves held by the Council, including their purpose and predicted movements over the next five years are included in **Appendix H**. Details of the main reserves are provided below.

16.4 **Budget Risk Reserve** – This reserve provides a supplement to the Working Balance to cover any budget risks and to help finance any severance costs resulting from voluntary staffing reductions through implementing the Transformation Programme. The table below shows the opening balance in the reserve as at 1st April 2015 and the currently approved or anticipated movements on the reserve:

Table – Budget Risk Reserve		
Balance b/fwd 1st Apr 2015		781
Movements/commitments:		
New Burdens grant re Land Charges	63	
Further Land Charges costs	(16)	
15/16 Growth – Public Sector Stock Condition	(26)	
15/16 Growth – Data Custodian	(17)	
Environmental Health system upgrade	(3)	
Transfer to STWA tenants consultation reserve	(30)	
Erin Road Pumping Station	(50)	
Legal opinion	(3)	
Local Plan professional fees	(14)	
Elections	(6)	
Learning & Development - training	(6)	
Group litigation – postal services	(14)	
Digital Content Officer post	(18)	
Alderman celebrations	(4)	
Dilapidation costs – Whitting Valley	(17)	
IDOX buy-out of lease	(99)	
PSN Compliance costs	(246)	
CMT restructure – severance costs	(178)	
VR/VER's	(12)	
Transfers from other reserves & balances	247	
DSO Surpluses	tbc	
Add: estimated budget surplus in 2015/16	tbc	(449)

Uncommitted Balance		**332**

The remaining balance should be maintained to help the Council through this difficult period of budget reductions e.g. to finance severance costs arising from voluntary staffing reductions.

16.5 **Invest to Save Reserve** – The purpose of this reserve has been clarified to ensure that only true invest-to-save type initiatives will be funded from this source. Ideally, there should be a requirement for all such advances to be repaid into the reserve from efficiency savings made over a reasonable period of time, generally less than seven years. This would replenish the reserve, thereby enabling further investments to be made. However, to require all recent advances to be repaid would require a charge of £200k per annum to be made into the revenue budget, which if imposed would increase the already challenging deficit forecast and require an equivalent amount of savings to be found. It is proposed, therefore, to continue waiving the requirement for repayments. However, the approved uses of the reserve will be monitored to ensure that the anticipated savings are delivered and are contributing to keeping the base budget down.

The table below shows the opening balance in the reserve as at 1st April 2015 and the currently approved or anticipated movements on the reserve:

Table - Invest-to Save Reserve		
Balance b/fwd 1st Apr 2015		286
Movements/commitments:		
Venues refurbishment	(12)	
Customer Service Strategy - capital	(105)	
Local Collective Agreement	(10)	
Car park improvements	(111)	
Property Fund Selection Service	(8)	
Budget Savings Delivery Fund (para 13.6)	(40)	(286)
Uncommitted Balance c/fwd		**0**

16.6 **Service Improvement Reserve** – this is used to finance one-off type investments to support the delivery of the Council's priorities, where the aim is service improvement rather than a financial return. The table below shows the opening balance in the reserve at 1st April 2015 and the currently approved or anticipated movements on the reserve:

Table - Service Improvement Reserve		
Balance b/fwd 1st Apr 2015		**1,153**

Movements/commitments:		
Open Market re-design	(22)	
Linacre Master Planning	(60)	
Project Academy Phase 2	(52)	
TPIC/DIC telephony system - rev	(31)	
TPIC/DIC telephony system - cap	(173)	
Northern Gateway	(100)	
GP:GS supplies & services	(45)	
GP:GS employees	(78)	
Car parking improvements	(15)	
Budget Savings Delivery Fund (para 13.6)	(110)	
TPIC/DIC - 2016/17 Repayment	34	(652)
Uncommitted Balance		**501**

16.7 **Property Repairs Fund** - established to even-out the peaks and troughs of property maintenance costs - services pay in a predetermined contribution each year which has been calculated to cover their property maintenance costs over a ten year period. The ten-year plan is reviewed annually and contributions adjusted to reflect any significant changes. A balance of £500k in this reserve is considered to be sufficient, therefore, £245k of the £750k estimated balance as at the end of 2015/16 has been earmarked to finance two schemes in the Capital Programme; £75k for replacing the Winding Wheel passenger lift and £170k to bring the Town Hall Alterations budget up to the £750k approved for the GPGS Programme.

