

**POLICY, FINANCE AND ADMINISTRATION COMMITTEE**

**1 DECEMBER 2015**

**REPORT OF HEAD OF CENTRAL SERVICES**

**REVENUE ESTIMATES 2016/17 AND MEDIUM TERM FINANCIAL STRATEGY**

**1.0 PURPOSE OF REPORT**

- 1.1 To report on the latest position regarding the estimates for 2015/16 and 2016/17 and the Medium Term Financial Strategy (MTFS) following the Budget and Strategic Planning Working Group (BSPWG) meeting held on 11th November 2015.
- 1.2 To seek committee approval for the proposals made by the BSPWG regarding the budget for 2016/17.

**2.0 RECOMMENDATIONS**

- 2.1 That Members note the estimated year end position for 2015/16 as set out in section 3.2.
- 2.2 That Members note the position with regard to the 2016/17 estimates and the forward projections for 2017/18 to 2019/20 at this stage in the process and the issues yet to be resolved as set out in section 3.3.
- 2.3 That as part of the budget setting process The Council approve that the Council Tax Support Scheme approved for 2015/16 (Year 3) remain unaltered for 2016/17 (Year 4) and applicable amounts (e.g. Single Person Allowance) to be adjusted for inflation in line with the Government's Adjudication and Operations Circular
- 2.4 That delegated authority is given to the Head of Central Services in consultation with the Chief Executive, the Chair and Councillors Holmes being the political groups' nominated consultees for the Policy Finance and Administration Committee, to withdraw from the Leicestershire pool for business rates should the modelling demonstrate there is no longer a financial benefit to the Council and update the legal agreement with any required changes that arise.

**3.0 KEY ISSUES**

**3.1 Background**

- 3.1.1 The Management Team scrutinised all budget submissions prior to submission for member scrutiny. The Budget and Strategic Planning Working Group (BSPWG) met on 11th November 2015 to consider the draft estimates and to provide guidance on a number of areas for both General and Special Expenses. A copy of the Working Group minutes for this meeting can be obtained from Central Services. The Town Area Committee met on 16th November 2015 to also consider special expense (Melton Mowbray) budgets.

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3.1.2 The emphasis of these meetings was to achieve a balanced budget for 2016/17 as this was a key principle agreed by this committee at its meeting on the 30<sup>th</sup> September as part of the Budget Framework. As well as this they were also held to scrutinise all service growth and savings put forward, including their fit with Council priorities and to ensure only those that fit such criteria move forward through the budget process. In addition, the Members present considered the ongoing issues experienced in balancing the budget and the particular pressures and risks faced as a result of the financial implications in relation to the ongoing significant cuts in central government grants both this council and our partners are experiencing. These were discussed with a view to considering how best the Council could manage these impacts and plan for the future and by doing so minimise the likelihood of cuts in services being necessary.

### 3.2 Estimated Year End Position 2015/16

3.2.1 The position for the current financial year, 2015/16 is estimated to be as set out in the following table:

#### Estimated Year End Position 2015/16

	Original Estimate 2015/16  £'000	Estimated Year End Position 2015/16  £'000
<b>General Expenses</b>		
Net Cost of Services	6,536	6,546
Non Specific Service Items	(619)	(494)
Funding	(5,917)	(6,266)
Surplus (-) / deficit for year	0	(214)
<b>Special Expenses (MM)</b>		
Net Cost of Services	611	617
Non Specific Service Costs	(118)	(118)
Total Special Expenses (MM)	493	499
<b>Special Expenses (Sproxton)</b>	5	5
<b>Special Expenses (Frisby)</b>	5	5

3.2.2 The estimated year end position for General Expenses shows a surplus for the year of £214k. This takes into account approved contributions from the Corporate Priorities Reserve relating to non-recurring expenditure as included in the original budget, supplementary estimates, and approved carry forwards from 2014/15 as set out below.

