



BUDGET STRATEGY 2016/2017
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

WARDS AFFECTED: ALL WARDS

1. PURPOSE OF REPORT

1.1 To review the Budget Strategy for 2016/2017.

2. RECOMMENDATION

2.1 That the committee review the Budget Strategy for 2016/2017 before approval by Executive.

3. BACKGROUND TO THE REPORT

3.1 This Budget Strategy (the Strategy) is presented within an overall national scene of reduced central government funding and the drive towards greater financial localism. The ongoing impact of austerity measures enacted by Government means that local government budgets have been and will continue to be radically reduced due to cuts in central government funding and local reductions in traditional income streams. For this Council, the key pressures in 2016/2017 can be summarised as follows:

- An expected reduction in funding provided by Government. The level of reduction is however unknown as no provisional Settlement has been provided for the forthcoming year. For the purposes of this strategy an assumption will be made that Revenue Support Grant (RSG) will reduce by 16.4% from the 2014/15 allocation.
- Although additional New Homes Bonus and Business Rates Uplift bridged the funding gap in 2015/16, this is not a reliable and sustainable funding stream. New Homes Bonus is dependent upon additional housing development that is complete, occupied and taxable by October of each year. The Strategy will initially assume 75% of the levels of trajectory predicted by the Planning service at an average Band C. This is a prudent estimate and will provide a contingency against any adverse variance due to slippages in development or delays in occupation. It will also provide towards any changes in the local split between this Borough Council and the other major preceptors. The actual allocation of New Homes Bonus is expected from Government in November 2015.
- Pressure from Government to avoid large levels of council tax increases. It should be noted that this Council has at present the joint 8th lowest Council Tax level nationally and has accepted the freeze grant from government for the last 5 years. This has effectively created a loss of income by 31 March 2016 of £691,009 (or £1,142,693 if a £5 increase had been taken in year 1); thereby exasperating the Council's financial position. The assumption for this strategy is that the increase for 2016/17 will be limited by government to a 2% increase at average Band D. This, at current 2015/16 base equates to 36,311.59 Band D equivalents. Fluctuations in the level of Business Rates that will be retainable by the Council in light of high levels of appeals and, more locally, negotiations on rates received from the MIRA Enterprise Zone.
- The pressure in 2015/16 arising from the removal of green waste recycling credits (£345,792). In 2015/2016, this pressure was funded from reserves as a one off solution. The pressure will therefore be included in the base budget for 2016/17.

- The increase in the Council's dry waste recycling contract in 2015/2016 (£298,890). In 2015/2016, this pressure was funded from reserves as a one off solution. The pressure will therefore be included in the base budget for 2016/17.
- Fluctuations in fees and charges income including planning fees, car parking and rental income.

3.2 When members set the council tax for 2016/2017, the Deputy Chief Executive (Corporate Direction), as the Council's section 151 officer will have a duty under Part II of the Local Government Act to report on the robustness of the Budget and the adequacy of reserves in providing quality services. This Strategy aims to provide a framework that will provide for this robustness but at the same time allows the flexibility to react to changes and opportunities should they arise.

3.3 An abbreviated MTFs covering the period 2014/15 to 2017/18 was approved by Council on 17th March 2015. This MTFs detailed three financial scenarios; a best case, worst case and forecast position. The assumptions that underpinned these three scenarios were as follows:

	Worst Case	Forecast	Best Case
Council Tax	Freeze	2% increase 2016/17 onwards	2% increase 2016/17 onwards
Income levels - Development control - Building control - Car Parking - Trade Waste - Rental	Reduced levels	Assumed levels	Increased levels
New Homes Bonus	50% at Band C	75% at Band C	100% at Band C
Appeals costs	£200k per annum	£100k per annum	£nil
Council Tax Support to Parishes	£143,000 each year	Reduce by block funding % decrease from 2016/17	Nil from 2016/17
Revenue Support Grant (2016/2017 onwards)	20% reduction annually	16.4% reduction annual as with 2015/16	10% reduction annually
Council Tax Base	1% increase annually	2% increase annually	3% increase annually
Green Waste ¹ (2016/17 onwards)	No charge	Charge introduced	Charge introduced
ICT Procurement (2016/17)	£50,000 saving	£100,000 saving	£150,000 saving
Business Rates Retained Growth (2016/17 onwards)	£100,000 loss (over safety net) annually	No growth/loss	£100,00 retained growth annually
	Worst Case	Forecast	Best Case
Commercial management of	Not achieved	£50,000	£100,000