16.8 **Vehicle, Plant & Equipment Funds** - operate as a replacement reserve for major items of vehicle, plant, wheeled bins or equipment. Services pay in annual contributions spread over the estimated useful life of an asset so that when it falls due for replacement the funding is available. A review of the fund in 2013/14 identified that the contributions into the domestic wheeled bin replacements fund could be suspended for three years to reflect the increase in their expected life. The estimated balance on this fund at March 2016 is £312k. Details of future movements on this reserve are include in the General Fund Capital Programme report.

16.9 **Insurance Fund (provision and reserve)** - the Council maintains this fund to cover insurance policy excesses and self-insured risks. A specialist insurance actuary reviewed the Fund in November 2013. The review recommended that the fund could be reduced. At the same time it was recommended that the Municipal Mutual Insurance Claw-back Provision be increased from £300k to £719k, of which £216k has been paid out leaving a balance of £503k. The reserve is reviewed every three years with the next one due in November of this calendar year.

16.10 **Appendix H** shows that the total of all reserves and provisions are forecast to reduce by £2.2m (£1.8m General Fund and £0.4m DSO's) from £9.1m at the start of 2015/16 to £6.9m by the end of the financial year.

16.11 The reduction in the level of reserves by reducing the amount of cash available for investment has a direct impact on the revenue budget by reducing the amount of investment interest received. It is important that Members appreciate that the earmarked reserves are held for specific purposes. All fund balances will be reviewed again as part of the final accounts process.

17.0 CONSULTATION

17.1 The consultation meeting with the business ratepayers' representatives took place on 28th January 2015. Issues discussed included the changes to the business rates system, the small business rate scheme, the Councils budget forecasts and the council tax increase options.

17.2 Consultation with the Council Taxpayers took place at the Community Assembly meetings during November 2015. At each of the four Assemblies an update on the Borough and its finances were given and those attending were:

a) Given £100 of fake money, in denominations of £20, and asked to allocate that money to what they considered were their priority services from a list of ten service areas; &

b) Asked to vote on the option of a Council Tax increase of 1.99%, just below the anticipated referendum limit at that time, or a tax freeze.

Detail of the aggregate amount of money awarded to each of the ten service areas is included in **Appendix L**, the top three were:

1. Economic Development
2. Reducing Crime and Anti-Social Behaviour.
3. Street Scene – street cleaning, etc.

In terms of the Council Tax increase, 76% voted for a 1.99% increase and 24% for a tax freeze.

18.0 SCRUTINY

18.1 The Overview and Performance Scrutiny Forum has received budget updates on the budget setting process at its meetings on the 8th December 2015 and the 12th January 2016.

19.0 RISK AND SENSITIVITY ANALYSIS

19.1 The budget estimates are based on the best available information but inevitably there is a degree of risk and uncertainty in some of the assumptions made. The most significant risks and issues are described below with further information provided in **Appendix I**.

a) **Cuts in Government Grants** – this is a risk facing most public sector organisations. The Final Settlement for 2016/17 was published on the 8th February and was approved by the House of Commons on the 10th February. Indicative figures were provided as part of the Settlement. The future of the New Homes Bonus grant system presents a major risk. As described in para. Xx the system is about to undergo a major review with some quite radical changes possible (reducing the period from six to four years, changing the shire/county council split, etc). The confirmed allocation for 2016/17 is £902k and in the MTFP it has been assumed that this will be stepped down to £600k by 2018/19.

b) **Delivering budget savings** at the required level and at the right time continues to be a major challenge for the Council. Although the Council has a good track record of tackling budget deficits, some of the individual savings targets have not been met (e.g. PPP, terms and conditions, etc). The Council must learn from its experience of what has and has not worked well in the past in order to improve the process going forward. Future budget saving proposals are now subject to an individually risk assessed non-achievement factor. Delivering savings is becoming increasingly difficult as the easier options are exhausted, which means that further improvements to the planning and estimating of savings will be required.