	£
Approved Revenue Carry Forwards from 2014/15	321,460
Supplementary Estimates 2015/16 - Corporate Priorities Reserve	42,650
Contribution to Non-Recurring expenditure from original budget	124,000
Total contribution from the Corporate Priorities reserve	488,110

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3.2.3 The variances between the in year approvals and the estimated year end position primarily relate to:

- Additional income (planning and industrial units).
- Housing benefit subsidy income relating to a prior year adjustment and recovery of overpayments.
- Implementation of a number of saving initiatives including, freezing the ICT desktop refresh, salary savings in the property team, wheels to work insurance contract and reduced NNDR cost on Phoenix House.
- External funding received in year for New burdens relating to changes in land charges and Early Intervention
- There has been an increase in the amount of interest received on the Council's investments
- It is currently estimated that the inflation contingency provided will not be required

These are offset by one-off costs associated with the review of supporting people and licencing and enforcement services which will lead to future long term savings, increased costs relating to the delivery of the homelessness and environmental maintenance service, along with reduced income estimated from comingled waste. In addition to this there have been requests to allocate some of the in year forecast underspend outlined above to fund Supporting Leicestershire families, the establishment of a waste reserve and funding consultancy costs for the Community Infrastructure Levy. This is aimed at bringing forward known expenditure from future years in order to reduce the financial burden in later years when it is known that resources due to funding cuts will be more restricted. The figures are the best estimate based on information available at this time.

3.2.4 For Special Expenses (Melton Mowbray) due to the creation of the Town Area Committee and the resulting member allowances required there is a predicted overspend of £6k. This can be accommodated from within the working balance which can then be restored in 2016/17. With regard to the parish special expenses the estimated year end position is for lower balances than originally estimated as a result of the reduced balances brought forward from 2014/15 over that estimated. As such there will be stepped increases in the Special Expense council tax rates in 2016-17 which for Frisby was agreed to be recovered over a 3 year period.

3.2.5 The estimated year end position is only an indication of the likely position at the year end and budget holders can only spend at this level if they seek approval through virements and supplementary estimates. Whilst the estimated year end position for General Expenses is showing a potential under spend there is still some pressure on increased costs in some areas which are estimated to be covered by the savings elsewhere.

### 3.3 **Proposed Budget 2016/17**

3.3.1 Following amendments to the proposed budgets both during and following the BSPWG and Management Team meetings, the latest position on the General Fund and Special Expenses is summarised in the table below. At this stage in the process there are always a number of uncertainties with some budgets remaining unclear:

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### Latest Proposed Budget 2016/17

	<b>General Expenses</b>	<b>Special Expenses (MM)</b>
	<b>£000</b>	<b>£000</b>
Latest Proposed Budget 2016/17	5,576	495
Retained Business Rates	(1,089)	0
Revenue Support Grant (RSG)	(744)	(30)
Council Tax Income	(2,795)	(500)
New Homes Bonus	(959)	0
Collection Fund Deficit	(3)	0
Corporate Priorities Reserve	(63)	0
Special Expenses Reserve	0	29
Budget Shortfall/Surplus (-)	(77)	(6)

- 3.3.2 The above figures show a budget surplus at the present time on general expenses which reflects the positive approach the council has taken with the decisions made as part of the 2015-16 budget setting process in response to the challenging economic environment the council is operating within and the significant cuts being applied to grants from central government. This also takes into account some of the funding withdrawals LCC need to make in order to tackle their own budget gap. There are a number of growth proposals, attached as Appendix A which would reduce the budget surplus if approved alongside the concern of future funding reductions so the Head of Central Services will continue to work with Management Team to review the budget estimates in order to identify further savings or potential budget reductions which could contribute to meeting the future financial challenges the Council faces. One saving proposal has also been proposed attached as Appendix B. The final list of prioritised budget growth and reductions will be presented to members for consideration at the Strategic Planning Away Day in January 2016.

With regard to special expenses (Melton Mowbray) there is an expected surplus for 2016/17 which is in line with the previous decision to provide funds to support non recurring revenue and capital expenditure. One growth proposal has been made as attached at Appendix C. Taking into account the capital proposals and the current estimated level of the reserve the resources required to fund such expenditure from within this fund remain extremely challenging.

