

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

30 SEPTEMBER 2015

REPORT OF HEAD OF CENTRAL SERVICES

BUDGET FRAMEWORK 2016/17

1.0 PURPOSE OF REPORT

- 1.1 To consider a number of key items which will feed into the Council's Medium-Term Financial Strategy (MTFS) and the 2016/17 budget and service planning preparation process.

2.0 RECOMMENDATIONS

It is recommended that:-

- 2.1 Committee approve the proposed corporate planning and budget framework timetable for 2015/16, in respect of the 2016/17 financial year, set out at Appendix A.
- 2.2 No inflation be provided for in the 2016/17 budget at service budget level, other than fees and charges which has been provided for at the rate of 2%, unless adjusted for known prices by budget holders and 1% for pay as reported to Members as part of the budget setting process for 2016/17.
- 2.3 Council retains its objective of setting a balanced budget for 2016/17.
- 2.4 Members consider the level of working balance they wish to set for General Expenses taking into account the revised calculations set out in Appendix B and the use of any surplus over that amount.
- 2.5 The existing target levels of working balance be retained for special expenses (Melton Mowbray) at £50,000 and the Housing Reserve Account (HRA) at £750,000.
- 2.6 The Programme Board continue to determine the relative priority of schemes for members to consider and allocate funding based on the information set out in the project mandates.
- 2.7 The key dates for the budget process be noted.

3.0 KEY ISSUES

Background

- 3.1 An updated timetable for the corporate planning and budget framework process is attached as Appendix A. There are no significant changes from the process approved last year and has been reviewed by the Budget and Strategic Planning Working Group at its meeting on the 11th June 2015.

Local Government Finance Settlement

- 3.2 The CSR2010 was announced in October 2010 and covered a 4 year period 2011-15. The review sets departmental spending limits and defines the key areas of improvement the public can expect from this expenditure. The CSR contained a range of proposals for the

public sector and local government, the most significant financial impact was the reduction in funding over the 4 year period of which 2015-16 was the final settlement year for Local Government in this last CSR period.

3.3 The government outlined their approach to the next spending review in July 2015 which clearly stated that non-protected departments will be required to find savings of 25% and 40% in real terms by 2019-20 as well as £12billion funding cuts on Welfare. A number of core outcomes from the Spending Review were announced:

- Promoting innovation and greater collaboration in public services
- Promoting growth and productivity, including radical devolution powers to local areas in England
- Delivering high-quality public services
- Promoting choice and competition
- Driving efficiency and value for money across the public sector

Whilst this offers opportunities to local government it does appear there will not be any relaxation in the level of cuts. The main area of promise from the announcements is around the Governments pledge to reform the Local Government funding regime which is likely to focus on increasing or reforming the incentives to generate economic growth.

The Government plan's to balance the Public Sector Borrowing Requirement in 2019-20 which is an ambitious target so there is the possibility that the Chancellor might come back later in the parliament for more cuts in local government to deliver a balanced budget in 2020.

3.4 As outlined previously the latest projections for potential funding cuts for Local Government over the spending review period could potentially range from 25% to 40% in terms of the cuts. There has been no formal consultation issued over the summer period around provisional settlements or potential changes to the funding mechanisms so until more information is released in the Spending Review which is due on the 25th November 2015 and settlement announcement in December, it is difficult to predict the outcome. It is also unclear what the future plans around NHB are likely to be as there has been a lot of discussion around this scheme being too generous for certain areas so there is a real possibility there could proposals coming forward around the methods of allocations in particular to districts.

3.5 2016-17

The approach to the profiling of cuts applied is unclear with initial views from some finance commentators that there will be smaller reductions in 2016/17 which then increase, whilst others suggest a broadly even spread over the spending review period. The MTFs for 2016/17 onwards has modelled a reduction in RSG which is in line with a 25% level of funding cuts over the spending review period which would mean there wouldn't be any major changes to the current forecasts in budget deficits if this was the level of funding cuts experienced. However, as highlighted above there are indications that the funding reductions could be up to 40% which would represent a significant shift with a potential further loss of funding in the region of £360k by 2019/20.