c) **Investment Interest** - The current Base Rate is 0.5% but there is little sign that the Monetary Policy Committee will start to increase base rates in the foreseeable future. The assumed gross rate of return on the Council's investment funds in 2016/17 is 0.82%. For each 0.25% that rates actually deviate from the forecast the investment return will increase or decrease by approximately £80k (44% or £35k to the General Fund). The forecasts for future years assume a gradual increase in investment returns, to 1.4% in 2017/18 and 1.7% in the subsequent years but this will clearly be dependent on the pace of the economic recovery. Officers will continue to seek alternative investment instruments in an attempt to improve returns but it should always be remembered that the golden rule for local government investing is that security of capital is the overriding consideration. Government regulations and CIPFA guidance make it clear that 'security' of capital is the primary consideration, followed by 'liquidity' and then 'yield'.

d) **Fees and charges** income – the state of the economy could have a significant impact on the Council's income particularly from areas like car parking, leisure memberships, cultural events, planning fees, land charges, etc. The 2016/17 budget targets for the key income sources are shown in **Appendix F**. Car parking income is the largest single income source. In the medium term car parking income could be at risk if the Saltergate multi-storey and Holywell Cross Car Park close temporarily/permanently to allow the Northern Gateway development scheme to progress.

e) **Property rents** – the state of the economy also impacts on the Council's ability to generate rental income from its extensive industrial, commercial and retail property holdings.

f) **HRA cost sharing** - under the self-financing arrangements it is important to be able to demonstrate that any recharges to the HRA are fair and reasonable.

g) **Staff pay** – Local government **pay awards** are outside of the Treasury's control as they are subject to free collective bargaining between the national employers and trade unions through the National Joint Council (NJC). The National Employers have made a 'final' two-year offer of 1% per annum for scale point 18 and above, with higher increases for lower scale points. Each 1% increases the costs to the General Fund by £141k.

h) **Energy costs** – the gas and electricity budgets within the General Fund total £760k in 2016/17. The increases in future energy prices are very difficult to forecast. An allowance of 3% per annum has been made in 2016/17 and 5% in future years. Each 1% variance from this provision equates to £7.6k per annum.

i) **Insurance costs** – The Council was insured with the Municipal Mutual Insurance Company until 1993 when the Company went into administration. The Company is still dealing with claims, mainly employer's liability claims, related to the period of cover. The Scheme of Arrangement, however, allows the Company to claw back some or all of the claims paid since 1993 if a solvent run-off is not possible. The Company lost an appeal to the Supreme Court about the trigger date for employer liability insurance; the Court ruled that it is the insurer at the date of exposure that is responsible for disease or injury claims. The decision led to the triggering of the Scheme of Arrangement and the claw back provisions. In 2013/14 the Council set aside a provision of £719k (para 16.9 above) to cover future claw back payments as the full extent of the Company's exposure to long-tail occupational disease claims unfolds. The first claw back payment of £204k, based on 15% of past settlements, was paid in February 2014.

j) **New Homes Bonus** Grant (NHB) – the budget forecast includes prudent assumptions about future allocations of grant and also assumes that all future allocations of grant will be used to support the revenue budget. Using the grant to support the core revenue budget does, however, create a financial risk due to (a) its volatility and (b) its uncertain future.

k) **Localisation of Business Rates** from April 2013 – the baseline starting point for 2013/14 is intended to ensure that no council is worse off than it would have been if the Formula Grant system continued. For future years the Council will share in any growth in income above its baseline level at a rate of 20% after the Levy payment but will also carry a 40% share of any reduction in income below the baseline up to the Safety Net Threshold (a maximum exposure of £232k in 2016/17 which must be from the Pool if a member of a pooling arrangement). The Council, therefore, now shares the risk of changes to BR income due to new builds, demolition, exemptions and appeals, a risk that previously rested with the Government.

The liability for Levy payments has been avoided in 2016/17 by the continued operation of the Derbyshire Business Rates Pool. The future of 'pooling' beyond 2016/17 is uncertain. Further opportunities to retain a greater share of Business Rate income will be explored as part of the devolution deals before full retention comes into effect in 2020.

