

Report of Head of Finance

Draft Revenue Budget 2016-17 and the Medium Term Financial Plan projections

1 Purpose of report

- 1.1 This report has been prepared to provide members with details of the medium term financial plan projections for revenue spending and to outline more details of the 2016-17 draft revenue budget for consultation.
- 1.2 The projections include assumptions made on the levels of council tax and government funding, which will be updated and amended prior to formal agreement in February 2016.

2 Executive summary

- 2.1 The council faces a financial challenge to match its current spending levels with the future forecasts for funding. In order to allow for the development and implementation of proposals to meet this challenge the forecast financial position for the next 4 years has been estimated, and savings of approximately £800k in 2016-17 are needed to give a fully funded position.
- 2.2 The council has already made significant efficiencies in previous years and so the challenge is even further enhanced by the limited potential available for consideration.
- 2.3 With this in mind the initial budget assumption for 2016-17 has been to roll forward current budgets and to adjust for any known savings proposal as and when they arise. This assumption will mean that the council will continue to need reserves to fund its revenue budget whilst more robust and deliverable solutions are developed. However, the level of reserves needed has reduced from 2015-16 as savings proposals that have already been implemented are factored in.
- 2.4 It is a statutory requirement to consult with the public on the budget proposed for 2016-17 and this report outlines the methods being proposed for this.

3 Appendices

- Appendix 1: Medium Term Financial projections 2015-16 to 2019-20
- Appendix 2: 2016-17 Draft Opening Budget for Consultation
- Appendix 3: Initial Ideas for Savings Proposals for 2016-17 and beyond
- Appendix 4: Consultation Methodology
- Appendix 5: Draft Fees and Charges schedule

- 4 Proposed action: Resource Committee is invited to RESOLVE to:**
- 4.1 Agree the indicative level of council tax increase to be included in the budget assumptions as part of the consultation, after considering the S151 officer's advice in the report at 6.11 – 6.14**
 - 4.2 Agree the use of reserves to support the revenue budget over the short term to allow for more robust service delivery options to be developed and implemented**
 - 4.3 Agree the proposed draft fees and charges schedule and its inclusion in the information for consultation**
 - 4.4 Agree the draft 2016-17 revenue budget in Appendix 2, including the initial proposed savings suggestions in Appendix 3, for consultation**
 - 4.5 Agree the methods of consultation proposed in Appendix 4.**

5 Background

- 5.1 This committee received a report on the Medium Term Financial position in February 2015 as part of the 2015-16 budget report. The figures presented as part of that report have been refreshed and are shown at Appendix 1.
- 5.2 Proposals to meet the challenge are continuing to be developed. However, due to the size of the task it is proposed to use reserves, in the short term, to balance the revenue budget again in 2016-17. The council needs to continue to review its service delivery methods and priorities, and to implement long term strategies to manage the funding shortfalls. The risk of not delivering a fully funded budget over the medium term is becoming more acute as the level of reserves diminishes and becomes an increasing priority for the council.

6 Discussion

The medium term financial outlook and spending review

- 6.1 The medium term financial plan approved by Council in February 2015 included Revenue Support Grant (RSG) funding of £1.663m. This represented an overall reduction of 15.98% on previous years, and this reducing trend was continued in order to model the funding available for future years. In July 2015, the Chancellor issued his summer budget, which made some initial indications on how he would approach the spending review, but with limited detail on how this would impact local government.
- 6.2 The Department for Communities and Local Government has provisionally agreed with the Treasury to cut 30% from its budget over the next 4 years and it has been assumed that this will be passported through to local government through reductions in RSG. It is not yet known what the amount or profile of these reductions will be, either straight line or front loaded as was the case with the Spending Review in 2010. However the council has been working on the assumption that RSG would be significantly reduced in future years and has already factored in an overall reduction in RSG of 33% for the next 4 years.