In relation to Business Rate retention Melton decided to support the reestablishment of a County wide pool for 2015-16 and the intention is for this arrangement to continue for 2016-17. Whilst this does not impact directly on the level of rates retained by individual districts in the county it does mean any levies that would have been paid over to central government will be retained within the Leicestershire area.

3.6 Council Tax

For 2015-16 members decided against taking the offer of freeze grant and approved a 1.9% increase in Council Tax. The MTFs currently assumes a similar increase will be applied in 2016-17. There have been no details provided by government around any future freeze grants and details are expected to be contained within the settlement announcements.

Compensation for the council tax freeze grants for the periods 2011-12 and 2013-14 have continued to be paid to 2015-16 and are now built into the RSG as a single element of which these two grants total £118k per year. It is expected that in 2016-17 this amount could drop out of the RSG if this is not built into Formula Funding which should become apparent when the spending revenue is announced in November 2015.

In addition to the above Melton also took a freeze grant in 2014-15 which was paid for 2 years and Ministers have agreed that this funding should be built into the spending review baseline which gives as much certainty as possible that this funding will remain available. This equated to £34k for Melton and is in addition to the Local Government Settlement.

Inflation Forecast

- 3.7 The Government's target for inflation is 2% CPI (Consumer Prices Index). Their inflation forecast remains unchanged with expectations that it will remain low for the rest of the year (0.1%), then rising in 2016 (1.1%) and returning slowly to the 2% target over the forecast period (2020). Actual CPI was 0.1% in July up from 0.0% in June.
- 3.8 Pay increases will remain low with the chancellor's announcement as part of Budget 2015 that there will be an annual 1% cap on public sector pay rises for the 4 years from 2016/17.
- 3.9 In light of the inflation forecasts remaining low for 2016-17 and low use of the contingency in the past, no contingency budget is proposed for 2016-17 but 1% for pay will be incorporated and reported to members as part of the budget setting exercise for 2016-17. On this basis no inflation has been set at service budget level other than 2% for fees and charges as already provided for in the fees and charges reports considered by committees in the September committee cycle. However, where budget holders have knowledge of price rises, adjustments can be made to these budgets to reflect actual price changes.

Working Balance

- 3.10 The Council's budget strategy for a number of years has been to set a balanced budget. This ensures that the net revenue expenditure, with the exception of funding for capital/new initiatives, is met from Council tax and Government grants. This strategy was also based on ensuring that working balances were retained at a sufficient level to meet any unforeseen expenditure that could not reasonably be budgeted for.
- 3.11 When calculating budget requirements, relevant authorities are required (by The Local Government Finance Act 1992) to have regard to the level of reserves needed for meeting estimated future expenditure (e.g. for emergencies), or as specific (i.e. "earmarked") funds. A clear protocol (covering purposes, utilisation, management, and review) exists for each reserve held in line with the guidance. The level of working balance an authority agrees is an individual matter for them based on their own unique circumstances, risk profile and risk appetite. It is not appropriate to compare/benchmark against other authorities in order to assess an appropriate level.

- 3.12 The current projection for the level of working balances is set out in the following table. Where the actual balances at the year-end for general and special expenses have differed from the target level the balance has been restored either by taking from or adding to the general reserves. This does not take any account of predicted year end over/underspends that have not been formalised through supplementary estimate requests. Budgets are closely monitored throughout the year and spend is proactively managed with every effort made to manage costs within budget.

	General Fund General Expenses £	General Fund Special Expenses £	Housing Revenue Account £
1 April 2015	820,000	50,000	1,120,522
Budgeted Increase/reduction (-) 2014/15	0	0	(45,740)
Estimated Balance 31 March 2016	£820,000	£50,000	£1,074,782