The introduction of a deadline of 31st March 2015 for back-dated appeals against the 2010 Valuation List has limited risk of future appeals. However, in the run up to the deadline date there was an influx of appeals many of which are still to be determined by the Valuation Office. This has contributed to the estimated cumulative deficit of £4.6m on the Business Rate account as at the end of March 2016. The Council's 40% share of the deficit, £1.8m, has been charged into the 2016/17 budget.

Over the short and medium term there are further developments that are likely to have a negative impact on Business Rate income, including:

- Schools converting to academies, in line with Government policy, and becoming eligible for 80% mandatory relief;
- **The possibility of NHS Trusts becoming eligible for 80% mandatory relief and the risk of it being back-dated. This has not been factored into the draft budgets at the moment but it has the potential to significantly change budget position in 2015/16 and all future years. An update will be provided to the Council at the earliest opportunity as this issue develops.**
- The new Rating List to be introduced in 2017 which is based on property rental values in 2015 could create significant shifts. It is not clear at this stage how any significant changes will be softened by transitional measures to phase-in the changes over a period of time.

In the longer term, the system is due to be 'reset' in 2020 alongside the move to 100% retention. There is, therefore, a risk that some of the retained growth accumulated up to that point could then be lost if the 'tariff' is increased to reflect the higher tax base.

l) **Localisation of Council Tax Support** from April 2013 – details of the new arrangements and the measures the Council has put in place to finance the local scheme are detailed in paragraphs 11.7 to 11.10. Previously the national scheme was fully funded by the Government and the Government therefore carried the financial risks. Under the new, localised arrangements, the Council together with the other precepting bodies carries the risk of the tax base reducing if the number of claimants increases and the risk of fund deficits if the collection rate falls below the estimated level.

m) **Expansion of Universal Credit** – Universal Credit will replace all current means tested working age benefits, including housing benefit which is currently administered by local authorities. It will be introduced on a phased basis in Chesterfield from the 25th March 2015, with the end date currently uncertain. The change could have significant implications for benefits staff and systems. For the General Fund the financial risks relate to the loss of the administration function, possible redundancy and/or contract penalties, residual costs, etc. There is insufficient information available at this time to be able to assess the likely financial implications. The medium term financial plan therefore assumes no net loss or gain from the changes. There is also a risk for the

Housing Revenue Account as rent arrears could increase when housing benefit is paid directly to tenants and monthly in arrears.

n) **Pension Costs** – The last review of the Pension Fund was undertaken in 2013 and set the revised employer contribution rates to apply for the three years commencing April 2014. The revised rates have been built into the medium term forecast. The next review is due in three years' time i.e. to set the employer contribution rate to apply from April 2017 and a provision of £140k per annum has been included into the medium term forecast for this.

n) **Major Capital Schemes** - there are currently a number of major developments planned in the Borough where the Council might be called upon to provide financial support or guarantees e.g Waterside, Northern Gateway, etc.

o) **VAT** – the Council can only recover the VAT incurred on the provision of exempt activities, such as the letting of premises or educational/coaching services, if that VAT does not exceed a prescribed level (currently £300k). If the level is exceeded then none of the exempt VAT, not just the excess amount, can be reclaimed. The construction of the new Queen's Park Sports Centre, with the College a major user of the facility, means the Council's exempt proportion has increased. There is a risk that any further significant capital expenditure in an area that includes exempt activities could cause the limit to be breached. Whilst the long running "Isle of Wight Car Parking Case" is now over without success, the Council is now party to another joint claim, this time in relation to postal services but it is impossible to predict the outcome at this stage.

20.0 BUSINESS RATE

20.1 Although the Council is responsible for the collection of business rates and retains a proportion of the income, the rate multiplier is set by the Government. There are two rate multipliers which have been announced as;

- The 'small business' rate - this is normally based on the previous year's multiplier adjusted for RPI inflation in September of the previous year (0.8%). This gives a multiplier of **48.4p** for 2016/17 (48.0p in 2015/16).
- The non-domestic rating multiplier – is the small business multiplier plus an adjustment to fund the estimated cost of the small business

rate relief scheme. The supplement for 2016/17 is 1.3p giving a multiplier of **49.7p** (49.3p in 2015/16).