- 3.3.3 The following assumptions have been made with regard to the estimates set out above:
- Formula Funding used to calculate retained business rates and RSG is in line with the final settlement for 2015/16 with a predicted further reduction in funding of 25% in 2016/17. Whilst the government have recently announced major changes to the national business rate system there has been no detail behind this and therefore at this point officers have prudently factored in overall funding reductions which are still expected.
  - Council tax will be increased by 1.9% in 2016/17 as currently assumed within the MTFS.
  - RSG allocated to special expenses and parish councils to compensate for the impact of localised council tax support on the tax base is reduced in line with the estimated reduction in RSG for the council as previously agreed.

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- Pay increases have been budgeted for at a 1% increase for the 4 years from 2016/17 in line with the chancellor's announcement as part of Budget 2015 on public sector pay.
  - 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 as agreed by this committee at its meeting on 30 September 2015 as part of the budget framework.
  - The structure of the Council Tax Support Scheme approved for 2015/16 (Year 3) will not be changed for 2016/17 (Year 4). Applicable amounts (e.g. Single Person Allowance) will be adjusted for inflation in line with the Government's Adjudication and Operations Circular. This will need the approval of full council and will therefore be included within the budget setting report.
- 3.3.4 It is not known when the confirmation of the Formula Grant is to be received having been received quite late in December 2015 with the preceding Autumn Statement being announced on the 25<sup>th</sup> November. It is anticipated we may find out more around the Government's pledge for Local Government to retain a 100% of Business Rates. A verbal update will be provided at the meeting of any key issues arising from the statement.
- 3.3.5 The principle of retaining all business rates collected is similar to Council Tax which is already 100% collected and retained locally. At present there is no detail around the actual phasing of how we will work towards to the 100% as the Government have left this open with the phrase 'by the end of parliament' which is 2020-21. Whilst it is not impossible it is highly unlikely the proposals would commence in 2016-17. It is more likely that primary legislation will be introduced during 2016/17 for the introduction of the new regime from 2017/18 which would coincide with the new rating list or more likely 2018/19.
- 3.3.6 It is envisaged that there will still be transfers between local authorities which may well involve a similar mechanism to the tariffs and top-ups. As a result of the additional perceived financial benefits to local government of retaining all the Business Rates, Revenue Support Grant (RSG) will be removed and it is not clear what the future is for the New Homes Bonus (NHB) as part of the Government's plan to rebalance the Local Government Finance system
- 3.3.7 However, the Chancellor also announced that with allowing Local authorities to retain 100% of Business Rates there would be the expectation that additional responsibilities would also be taken on by local authorities which will involve additional costs. Other areas which are also unclear that could reduce any potential gain is how the changes to the central valuation list are managed and who will be funding any relief and discount schemes in the future
- 3.3.8 The estimates are still being checked and refined and this will result in a number of changes in service costs as the Council progresses through the process. The key areas to note are in addition to those set out in the above paragraphs:
- The balance on the collection fund will not be determined until January 2015 following the calculation of the council tax base, which is also an estimate at this stage, and is therefore based on estimates.
  - Business Rates estimates have yet to be calculated and as set out above no allowance has been made for the proposed changes to the 100% retention of business rates income locally.
  - Support cost recharges to the HRA and between funds are based on current year's estimates and will be subject to change although an allowance has been made for anticipated transfer between funds.
  - Assumptions have been made relating to externally funded services where the continuation of funding remains uncertain at the present time. As such any reductions

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in funding from partners such as Leicestershire County Council could result in a reduction in the estimated surplus or see the need to incur non-recurring expenditure in order to facilitate any withdrawal from current externally funded services or whilst alternative sources of funding are explored. One key area this applies to is the provision of Me and My Learning which relies heavily on external funding.

- An allowance has been made for the loss of income relating to the revenue impact of the Cattle Market Project however the timing and full impact cannot be known at this stage with any certainty.
- An adjustment is required to reflect the outcome of the Rural Economic and Environmental Affairs Committee meeting to consider the car parking tariff following the approval of the car parking strategy.

3.3.9 Figures will continue to be refined until the Full Council meeting in February 2016 when the budget and Council Tax are formally set.