- 6.3 The Chancellor announced his intentions for the spending review in his Autumn Statement speech on 25 November 2015. Any implications for the council will be built into any future financial projections and will be factored into the final budget proposed in February 2016.
- 6.4 The council is aware that, with the predicted decreases to the level of central government support for the future, it will need to place less reliance on this source of funding and more towards its own locally raised taxes and income. In line with this, revenue spending levels should reflect the ability to raise funding locally to ensure that the budget position is sustainable and stable for the future. It is for this reason that the promotion of both economic and residential growth is paramount to the continued financial sustainability of the council.
- 6.5 In the short to medium term, to allow for the continued development, consultation and implementation of the proposals, revenue reserves will need to be once again used to support the current levels of service delivery and quality.
- 6.6 However, the level of general fund reserves is reducing each year as it is used for this purpose. This is not a long term sustainable position and changes to the levels of current spending need to be made in order for the council to be sustainable and not rely on reserves to balance the books.
- 6.7 Over the next year the choices and options for the changes to service delivery and quality will need to be further developed and consulted upon, to match the spending levels to the funding available and reduce the pressure on revenue reserves going forwards. These will not be easy decisions and so it is important to allow time for this development to ensure the right solution can be found and that robust decisions on service delivery and quality are made for the future. A considerable amount of work has already been done on this development and has been implemented. Further ideas for savings proposals are outlined in Appendix 3 with a view to developing more detailed implementation plans and potential further consultations where appropriate.

The council's approach to the budget pressures for 2016-17 and the medium term

- 6.8 The medium term financial projections indicate a need to save around £800k in 2016-17, rising to £1.2m pa by 2019-20. This equates to approximately £4m over the 4 years, which potentially will need to be met by reserves if further savings are not identified. The current level of general fund reserves is £4m and the minimum level of reserves, as per the reserves policy, is £1.75m. These estimates are based on the current known variables on spending and funding; appendix 1 shows these in more detail
- 6.9 In 2016-17 it has been estimated, depending on the outcome from the 2015 spending review, that the council's central government funding will reduce by £528k and our business rates baseline will increase by £42k compared to our 2015-16 settlement. This will be an overall reduction of £486k or 12.59% in Formula Grant. The central government element is a reduction from 2015-16 of 31.75%.

- 6.10 Currently income from News Homes Bonus is received for each new additional property for a rolling period of 6 years starting from 2010 and it utilised 100% to support revenue spending. This is a risk for the council, especially if changes are made to the scheme or it is closed as a result of the spending review.
- 6.11 An assumption of a 1.99% council tax increase has been made in the projections, which is below the current assumed referendum limit. If the council tax is raised higher than the government referendum limit, currently at 2%, a local referendum may be called. This does not mean the council can not consider this option, but does mean that the risks of doing so are higher and the potential costs of the referendum would also need to be considered. The referendum level will be announced later in December 2015.
- 6.12 The national average council tax for shire district authorities is £171.44; this is 23.5% higher than the BCW average of £131.22. For 2015-16, the council ranked, out of a total of 201 authorities, 25th cheapest for average band d council tax. If the council decided to increase the band d charge by 1.99% and all the other authorities were to freeze their charge, we would move from 25th to 29th.
- 6.13 A 1.99% increase in 2016-17 would equate to £2.61 on the average band d council tax; this is equal to approximately £0.05p per week or £0.22p per month and would raise approximately £61k per annum.
- 6.14 The Head of Finance, as Section 151 officer, recommends members agree a council tax increase of 1.99% in the draft budget for consultation, which will keep the council below the potential referendum level. The decision to increase council tax would benefit the council's finances by providing a cumulative increase, not only in 2016-17, but also over the medium term.
- 6.15 The council has taken the decision to pool its element of retained business rates with other authorities in the county, to maximise the income from central government. The governance arrangements for this pooling have been agreed with both the Chief Executive and the Leader; in line with the delegation agreed by Resources Committee. This will create a beneficial funding settlement to all pooling members and the Borough Council of Wellingborough should receive an increase in the amount of business rates income it gains from the benefits of pooling. As business rates grow in the borough, this benefit will increase.
- 6.16 The Chancellor announced in his Autumn Statement that by the end of the Parliament, local government would retain 100% of the rates they collect from business, give councils the power to cut business rates to boost growth, and give elected city-wide mayors the power to levy a business rates premium for local infrastructure projects, with the support of local business.
- 6.17 An initial estimate of the benefit has been included in the financial projections, but as the final figures will not be known until after the budget has been set, these may vary in year and will be reflected as part of the 2016-17 budget monitoring process.