20.2 In his Autumn statement in November 2015 the Chancellor announced changes affecting a number of reliefs including:

- Small Business Rate Relief – the doubling of this relief will continue for a further year (i.e. eligible properties with a rateable value (RV) of less than £6,000 receive 100% rate relief ; the relief then reduces by 1% for every additional £60 of RV above £6,000 down to 0% at an RV of £12,000). Local authorities are compensated for this via a Section 31 grant.
- Retail Relief and Reoccupation Relief funding to cease - for technical reasons these schemes were previously set up as Local Schemes but were fully funded by the Government through Section 31 grants. With the removal of the funding the Council cannot afford to continue with the schemes so it needs to formally close them down. The Retail Relief scheme provided a £1,500 discount for all retail premises including, pubs, cafes and restaurants (but excluding banks and betting offices) with a rateable value below £50,000 in 2015/16.   Reoccupation Relief provided a 50% discount for up to 18 months where a ratepayer occupies an empty property for retail purposes between April 2014 and March 2016 where that property had been empty for a year or more.

20.3 Transitional Relief - the Chancellor of the Exchequer announced in the 2014 Autumn Statement an extension of Transitional Relief for small and medium properties with a rateable value up to and including £50,000. The relief was originally introduced in 2010 and was due to end on 31st March 2015. The two-year extension to the scheme will protect the small number of ratepayers concerned from seeing an increase to their full rates bill from April 2015. The DCLG guidance states that because the cost of the scheme will be reimbursed through Section 31 grant, the government expects local government to grant the discretionary relief to qualifying ratepayers. In Chesterfield there are only 6 ratepayers affected with an estimated cost of £6,400 in 2016/17. The Council adopted the scheme for the two years 1st April 2015 to 31st March 2017 as part of the budget setting report last year.

21.0 OTHER LOCAL COUNCIL TAXES

21.1 The special items to be added to the tax in **parished areas** are:

- **Staveley Town Council -** Band 'D' tax increased by 13.4% to £88.64 (£78.15 in 2015/16); &
- **Brimington Parish Council** – Band 'D' tax increased by 1.0% to £21.25 (£21.04 in 2015/16).

21.2 **Derbyshire County Council** has agreed on 3rd February 2016 to increase its council tax by 3.99% to £1,165.17 (£1,120.46 in 2015/16).

21.3 **Derbyshire Police & Crime Commissioner** set its precept and council tax on 23rd February - the Band D tax will be £177.07, an increase of 1.99% (£173.61 in 2015/16).

21.4 **The Derbyshire Fire** and Rescue Authority set its precept and council tax on 19th February – the Band D tax will be £xx an increase of xx% (£69.80 in 2015/16).

21.5 Details of the council taxes for each major preceptor and by each tax band will be calculated once all of the precepts are received and the table in **Appendix K** will be completed.

22.0 CALCULATION OF EXPENDITURE

22.1 The calculation of expenditure required under Section 32 of the Local Government Finance Act is shown at **Appendix J**.

23.0 LEGAL IMPLICATIONS

23.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. Before setting the level of the council tax the Council must have agreed a balanced budget, differentiated by services, which is sufficient to meet estimated revenue expenditure, levies, contingencies, any deficit estimated to be brought forward from previous years, and any amounts required to be transferred between funds. The council tax itself must be sufficient to cover the difference between the agreed budget less government grants credited to the income and expenditure account, and any other expenditure which must be met from the Collection Fund, less any surplus (or plus any deficit) brought forward from previous years.

24.0 CHIEF FINANCIAL OFFICER'S ASSURANCES

24.1 The Local Government Act 2003 (section 25) requires the Chief Financial Officer (CFO) to report on the robustness of estimates and the adequacy of financial reserves when the statutory calculations to determine the Council Tax are reported. The CFO is the officer responsible for the administration of the Council's financial affairs for purposes of Section 151 of the Local Government Act 1972.