3.3.10 The Medium Term Financial Strategy is again being developed as part of the budget this year. As with the budget for 2016/17 the figures are still being refined as the process progresses and more information is received. The latest estimates show the following projected position. These figures are cumulative so any change to the 2016/17 position i.e. by approving and including on-going growth will reduce the expected surplus in 2017/18.

Financial Year	Expected Position Surplus (-)/Deficit  £000	Optimistic Scenario Surplus (-)/Deficit  £000	Prudent Scenario Surplus (-)/Deficit  £000
2017/18	(57)	(522)	351
2018/19	(8)	(1,028)	885
2019/20	162	(1,256)	1,377

3.3.11 The key factors impacting on these forward projections are:

- Income projections
- Anticipated service changes including loss of dry recycling credits
- New waste management contract
- Formula Funding projections
- Assumptions relating to the Retained Business Rate scheme and potential changes to the system as a whole including the 2017 revaluation
- Changes to employer NI and pension contributions including auto-enrolment and future triennial reviews
- Inflation assumptions and actual cost increases
- Council tax levels
- Achievement of Transformation programme savings
- Welfare Reform and Universal Credit
- Changes to the living wage levels and associated increased in salary costs
- Utilisation of Council Assets
- Future of Me and My learning with regards to grant support
- Leisure Vision business case
- Options for the future provision of public conveniences
- Elections and Electoral Registration
- Future developments of the Wheels to Work scheme
- Local plan costs and associated implications such as hosing and infrastructure

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- Council Tax Levels

3.3.12 The figures show that despite large reductions anticipated in Formula Funding and potential changes to the Business Rate system the Council has in the main been able to meet this challenge with the current surplus predicted for 2016/17. However, with the fundamental changes to the Local Government finance system and proposals around Retained Business Rate this positive position is subject to change. If the current position does alter and a subsequent budget gap becomes apparent this will need to be addressed and Management Team will work on developing saving proposals in a planned approach to ensure appropriate decisions are made.

3.3.13 The expected position has been subject to sensitivity analysis resulting in the optimistic and prudent cases set out in the table above. The key reasons for such large variations are as follows:

- Large variations in Formula Funding projected due to the lack of information at this time
- Variations in the need for inflationary increases due to economic uncertainty and the low use of the contingency in 2014/15 and predicted again in 2015/16
- Risk associated with achieving transformation savings
- Lack of information surrounding the impact of NI changes and the increase in membership of the pension scheme due to the implementation of auto enrolment.
- Waste services with the potential loss of dry recycling credits alongside the procurement of a new waste management contract which will have a key impact in 2017/18 and 2018/19.
- Changes to the tenants and occupation rates at Parkside with the potential loss of LPT.
- Impact of the changes to the living wage levels and associated increased in salary costs
- Fluctuations in significant income streams – mainly planning fee income and Cattle Market which is linked to the redevelopment of the site.

3.3.14 The Council is currently a member of a business rates pool consisting of all Leicestershire districts, Leicestershire County Council, Leicester City Council and Leicester, Leicestershire and Rutland Combined Fire Authority. In summary the pooling agreement allows for increases in business rates that would otherwise have been paid over to central government in the form of a levy to be retained within the pool area. Surpluses up to an agreed level will be retained within the pool as a contingency sum to cover safety net payments and monies retained above this level will be available to support priority economic projects within the whole Leicestershire/Leicester area and distributed by the LLEP. The financial position of the pool is monitored on a quarterly basis across the area however the final position will not be known until after the end of the financial year. The estimated levy the pool would retain is based on Formula Funding for each authority as well as forward projections of business rates income. As such it is difficult to finalise these estimates for each financial year until the provisional settlement is received in approximately December each year. As such authorities are given 28 days following the release of the provisional finance settlements to withdraw from a pool should they wish to do so. Any member of the pool withdrawing would cause the pool as a whole to cease. As such it is recommended that delegated authority be given to the Head of Central Services in consultation with the Chief Executive and the political groups' nominated consultees for this committee to withdraw from the pool should the finance settlement indicate that continued pooling would not be in the best interests of this Council. It is not anticipated that any changes would be required to the existing legal agreement but a similar delegation is also recommended in case this should become necessary.