- 6.18 Income from fees and charges could become a key consideration to help meet the financial challenge faced by the council. An assumption has been made that the current fees and charges will not be increased in 2016-17, unless there are statutory guidelines to do so, as inflation for the last 12 months has been running at almost 0%, (Oct 2014-Oct 2015 average rate 0.25%, current rate October 2015 -0.1%). Instead, a full review of fees and charges will be undertaken in the new financial year, where officers will look at our prices and concessions offered and develop a pricing policy that meets the demands and needs of our users and in line with statute and regulation. The committee is asked to note the proposed draft increases in the schedule and to agree for its inclusion in the consultation on the draft budget. An initial draft schedule is shown at appendix 5.
- 6.19 An initial draft budget for 2016-17 has been modelled, which takes account of any known or estimated savings and funding changes. This is shown at appendix 2. Where possible, on-going changes to the current budgets have been included in the draft revenue budget for 2016-17.
- 6.20 Some initial options for savings and efficiencies have been explored and where possible included into the financial projections; other options are currently being considered. These options need to be investigated further and agreed before being included in the figures, but the ideas around them should be included as part of the consultation process and are explained further in the next section and at appendix 3.

The consultation process

- 6.21 The council has a duty to consult with the public and other external stakeholders on its proposed budget for the coming year. In addition to this external consultation, internal consultation should also take place with both members and officers. It is envisaged that this will be done via a series of workshop meetings and briefing sessions in the period between draft and final budget.
- 6.22 Appendix 4 sets out the recommendations on how the external public consultation should be carried out. This is similar to the approach taken in previous years.

7 Legal powers

Local Government Acts 1992 & 2003
Local Government Finance Act 2012

8 Financial and value for money implications

- 8.1 The medium term financial projections outlines the savings needed over the next 4 years to match spending levels with estimated funding levels. The budget strategy for this period is to reach a position where the revenue budget is sustainable and not supported by reserves.
- 8.2 However, it is recognised that it will take time to develop and implement suitable proposals to address this strategy. In the short term, reserves will be utilised to allow this development. The shortfalls identified will be kept under constant review and will require more robust and integrated service and financial planning for future years. The extent of the savings required are shown in appendix 1.

9 Risk analysis

Nature of risk	Consequences if realised	Likelihood of occurrence	Control measures
Inaccuracies in the reported standstill budgets	Overspends and reduced reserves and balances	Low due to quality assurance	Robust financial practices
Changes in activity levels and new burdens in the short term	Overspends and reduced reserves and balances	Probable in the short term until more robust budget forecasting in place	Further improvements to forecasting arrangements
Assumptions in the report are unrealistic	Further adjustments to service delivery methods and savings targets in medium term and use of reserves in the short term	Possible	Robust monitoring of the variables and periodic refreshing of data
Failure to meet the financial strategy in the medium term	Further adjustments to service delivery methods and savings targets in medium term and decreased levels of reserves	Possible	Robust financial planning and budgetary processes, including the monitoring of the implementation of proposals
Failure to meet the savings required/efficiencies in a managed way	Further adjustments to service delivery methods and savings targets in medium term and use of reserves in the short term	Possible	Management actions and member monitoring. Compensating/ alternative proposals developed
Changes in future funding driven by government	Further adjustments to service delivery methods and savings targets in medium term and use of reserves in the short term	Possible	Close monitoring of potential changes and early reporting of impacts

10 Implications for resources

There will inevitably be significant resource implications across all service areas on staffing, finance and property resources arising from the budget process.

11 Implications for stronger and safer communities

Any implications will be considered as part of the budget setting process.

12 Implications for equalities

Equalities impact screening will be carried out as part of the budget setting process and any adjustments deemed necessary will be included in the final budget presented in February 2016.

13 Author and contact officer

Samantha Knowles, Principal Finance Manager

14 Consultees

John Campbell – Chief Executive
Liz Elliott – Head of Finance
Bridget Lawrence – Head of Resources
Julie Thomas – Head of Planning and Local Development

15 Background papers

Medium term financial strategy Report – Resources Committee February 2015.