24.2 Robustness of estimates – subject to the the risks highlighted elsewhere in this report, the Chief Finance Officer is satisfied that the estimates are based on the best available information and that procedures are in place to ensure the estimates are accurate and reliable. Budget responsibility is devolved to service managers who are best placed to complete the budget working papers. The central Accountancy Team co-ordinate the budget process and check through all budget working papers. The Council's procedures, experienced staff and approach to risk management should minimise the inherent risks and uncertainties in the forecasting process.

The achievement of the planned budget savings targets and the remaining deficits, present a challenge for the Council. The Council has a proven track record for delivering significant savings, for example;

- 2011/12 – from an original forecast deficit of £84k to an outturn surplus of £434k.
- 2012/13 – from an original savings requirement of £870k to a revised deficit of £62k.
- 2013/14 - from an original savings requirement of £868k to a revised surplus of £193k.
- 2015/16 - from an original savings requirement of £581k to a revised surplus of £40k.
- 2016/17 – from an original savings requirement of £680k to a surplus of £225k.

A detailed plan of savings proposals has been developed but the real challenge will be in delivering the savings within the required timescales. Robust management arrangements will have to be put in place for each of the projects within the plan.

Budgets will continue to be monitored on a monthly basis throughout the year so that any required corrective action can be taken at the earliest opportunity and the medium term forecasts will be continually updated as part of that process.

24.3 Level of reserves - details of the Council's reserves are provided in Section 16 above and in **Appendix H**. The General Fund working balance is being maintained at £1.5m to recognise the financial risks the Council currently faces particularly in relation to Business Rate income. The updated Budget Risk and Sensitivity Analysis in **Appendix I** supports the minimum working balance of £1.5m.

In addition to the Working Balance the Council could also use the £501k uncommitted balance in the Service Improvement Reserve to support the revenue budget if required. It is important to remember, however, that reserves can only be used once and they, therefore, can only provide a short term solution to any funding shortfall.

The policy on the use of reserves will, therefore, continue to be to use earmarked reserves for their intended purpose with surplus reserves being used for investment in the Council's priorities or for transformation schemes which are designed to produce on-going revenue budget savings. Indeed, the reserves have been used quite extensively over recent years to invest in services in order to deliver longer term efficiency savings.

The reserves are considered adequate for 2016/17 (subject to the decision on the eligibility of NHS Trusts for 80% mandatory business rate relief). Also, the position in future years will depend on the Council's success in delivering the required budget savings.

The Council also maintains a number of earmarked reserves for financing capital expenditure and equalising expenditure between years. The balances in these other reserves are considered adequate for the medium term.

HRA - The Council has set a higher minimum working balance of £3.0m for its Housing Revenue Account to recognise the increased risks it carries under the new self-financing arrangements from April 2012. The HRA budget forecast for next year shows that this can be achieved but falls below the minimum balance in subsequent years. The 30-year Business Plan is currently being reviewed to produce a sustainable strategy for the life of the Plan.

25.0 CONCLUSIONS

25.1 2015/16 - at the start of the financial year the budget indicated that the Council would make savings of £680k in the year to produce a balanced budget. In the early part of the year there were positive signs on many income budgets but the planned savings were not being delivered at the intended pace. The latest revised budget forecast shows that despite the failure to deliver on some of the key savings proposals, other budget saving more than compensated, producing an estimated budget surplus of £225k.

25.2 2016/17 – The Council faces a reduction in its Settlement Funding Assessment of £0.5m and a £1,851k reduction in Business Rate income due mainly to the impact of back-dated appeals. To help offset these and other pressures there is an ambitious savings plan of £1.27m to deliver.

The budgets have been prepared on the assumption that the Council takes the option to increase the Council Tax by £5 per annum for a Band 'D' property. This has provided an additional £60k above the previously anticipated 1.99% limit. It is important for the long term financial sustainability of the Council that it takes every opportunity available to it to increase its tax base. Even after the £5 increase, the Council will still be required to deliver a significant package of planned savings to avoid a budget deficit in 2016/17.

Although the Council has a good track record of delivering savings, the challenge of implementing savings on this scale and within such a tight timescale should not be underestimated. The Council does have reserves which could be used to bridge a short term deficit but, given that the deficit forecasts are increasing year-on-year and the fact that reserves can only be used once, the aim must be to find the required savings within the financial year. After many years of funding cuts finding savings is becoming increasingly more difficult.