¹ The MTFs includes a baseline target of income of £486,000 from the introduction of a charge for green waste collections and/or an increase in council tax of around 9.5%

the Atkins Building (from 2016/17)		saving/income	saving/income
Support Services savings	£nil	£25,000 saving 2016/17 and 2017/18	£50,000 saving 2016/17 and 2017/18
Additional Cost of Discretionary Housing Payments (DHP) (from 2016/17)	£50,000	£25,000	£nil
Occupancy of Block C (from 2016/17)	50% occupancy	75% occupancy	100% occupancy

	2015/16	2016/17	2017/18
Pay increases (including members allowances)	1% increase	2% increase	2% increase
Vacancy factor	5% of staff costs	4% of staff costs	3% of staff costs
Base Rate	0.5% (no increase)	0.75%	0.1%
Retail Price Index	3% increase	3% increase	3% increase
LCTS Cap	12%	12%	12%
County Council cuts	Green Waste and Sure Start	£500,000	£500,000 (no increase)
Revs and Bens Partnership Savings	0	£85,000	£85,000 (no increase)
Growths	Per budget	£100,000	£100,000
Unidentified savings	Per budget	£150,000	£150,000
County Council cuts	Per budget	Green Waste + £100,000	Dry Recycling + £100,000
NNDR Baseline	Per Settlement	+ 0.25%	+0.25%
Staff Restructuring	Per budget (£175,000 costs)	1/3 savings	1/3 savings

3.4 The application of these assumptions on General Fund balances and reserves was detailed in the report and is summarised below for reference:

	2015/2016	2016/2017	2016/2017	2016/2017	2017/2018	2017/2018	2017/2018
	Budget	Forecast	Best Case	Worst Case	Forecast	Best Case	Worst Case
	£	£	£	£	£	£	£
Closing General Fund Balance	1,079,112	995,780	1,978,029	-667,279	1,105,476	3,646,957	-2,917,417
Closing Earmarked Reserves Balance	3,519,399	3,581,089	3,581,089	3,381,089	4,172,459	4,172,459	3,972,459
Total General Fund Reserves and Balances	4,598,511	4,576,869	5,559,118	2,713,810	5,277,935	7,819,416	1,055,042
General Fund Surplus/ (Deficit)	112,279	1,207	957,475	-1,633,634	65,228	2,552,993	-3,898,635

3.5 What was clear from the above table is that the worst case scenario is not viable under any circumstances and will effectively lead to the eradication of the General Fund balance. Conversely the best case scenario forecasts material levels of surplus balances that, in reality, would be difficult to achieve. The **forecast position** (ie one that preserves the General Fund and the ongoing solvency of the Council) was noted to be achievable by Council but only on the premise that certain financial decisions were made and targets were met in 2016/17. These targets (included in the financial forecast), as refreshed, are summarised below and will be set as targets to officers as part of the 2016/17 budget build:

	2016/17	Updates	Revised	Targets achieved	Targets achievable	Member decision/
	Original		targets		(officers)	direction required
	targets					
	£	£	£	£	£	£
Increased levels of building control income	25,000		25,000		25,000	
Reduction in banking contract	10,000		10,000		10,000	
Increased levels of development control income	78,000		78,000		78,000	
Savings from restructure of Revenues and Benefits Partnership (HBBC share)	108,017		108,017	108,017		

