

REPORT TO EXECUTIVE

Date of Meeting: 8 December 2015

REPORT TO COUNCIL

Date of Meeting: 15 December 2015

Report of: Assistant Director Finance

Title: 2016/17 BUDGET STRATEGY AND MEDIUM TERM FINANCIAL PLAN

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function?

Council

1. What is the report about?

- 1.1 To provide a strategic overview of the budgetary position for the 2016/17 financial year and beyond including an indication of the likely level of available resources and the known demand for resources and the proposals to ensure that a balanced budget is achieved.

2. Recommendations:

- 2.1 It is recommended that the contents of the report are noted and that the proposals to establish a balanced revenue budget and capital programme are approved.

3. Reasons for the recommendation:

- 3.1 The Council is required to set a balanced budget and Council Tax prior to the start of the financial year.

4. What are the resource implications including non financial resources.

- 4.1 The Council has a Medium Term Financial Plan that is balanced over the next four years. However the impact of the decisions set out in the Comprehensive Spending Review could have a significant detrimental effect on the Council's finances. The report notes the potential resources available to the Council over the medium term and the demand for those resources.

5. Section 151 Officer comments:

- 5.1 Subject to the outcome of the final settlement from Government, the Council is in a position to propose a balanced and funded budget for 2016/17. The assumptions are set out below and include an assumed 1.99% increase in Council Tax.

6. What are the legal aspects?

- 6.1 The requirement to set a balanced budget and Council Tax requirement is set out in the Local Government Finance Act 1992.

7. Monitoring Officer's comments:

- 7.1 This report raises no issues of concern for the Monitoring officer.

8. Report details:

8.1 Comprehensive Spending Review 2015

8.1.1 New Homes Bonus

The Government will consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from six years to four years. This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately. The total pot for New Homes Bonus only totals £1.5 billion so this represents a reduction of more than half the available resources and will have a significant, detrimental effect on the Council. If existing commitments are honoured, the impact will be felt towards the end of this MTFP period.

8.1.2 Move from Central Grant to 100% Business Rates Retention

The Spending Review and Autumn Statement confirms that by the end of the Parliament local government will retain 100 per cent of business rate revenues to fund local services, giving them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues. The system of top-ups and tariffs which redistributes revenues between local authorities will be retained. The Uniform Business Rate will be abolished and any local area will be able to cut business rates as much as they like. The Government will consult about changes to the local government finance system in preparation for 100 per cent business rates retention. The consultation will take into account the main resources currently available to councils, including council tax and business rates. As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities, empowering them to drive local economic growth and support their local community. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Transport for London's capital projects to local government and will also consult on options to transfer responsibility for funding public health. The Government will consult on these and other additional responsibilities in 2016. Until the detail is known, it is difficult to assess the impact on the Council. At face value, this could be a positive opportunity, but more will be known once the consultation has been announced.

8.1.3 When taking into account OBR forecasts of income raised locally by councils, the overall position is a 6.7 per cent real terms reduction. The actual position for Exeter will be announced in late December.

8.2 Local Government Finance Settlement

8.2.1 The Local Government Finance settlement is currently anticipated to be announced during December 2015. At this stage therefore, the Medium Term Financial Strategy is based upon our best estimate of all the changes using both external advice and early release of some data by the Government.

8.3 Council Tax

8.3.1 The Government has made no announcement in respect of the local authority tax referendum threshold, other than to announce that Upper Tier Authorities may increase their Council Tax by up to two per cent above the threshold as long as the additional income is spent on Adult Social Care. The budget strategy for next year assumes that council tax will increase by 1.99%, which, along with the estimated surplus on the collection fund of £68,000 and increase in the taxbase will raise an extra £187,000.

8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £150,000 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	1.0%
Pay – Increments	0.5%
Electricity	1.5%
Gas	1.5%
Oil	1.5%
Water	0.0%
Insurance	5.0%
Rates	1.2%
Fuel	0.0%
General Inflation	0.0%
Income (excluding Car Parks)	1.5%

8.4.2 General inflation has again been held at zero; however where there are contracts in place, inflation at around RPI has been added. The pay award for 2016/17 has yet to be agreed and therefore an estimate of 1% has been added in line with Government policy.

8.4.3 In respect of interest rates, next year's budget reflects the likelihood that whilst base rate may remain low, it is likely that the cost of borrowing will increase and the Council may begin to take out borrowing over a longer timeframe as a result.

8.5 Likely Revenue Resources 2015/16 To 2019/20

8.5.1 The Government is due to announce the provisional grant settlement for local government in December. The figures below have not been updated to reflect the Comprehensive Spending Review as there is insufficient information about the Business Rates retention scheme:-

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
RSG	2,899	2,131	1,486	885	762
Council Tax	4,761	4,948	5,014	5,153	5,294
Business Rates	5,099	5,147	5,291	5,464	5,598
Resources	12,759	12,226	11,791	11,502	11,654
Increase/(decrease)		(533)	(435)	(289)	152
Annual % change		(4.2%)	(3.6%)	(2.5%)	1.3%

8.6 Additional Spending Pressures

8.6.1 Additional Spending Pressures over the period are set out in Appendix 1 and total:

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Additional Pressures	1,587	1,178	(41)	(481)	(45)

8.7 Revenue Savings And Other Budgetary Reductions

8.7.1 The updated Medium Term Financial Plan (MTFP) is set out in Appendix 2. The MTFP has identified savings to effectively balance the budget, subject to the changes from Government support to Business Rates self financing. In addition to the savings set out below, the Council has restructured its Minimum Revenue Provision and will use £1 million of New Homes Bonus a year to deliver a balanced budget:-

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Savings identified	0	(975)	(475)	(520)	(64)

8.8 General Fund Capital Programme

8.8.1 Attached at appendix 3 is the proposed general fund capital programme for the next three years.

	2016/17 £'000	2017/18 £'000	2018/19 £'000
New Bids	644	19	0
Pre-approved	4,488	9,034	6,019
Total	5,132	9,053	6,019

8.9 Risk Assessment

8.9.1 It has already been mentioned above in this report that our financial forecasts are based on a number of assumptions including the level of inflation, interest rates, income levels, support from the government and general prevailing economic conditions. The main risks to the Council's financial position are as follows:

- The implementation of the 100% Business Rates scheme, which could have a significant impact on the Council's finances. There is every chance that this may be positive rather than negative;
- The consultation on New Homes Bonus, which if savings of £800 million are proposed, will have a significant, detrimental impact on the Council.

Although the Council faces risks from the assumptions and uncertainties outlined above these have been mitigated by the following:

- Adopting a prudent approach to financial forecasting which involves obtaining information from external professional sources

- Continuous monitoring and review of the key factors together with regular reports to Members on any key issues
- Regular budget monitoring meetings with budget managers to ensure that budget pressures are identified at the earliest opportunity
- The adoption of robust financial management arrangements including option appraisal, risk assessment and financial monitoring
- Retaining a prudent level of reserves and balances

9. How does the decision contribute to the Council's Corporate Plan?

9.1 This is the strategic overview of the financial position of the Council

10. What risks are there and how can they be reduced?

10.1 The risks relate to failing to set a balanced Council budget and are mitigated by regular reporting to the Strategic Management Team and Members.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

11.1 Not applicable

12. Are there any other options?

12.1 Not applicable

Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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