25.3 Medium term – The deficit forecasts for future years get progressively worse with further cuts in Government funding anticipated. There is, however, an expectation that Councils will be able to increase their Business Rates tax base to boost their income. Business Rate income, therefore, becomes an increasingly important element of the Council's income so it is important that the tax base grows and that the option of "Pooling" continues to be available in future years. Based on the current forecasts, if the Council is able to implement the planned recurring budget savings for 2016/17 of £1.27m, further savings of £0.7m will still be required in 2017/18. The deficits in later years continue to grow as further funding cuts are anticipated. We are, therefore, still locked into a sustained period of budget reductions. Effective arrangements will have to be put in place to ensure that not only are the planned savings in the short term delivered but also that work continues to identify and implement further savings in readiness for later years. Over the five-year period of the Medium Term Financial Plan cumulative savings of £2.7m must be delivered.

25.4 The medium term forecast shows that the Council continues to face significant financial challenges in the years ahead and all the indications are that this is likely to continue over the longer term, at least through to 2020. The Council's ability to deliver discretionary services will inevitably come under threat over the next few years due to funding reductions. Whilst the Council has a good track record of delivering budget savings, the task is getting increasingly difficult. It is evident that some difficult spending decisions are going to have to be made and that the Council will no longer be able to continue to provide the breadth and quality of services that it currently offers.

26.0 ALTERNATIVE RECOMMENDATIONS

26.1 To propose alternative budget allocations and/or council tax level.

27.0 RECOMMENDATIONS

27.1 Cabinet recommends to Council that it:

27.1.1 Approves the revised budget for 2015/16 (Section 5).

27.1.2 Notes the Local Government Finance Settlement (Section 7).

27.1.3 Supports in principle the offer of a four-year settlement subject to receiving a full report on the implications of the offer once they are known (paragraph 7.2).

27.1.4 Notes the Collection Fund and the Tax Base forecasts (Section 11).

27.1.5 Approves the Portfolio budgets and the overall revenue budget summary for 2016/17 (Section 13 and Appendix A).

27.1.6 Delegates authority to the Chief Finance Officer in consultation with the Leader, Deputy Leader and Chief Executive to review what is required to submit an Efficient Strategy for the Council to ensure that maximum opportunity is taken from the flexibility in relation to capital receipts (paragraphs 13.8).

27.1.7 Notes the budget forecasts for 2016/17 and the medium term (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).

27.1.8 Approves the estimates of reserves including:

d) Maintaining the General Working Balance at £1.5m (Section 16 and Appendix H).

e) Allocating £40k from the Invest to Save Reserve and £110k from the Service Improvement Reserve to finance the £150k budget growth request for support to deliver the Council's savings targets (para's 16.5 and 16.6) ;

f) Allocating £245k from the Property Repairs Fund to fund capital programme schemes (para. 16.7).

27.1.9 Notes the budget risks and sensitivity analysis (Section 19).

27.1.10 Agrees to cease the Local Business Rate Retail schemes for which the Government will no longer be providing funding. (para. 20.2).

27.1.11 Approves the Cabinet's recommended £5 Council Tax increase for 2016/17.

27.1.12 Approves the 2016/17 Council Tax Requirement and financing (Appendix J).

27.1.13 Notes the Chief Financial Officer's assurances (Section 24).

28.0 REASONS FOR RECOMMENDATIONS

28.1 In order to meet the statutory requirements relating to setting a budget and the council tax.

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

Officer recommendation supported.

Signed: Leader

Date: 16 February, 2016

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

APPENDICIES:

Appendix A – General Fund Revenue Budget Summary

Appendix B – Savings Targets

Appendix C – Budget Strategy

Appendix D – Financial Strategy

Appendix E – Fees & Charges Policy

Appendix F – Analysis of Fees & Charges Income

Appendix G – Revenue Grants

Appendix H – Reserves & Balances

Appendix I – Budget Risks & Sensitivity Analysis

Appendix J – Section 32 Statement –

Appendix K – Council Taxes

Appendix L – Community Assemblies Consultation Meetings