- 3.13 The target working balance for general expenses was increased in 2012-13 to its current level of £820k. The calculation has been updated for any changes in assumptions and is set out in Appendix B. It can be seen that the revised figures produce a mid-point of £645k. This is a substantial reduction due to the extreme event (fire at the Council Offices) year of 2008-09 dropping out of the calculations. Members may recall a similar figure was calculated as part of the budget framework report in 2015-16 but at the time there were concerns over the impact of the Business Rate retention scheme with the potential annual fluctuations in the retained income levels. Since then the Council has established a Business Rate Volatility Reserve to manage any movements in the surpluses and deficits achieved in future years in order to manage this risk. Therefore there is the opportunity for members to reduce the target level for the working balance for General Expenses and the surplus could either be retained as part of the working balance for future financial pressures or added into the Corporate Priorities Reserve. Alternatively members could continue to take the view that with the current pressure on budgets they wish to remain cautious and retain the current level of £820k.
- 3.14 With regard to the £50k working balance for special expenses (Melton Mowbray) there is no justification for amending this amount based on previous years supplementary estimate history. As shown above the current and projected balance at this target.
- 3.15 The Housing Revenue Account (HRA) working balance was last increased from £500k to £750k by this committee in a meeting held on 23 January 2013 with a requirement to review annually. The increase was needed to address the risks associated with running the HRA as a going concern and ensure the sustainable and continuous maintenance and improvement of the housing stock. A further change is not proposed.
- 3.16 It has been previously agreed that, should there be a surplus over the HRA working balance then this is available to support the requirements of the HRA business plan.

Programme Board

- 3.17 The Programme Board was allocated responsibility in 2008-09 to determine the relative priority of schemes submitted for funding as part of the budget setting process for member's consideration and final approval for funding by Full Council at the budget setting meeting. No issues were encountered from this approach and therefore it is recommended that this procedure continue.

Key Dates

3.18 For Members information the key dates in the budget process are as follows:-

Budget and Strategic Planning Working Group meet to consider draft MTFS and budget submissions 11 November 2015

Spending Review published by Government 25 November 2015

PFA Committee consider first draft of revenue estimates 1 December 2015

Settlement Announcement for Local Government Mid December 2015

Strategic Planning Away Day (All Councillors) 13 January 2016

Full Council determines the budget 3 February 2016

Full Council sets Council Tax and approves the budget book and the MTFS 24 February 2016

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The key items considered as part of this report will inform the Council's MTFS. The MTFS is an overarching strategy within the Council's Corporate Policy Framework and draws together the financial consequences of all the Council's strategies and policies.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The financial implications of each of these key decisions will feed into the MTFS along with the detail around the Council's reserves and balances which will be submitted for approval to the December meeting of this Committee.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no specific legal implications as a result of these proposals.

7.0 COMMUNITY SAFETY

7.1 There are no specific community safety issues as a result of these proposals however as a corporate priority specific funding will be allocated as part of the service and budget setting process to this area.

8.0 EQUALITIES

8.1 There are no direct links to equalities as a result of these proposals.

8.2 As in all our service areas and in supporting our corporate priorities ensuring equality of access for all sections of the community and in particular those that are vulnerable is a key factor for all officers to consider and improve.

9.0 RISKS

9.1 Probability



Very High A				
High B			1	
Significant C				
Low D		2		
Very Low E			3	
Almost Impossible F				
	IV Neg- ligible	III Marg- inal	II Critical	I Catast- rophic

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Impact

Risk No.	Description
1	Uncertainty and risks over the future of government funding following the next spending review for 2016/17 and the resultant impact on the Council's finances
2	Budget overspend
3	Depletion in level of working balances and reserves

9.2 There are a number of uncertainties surrounding local government finance and the Council's financial position. The budget is the best estimate of likely income and expenditure for the year that it covers. The proposals contained within this report attempt to quantify some of these unknowns in order to produce a best estimate. To mitigate some of these risks the working balance is provided which itself is based on a risk assessment of likely need.

10.0 CLIMATE CHANGE

10.1 There are no direct links to climate change.

11.0 CONSULTATION

11.1 As part of the Corporate Planning and Budget Framework provision is made to undertake consultation on budget disinvestment. This helps inform the budget setting process and allocation of resources.

11.2 All Heads of Service and the Budget and Strategic Planning Working Group are involved in finalising the document.

12.0 WARDS AFFECTED

12.1 As these proposals inform the MTFS then potentially all wards are affected.

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Date: 05 September 2015

Appendices: A – Service and Financial Planning Timetable
B– Level of Working Balance from MTFS

Background Papers: MTFS working papers

Reference: X: C'tees, Council & Sub-C'tees/PFA/2015-16/30-09-15/Budget Framework 2016/17