Waste management pressures recovered	345,890 ²	298,000 ³	643,890			643,890
Hub utilisation savings	50,000		50,000		50,000	
Further centralisation of budgets	12,000		12,000		12,000	
Reduction in contribution to VCS hub	12,330		12,330			12,330
Savings from restructure	129,800		129,800		129,800	
Additional income from Block C (75% occupancy)	188,303		188,303		188,303	
Phased reduction of Council Tax Support grant to parishes	23,452	119,548	143,000			143,000
Channel Shift	31,902		31,902		31,902	
Retender of ICT contract	100,000		100,000		100,000	
Private management of Atkins building	50,000		50,000 (target removed)			
Support services review	25,000		25,000		25,000	
Insurance contract saving	10,000		10,000		10,000	
Additional in year savings	180,000		180,000		180,000	
Increase in Council Tax (2%) and base (2%)	138,012		138,012			138,012
Total	1,657,816	277,438	1,935,254	108,017	840,005	937,232

Income Generation/Fees and Charges

3.6 All fees and charges are reviewed on an annual basis and are published separately in the Council's Fees and Charges book, as approved by the Executive. Whilst a dedicated charging strategy is not in place, a number of principals are followed when considering fees and charges.

3.7 In general terms, all applicable services should be charged for unless there is a valid reason for an exception to be made. These exemptions include, but are not limited to:

- Instances where the administrative cost of levying and recovering the charge would outweigh any potential income

² Relates to the removal of Green Waste credits

³ Relates to the increase in costs in the current recycling contract

- Where policy has been passed to fund the service from Council Tax or other dedicated funding streams (e.g. grants)
- Circumstances where charging would significant deter demand
- Where statute dictates that charges cannot be made

3.8 When setting scales of charges, the following factors are taken into consideration:

- Statutory obligations
- Policy decisions
- Inflation and relevant indices
- Local market research and competition, including consideration of market distortion (where relevant)
- The impact of price changes on activity level or demand
- Levels of subsidy (where appropriate)
- The need to avoid any exploitation of customers who have no option but to use the Council's services
- Cost recovery. This should be considered with recognition that, taking one year with another, the income from charges should not exceed the cost of provision
- The financial position of the Council and the need to generate income to remain solvent

2016/2017 Budget Assumptions

3.9 The following assumptions will be used for the purpose of setting the 2016/2017 Budget, as directed by the Executive:

Factor	Assumption
Basis of budget	The 2016/2017 base budget is to be based on the 2015/2016 original budget. All one-off items in the 2015/2016 original budget will be removed and full year effects of part year reductions in 2015/2016 implemented.
Growths	No growth requests will be approved for 2016/2017 for capital or revenue (this excludes increases in contract prices). (The original assumption in the MTFS approved by Council on 17 th March 2015 was £100,000). Where pressures have arising due to withdrawal of funding, officers should look to include a corresponding reduction in expenditure.
Savings/additional income - officer targets	All officer targets detailed in section 3.4 above will be built into the Budget.
Savings/additional income - member decisions	The following decisions have been made by the administration and will be factored into the Budget as such: <ul style="list-style-type: none"> • A 2% increase in council tax • Removal of Local Council Tax Support Grant to parish councils • The introduction of either a green waste charge or an increase in council tax over 2%, pending results of the forthcoming consultation which is anticipated to be completed by the end of October 2015.
Council Tax	2% as detailed above
Pay increase	1%

National Insurance	HMRC rate (not yet confirmed). These costs will also take into account the impact of NI due to the end of “contracting out” which will occur from 6 th April 2016
Employers Pension Contributions	An Employers Contribution rate of 16.4% will be used with an additional 0.9% being included for Ill Health retirement insurance. In addition a lump sum value of £468,000 is payable to the Local Government Pension Scheme which will be contained in a corporate budget. These rates were based on estimates made in previous year and will be confirmed by the pension scheme in due course.
Vacancy Factor	A net salary/vacancy saving of 5% will be applied (5% in previous years). This will be across all service areas with the exception of senior management posts.
Supplies and Services - Non contract	0% increase
Supplies and Services - Contract	It is anticipated that the average rate of RPI will be added to the Council’s payments. As such a rate of 1.1% will be applied to 2015/2016 contractual costs which is in line with the most recent release (August 2015). Where budget holders have knowledge of price rises that differ, adjustments can be made to these budgets to reflect actual price changes. This rate will be reviewed in subsequent months.
Fees and Charges	Where an inflationary increase is called for, it has been directed that an increase RPI. The rate of RPI at 31 st August 2015 of 1.1% will be applied. If there is a material change in this rate by 31 st December 2015 then the budgets will be adjusted accordingly.
Investment income/expenditure	The Bank of England base rate is currently 0.5%. There is some prospect of an upward movement by one basis point in 2016/17 Therefore a rate of 0.75 will be assumed.
Housing Revenue Account	All assumptions regarding expenditure and fees and charges will be set in line with the Strategy. The exception to this is in relation to rent setting which, in accordance with Government guidelines will be reduced by 1%. A 2% void loss will continue to be applied to these levels.