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### **4.0 POLICY AND CORPORATE IMPLICATIONS**

- 4.1 The process followed with regard to the setting of the Council's budget is in line with the Service and Financial Planning timetable.

### **5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

- 5.1 With the future uncertainty and risks facing local authorities due to both the funding cuts and also the changes to the funding regime relating to business rates and other core grants it is essential the council looks to how this can be managed in a planned way. Whilst the latest position for both 2015/16 and 2016/17 is looking reasonably healthy, utilising any available resources to reduce the burden in future years or building up reserves is a prudent strategy which will enable reserves and balances to be in a more healthy position to assist with later reductions in core funding.
- 5.2 The council does already hold a good level of reserves which if required could be used to balance the budget in any financial year whilst plans are put in place to reduce expenditure. However whilst these balances are healthy the size of the potential future funding cuts and the risks associated with some of the grants and partnership funding received would mean that these balances could quickly be depleted. The level of capital resources by way of capital receipts is also much depleted with limited scope for realising future receipts from asset sales. As such the Corporate Priorities Reserve is likely to have to be utilised to fund capital expenditure in the future. This committee at its meeting in September also approved a reduction in the working balance from £820k to £645k which puts further pressure on the Corporate Priorities Reserve to meet any unforeseen or non-recurring expenditure from this source.

### **6.0 LEGAL IMPLICATIONS/POWERS**

- 6.1 There are no other legal implications other than those set out above.

### **7.0 COMMUNITY SAFETY**

- 7.1 Community Safety is a key priority of the Council and the budget proposals need to take account of the requirements to support that strategy.

### **8.0 EQUALITIES**

- 8.1 There are no direct links to Equalities, though some elements of the budget proposals will relate to Equalities issues. Any savings proposals will need to have equality impact assessments completed as appropriate by the service lead.

### **9.0 RISKS**

- 9.1 There is always the risk that an item of income or expenditure is not adequately reflected in the budget for any financial year. The process followed as set out in the Service and Financial Planning timetable is aimed at mitigating this risk. However, the Council has a working balance which is annually reviewed and calculated on a risk based approach. This working balance is there to provide for any variations in actuals against budget that could not have been anticipated at this stage. The detailed calculations were presented to this committee as part of the budget framework report approved in September 2015. In



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addition, the Council has a process for enabling budgets to be moved from one area to another to help ensure the overall position is not affected. The assumptions set out in paragraph 3.3.3 provide an indication where assumptions have been made at this stage and where there is less clarity surrounding the financial implications.

- 9.2 Risks are more fully assessed when the budget is presented to Full Council based on the position at that time.
- 9.3 The Council has a corporate risk relating to the availability of government funding and the impact on the Council's finances. An action plan is in place to support this risk as reported to the Governance Committee.

### **10.0 CLIMATE CHANGE**

- 10.1 Climate change and our response to this could impact on a number of budgets and this should be considered as part of the service planning process.

### **11.0 CONSULTATION**

- 11.1 The Service and Financial Planning timetable sets out the Council's approach to consultation and its links to the budget setting process. In addition, all Heads of Service and Members are involved in the process at various stages. Consultation with Business Ratepayers will be held via the website following advertisement.
- 11.3 Union representatives were invited to attend the BSPWG meeting held in November in order to facilitate communication with staff representatives although this offer was not taken up this year. A representative will also be invited to the Strategic Planning Away Day in January 2016 when budget proposals are discussed in more detail.
- 11.4 The Town Area Committee was also consulted on proposals for Special Expenses Melton Mowbray.

### **12.0 WARDS AFFECTED**

- 12.1 All wards will be affected.

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Contact Officer: Dawn Garton, Head of Central Services

Date: 17 November 2015

Appendices: Appendix A – Growth Proposals General Expenses  
Appendix B – Savings Proposals General Expenses  
Appendix C – Growth Proposal Special Expenses MM

Background Papers: Medium Term Financial Strategy working papers  
Budget Book 2015/16  
Budget Working Papers  
Minutes from BSPWG 11/11/15

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Reference: X: C'tees, Council & Sub-C'tees/PFA/2015-1/1-12-15/DG-Revenue budget 2016/17 and medium term financial