Appendix 1

Medium Term Financial Projections 2015-16 to 2019-20

	2015/16 £ 000's	2016/17 £ 000's	2017/18 £ 000's	2018/19 £ 000's	2019/20 £ 000's
Current spending levels B/F	10,922	10,046	9,944	9,583	9,639
Net Changes - Standstill Budget	- 50	-55			
Revised spending levels	10,872	9,991	9,944	9,583	9,639
Inescapable pressures - Operational:					
Pay Inflation	-	50	50	50	50
Additional Contributions to offset Pension Strain	70	70	70	70	70
Insurance premiums	-30				
NI pressures from national contracting out changes		80			
Local Plan pressures	87	126	-213		
Planning Appeals		100	-100		
Borough Elections	100	-100			120
Partnership/Contract Savings:					
Norse Partnership fee changes	-205	-40	-40	-40	-40
Castle Contact Savings - 15% Annual	-38	-33	-28	-24	-21
Contract & Procurement savings	-300				
Service Transformation					
Shared Services	-175				
Asset Management & Service Review:					
Glamis Hall	-185				
Statutory/National Changes:					
Changes in welfare reform demand pressures	-150	-100			
Invest to Save:					
Crematorium Operating net income		-100	-100		
Investment property income		-100			
Total Changes to Base spending levels	-826	-47	-361	56	179
Revised spending levels C/F	10,046	9,944	9,583	9,639	9,818
Financed by:					
Previous use of reserves or savings to be identified:	-564	-575	-848	-817	-1,025
Central Government Funding	-1,663	-1,135	-742	-496	-329
Efficiency Support Grant (one off)	-74	-	-	-	-
Council Tax Freeze Grant	-32	-	-	-	-
Business Rates Retention Scheme - Baseline	-2,197	-2,239	-2,281	-2,325	-2,369
Business Rates Retention Scheme - Growth	-786	-400	-400	-400	-400
Business Rates Retention Scheme - Pooling Benefit	-190	-190	-190	-190	-190
Section 31 Grant	-501	-	-	-	-
Business Rates Collection Fund (-surplus/deficit)	699	-	-	-	-
Total Business Rates Income	-2,975	-2,829	-2,871	-2,915	-2,959
Council Tax - Baseline	-3,501	-3,508	-3,582	-3,657	-3,734
Council Tax - Growth (1.5%)	-	-28	-62	-100	-138
Council Tax - Band D Increase (1.99%)	-	-61	-63	-66	-68
Council Tax Collection Fund (-surplus/deficit)	-130	-	-	-	-
Total Council Tax Income	-3,631	-3,597	-3,707	-3,823	-3,940
New Homes Bonus additional income above current budget	-1,001	-1,541	-1,446	-1,380	-1,376
Planned use of Ear Marked Reserves	-95	-44	-	-	-
Total On going Funding available	-9,471	-9,146	-8,766	-8,614	-8,604
Total Funding including the one off use of reserves from previous years	-10,035	-9,721	-9,614	-9,431	-9,629
Additional savings needed to balance budget/additional use of reserves (+) or reduced need for reserves (-)	11	223	-31	208	189
Original Cumulative Total Savings needed:	575	848	817	1,025	1,214
Changes as a result of in year Budget Monitoring	50	-	-	-	-
Revised Cumulative Total Savings needed:	625	848	817	1,025	1,214
General Fund Reserves as at 1st April	-3,984	-4,524	-3,692	-2,875	-1,850
Less used to fund annual base shortfalls	625	848	817	1,025	1,214
Use of Budget Implementation reserve	-625	-16			
Business Rates Equalisation Reserve					
Contribution -to/from GF Reserves	-540				
Total revised General Fund Balance	-4,524	-3,692	-2,875	-1,850	-636

2016/17 Draft Opening Budget for Consultation

Service Area	Original Budget 2015/16 £000's	Original Budget 2016/17 £000's
Environmental & Health Protection	493	399
Housing	541	454
Planning Policy and Regeneration	781	667
Planning and Building Control	20	-10
Total for Head of Planning and Development	1,835	1,510
Environmental Maintenance	2,989	2,989
Waste and Transport	1,130	1,130
Total for Environmental Services	4,119	4,119
Community Support	1,402	1,356
Organisational Development	760	711
Democratic Services	320	351
Operational Property	816	816
Investment Property	-1,318	-1,300
Total for Head of Resources	1,980	1,934
Information Technology Shared Service	945	1,033
District Law Shared Service	150	137
Accountancy	542	543
Internal Audit	65	65
Revenues and Benefits	106	213
Total for Head of Finance	713	821
Corporate Contingency	-74	5
Bad Debt Provision	10	10
Depreciation & Amortisation	-1,395	-1,395
Non Distributed Costs- Pension Fund	1,355	1,355
Investment Income	-312	-225
Audit Fee & Bank Charges	74	66
Other Income and Expenditure	-342	-184
Corporate Management	188	163
Parish Precepts	458	458
TOTAL	10,046	9,991