3.10 Applying the above revised assumptions, as agreed with the Executive, the revised targets are as follows:

	£
Original Member Target	937,232
<u>Targets committed</u>	
Removal of Council Tax Support to Parishes	-143,000
Increase in Council Tax (2%) and base (2%)	138,012
<u>Change in assumptions</u>	
Retain vacancy factor at 5%	-82,284

Nil growths approved	100,000
1% agreed pay increase	-65,750
Reduced saving from ICT contract	50,000
Reduced saving from private running of Atkins Building	50,000
Revised Target/Gap	508,186

3.11 In arriving at the above assumptions and the resulting revised targets, the following have been considered by the Executive and Senior Management:

- The Executive have directed that budget decisions for 2016/17 must not have an adverse impact on council services. Officers have considered this direction and have advised that the extent of the savings required could only be delivered through staff reductions (as other non staff savings have been exhausted over the past 7 years) with an impact on service delivery.
- Officers have advised that on-going costs included in the budget should not be funded from earmarked reserves as these reserves have been set up and approved by Council to meet specific pressures. It would therefore not be prudent or sustainable to fund ongoing costs through earmarked reserves.
- Financing costs are projected to increase further in 2016/17 on completion of the Crescent Development and the funding of the Leisure Centre. This additional cost should however be more than off set by the increase in revenue generation from the Leisure Centre and the rent from the leased units at the Crescent. In addition the Council will gain from the uplift in business rates.
- Provided therefore, that substantially all of Unit C is occupied by 2016/17 and the Leisure Centre is fully operational by June 2016 then the Council will have a net revenue return on its investment. The precise levels of these costs and income, as well as the profiling of capital receipts (at the time of writing this Strategy) is however uncertain and whilst this is being constantly reviewed officers have advised that it is prudent that the full potential benefit of these developments should not be included in the 2016/17 budget.

4. FINANCIAL IMPLICATIONS [KP]

4.1 Contained within the body of the report

5. LEGAL IMPLICATIONS [MR]

5.1 None

6. CORPORATE PLAN IMPLICATIONS

6.1 The Budget supports all aims of the Corporate Plan

7. CONSULTATION

7.1 All budget holders and members of Executive, Scrutiny and Finance, Audit and Performance Committee will be consulted in the Budget setting process.

7.2 Residents will be fully consulted on the options of introducing a charge for green waste recycling or increasing council tax by more than 2%.

8. RISK IMPLICATIONS

- 8.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 8.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.
- 8.3 The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
S.11 - Failure to successfully deliver the Medium Term Financial Strategy	The effect of directions included in this document means that the Council could still be facing a deficit in the budget for 2016/17 of around £500K. Following public consultation, the Executive will need to provide guidance on how this gap should be filled.	S Kohli

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

- 9.1 The budget process will impact on all areas of the Borough and all groups within the population

10. CORPORATE IMPLICATIONS

- 10.1 By submitting this report, the report author has taken the following into account:
- Community Safety implications
 - Environmental implications
 - ICT implications
 - Asset Management implications
 - Procurement implications
 - Human Resources implications
 - Planning implications
 - Data Protection implications
 - Voluntary Sector

Background papers: Medium Term Financial Strategy

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