Initial Ideas for Savings Proposals for 2016-17 and beyond

Budget savings objective:

Over the medium term the council needs to ensure it is self-sustaining by adopting the following principles:

- Less reliant on government grants (local & national)
- Generate additional income
 - Commercial prospects
 - Pricing policies
- Grow the borough
 - Business rates retention
 - Council tax base growth
 - New Homes Bonus
- Reduce spending by new models of working

Initial ideas for consultation

- Set priority outcomes for the medium term to give clear direction and a framework for decision making. This will provide a robust system to prioritise competing scarce resources against
- Allocate the limited resources to those priorities and reduce resources on the areas that are the not highest priorities
- Use any non-core funding for the provision of discretionary services and as income reduces , reduce spend on these services proportionally
- Use capital resources to generate either significant investment returns or reductions in revenue costs.
- Keep looking to reduce current spending and increase current income to be financially sustainable with a fully funded budget.
- Make accommodation costs more efficient, potential co-location with other public sector organisations.
- Consider further collaborations to reduce spending on core services

Budget Consultation approach 2016-17

Introduction

The Council has both a statutory and best practice obligation to consult with the community on its proposals for service priorities and draft budget allocation for the coming period. This appendix sets out officer recommendations for how the consultation on the 2016-17 budgets could be undertaken and is in line with the principles of consultation outlined in the council's consultation toolkit as outlined below:

- Consultation must be based on understandable and accessible information so people can make informed responses. It must also be relevant and practical; there is no single 'right' way, but the method should be relevant to the issue.
- Timeframes should be proportionate and realistic to allow enough time to provide a considered response. Dependant on the nature and impact of the proposal and the ability to respond of the people being consulted. Most consultations be of an eight week duration. This can be extended for large consultations or, in exceptional circumstances, shortened for urgent matters.
- Consultation should begin early in policy development when views can genuinely be taken into account. It may be appropriate to engage in different ways at different stages.
- A mix of 'quantitative' methods (e.g. surveys where we can measure satisfaction or opinions/surveys numerically) and 'qualitative' methods (e.g. focus groups where we look for more in depth opinions or quality improvements) should be used

What are we consulting on?

In line with the consultation toolkit we will ensure that those being consulted know:

- Who is being consulted and why
- Which decisions will be influenced by the consultation
- Who will take these decisions
- When the decisions will be taken
- How the results will be fed back to them
- That anonymity will be respected if requested
- Who they can contact if they are unhappy about the consultation.

The consultation will be focused on the draft budget for 2016-17 and will ask:

- Are the proposals in the right areas for savings and/or income?
- Are we tackling the problem in the right way?
- Are there opportunities for savings and/or income we have not considered yet?
- Should any of the proposals be removed from the budget?

It is envisaged that the consultation documents will take the form of a double sided sheet comprising of explanatory text and a series of questions as outlined above. Where the leaflet is sent to community members directly it will be accompanied by a letter and postage paid return envelope.

Who will we consult?

It is anticipated that the following groups will be consulted with:

- The general public
- The voluntary/community sector
- The business sector
- Employees

What methods do we plan to use?

Broadly two methods will be used:

- *Passive consultation:* whereby it is assumed that consultees will find the consultation materials themselves. Examples include information on our website and leaflets placed in reception areas.
- *Active consultation:* where consultees are targeted directly with information. Examples include public and private meetings and mailshots.

In addition equality impact assessment screening forms will be completed for all proposals to change services to ensure that no vulnerable groups will be disproportionately affected, where it is possible to put in reasonable changes to the proposals. If any groups are disproportionately affected, efforts will be made to consult representatives of those groups.

How will consultation be done?

The proposal is to run the consultation in a phased approach.

Initial phases on the draft budget proposals

Phase 1: following the Resources Committee on 9 December 2015 a passive consultation campaign will be launched, whereby there will be information on our website relating to the budget consultation and leaflets will be produced and left at reception areas.

Phase 2: Where necessary community meetings will be held to further inform specific groups

As the number of proposals and the effects on service delivery outlined in the draft budget may be limited, further consultation will be undertaken as proposals are developed. These are unlikely to be prior to the setting of the 2016-17 budget but will be in preparation for the changes needed to face the financial challenges for future years.