PAPER NO. 9

REPORT TO THE EXECUTIVE MEETING OF 8th FEBRUARY 2016

Meeting:	**Executive**
Date:	**8th February 2016**
Subject:	**General Fund Revenue Estimates and Capital Programme**
Report of:	**Simon Riley, Head of Financial and Corporate Services Services (s151 Officer)**
Portfolio Holder:	**Councillor Phil King, Portfolio Holder for Financial and Commercialisation**
Status:	**Decision and Recommendation to Council**
Relevant Ward(s):	**All**

1 Purpose of the Report

1.1 Executive to recommend the 2016/17 Budget and Capital Programme to full Council.

1.2 To consider the comments, questions and response from the Resource and Performance Scrutiny Panel on 21st January 2016.

1.3 To note that the final Local Government Finance Settlement is still awaited from Central Government.

1.4 To note that fees and charges are a Council function and will be appended to the Council report for its meeting on the 22nd February to allow further validation to take place.

2 Recommendations:

2.1 Approves the 2016/17 General Fund Revenue Account Net Expenditure Budget of £11,877,581 as set out in Appendix A, for recommendation to Council on the 22nd February 2016, resulting in no increase in the District Band D Council Tax for 2016/17.

2.2 Delegates to the S151 Officer in consultation with the Leader and Portfolio Holder for Financial and Commercialisation to make any necessary amendments to the Budget, following receipt of the final local government settlement, prior to consideration by full Council

2.3 Recommend to Council the General Fund Budget as set out in Appendix A

2.4 Recommend to Council the Capital Programme as set out in Appendix E

3 Summary of Reasons for the Recommendations

3.1 The Council must statutorily set a balanced budget to discharge its duties and responsibilities by the 11th March. The duty to recommend a budget to the Council rests with the Executive.

4 Key Facts

4.1 Financial Background

4.1.1 The budget has been prepared for consultation following the provisional Local Government finance settlement issued by the Department for Local Government & Communities on the 17th December 2015 and announcements in the Autumn Statement and Comprehensive Spending Review on the 25th November 2015. The final budget will need to be updated following receipt of the final Local Government finance settlement. This is still awaited at the time of writing the report. There is a recommendation (Recommendation 2.2) to allow this to happen.

4.1.2 The draft budget attached at **Appendix A** is prepared against continued reduction in central Government funding as the Government addresses the public sector deficit. The reduction in central Government funding announced in the provisional settlement was higher than expected for much of local government as the speed of the withdrawal of Revenue Support Grant appears to be earlier in the parliament than forecast. The Council's core funding from Government (excluding New Homes Bonus) decreased by 19% between 2015/16 and 2016/17 (compared to the MTFS forecast of a 12% reduction). However, the Government has introduced a new definition of core spending power which includes New Homes Bonus. On this measure Government funding is anticipated to decrease by 11.3% by 2019/20 (compared to an all England reduction of 0.5%). The success in house building and bringing empty properties back into use has generated £802K grant in respect of year six of the New Homes Bonus scheme resulting in an increase of core spending power of 3.3% between 2015/16 and 2016/17. However, a recent consultation paper on the future of the new homes bonus means that the Council needs to balance the use of the bonus as a core funding source and to put some of the increase in an earmarked reserve to prepare for a potential reduction in New Homes Bonus in the future.

4.1.3 The Council continues to be successful in growing business rates and thereby retaining the benefits of business rate growth. Since 2013 Harborough has had the highest rate of business rate retention growth in Leicestershire. However, the level of appeals being considered by the Valuation Office and the fact that at the end of 2014/15 businesses could submit backdated appeals to 2010 meant that the transfer to the earmarked reserve in respect of the 2014/15 financial year was £495K, compared to £903K for the 2013/14 financial year. Many of these appeals are unlikely to be successful and it is pleasing that the recurrent business rate growth retention going forward is in excess of £1.1 million per year. Indeed within this budget strategy it is forecast that the business rate growth reserve will increase from £1.763 million at 1st April 2016 to £2.256 million by 31st March 2017. The amount could change when the final settlement is known, as the amount of tariff and baseline impact on the amount of growth that can be retained. The amount will also change to take into account the NNDR forecasts included in the NNDR1 form submitted at the end of January 2016. The Council has managed to continue its previous approach of only using business rate growth already banked and accounted for from previous years. However, the importance of business rate growth as a locally generated income stream (and the withdrawal of Revenue Support Grant) is likely to mean that the Medium Term Financial Strategy will have to start using more current business rate growth in the future. The Council continues to use £200K of business rate growth to support business support initiatives and apprenticeships for a second year. Additional benefits from business rate growth have been secured through being part of a business rate pool with other Leicestershire Councils; the benefits of which is expected to generate retained funding of over £3 million to the Leicester and Leicestershire Enterprise Partnership (LLEP) to help stimulate economic growth across the County.

4.1.4 During the last parliament the Government encouraged Councils to freeze Council Tax or keep Council Tax low through the offer of a Council Tax Freeze Grant and through controlling Council Tax increases by a 2% cap. The Autumn Statement and the provisional Local Government finance settlement clearly indicate that the Government is anticipating that Councils will increase Council Tax over this parliament (though it remains a local decision). There is no Council Tax Freeze grant on offer for 2016/17, though the 2% budget cap remains. The draft budget assumes zero increase in the District share of the Council Tax in 2016/17 with an anticipation that there will be Council Tax increases in future years.

The local Council Tax support scheme will be in its fourth year for 2016/17 with the contribution rate for affected claimants remaining at 15% as in 2015/16. The draft budget assumes that the Council will cease passporting grant in respect of the local council tax support grant to parishes from 2016/17 due to the significant reduction in the Council's Revenue Support Grant (in which Central Government indicate there is a notional allocation for this). This generates a saving of £56,028 for 2016/17. Parishes were notified of this prior to submission of their precepts.

Council on the 14th December 2015 approved the taxbase for 2016/17 as 32,787.5 (2015/16, 32,163), an increase of 624.5 Band D equivalents from 2015/16. This has generated £100K additional Council Tax without a need to increase the Council tax levied on individual properties.

4.1.5 In setting the draft budget for consultation for 2016/17 the Council has had to plan for significant reductions in Government funding and some significant cost pressures, especially in the area of Waste Collection. With the cessation of the guaranteed recycling rebate from FCC of £455K and current market rates payable for the treatment of recyclate materials of £25 per tonne this means that the Council will be paying £655K more in the future for the treatment of recyclable materials than in 2015/16. This necessitated the series of proposals approved by the Executive in the autumn including overall cost savings in our contract, service changes and the introduction of a chargeable garden waste service from April 2016.

4.1.6 The budget provides for the proposed pay award of 1% (or the amount proposed for those on lower scale points), the third year of the tri-annual pensions review and changes in National Insurance, alongside other contractual and demand led changes.

4.1.7 The 2016/17 budget provides for a series of growth and savings proposals from Portfolio Holder challenge sessions – these are identified in **Appendix B and C.** A number of these are linked to major projects such as the adoption of a Local Plan and preparing to make savings and generate additional income in future years.

4.1.8 The Budget continues to utilise reserves on a recurrent and non recurrent basis to support delivery of corporate priorities. The planned utilisation of reserves needs to balance the available reserves, risks in their future availability and the corporate priorities of the Council.

In total the Council's reserves are forecast to reduce from £10.586 million at 1st April 2016 to £10.434 million at 31st March 2017 (before accounting adjustments arising from the NNDR1 Collection fund return, these are interlinked with the production of the Financial Statements and the NDR3 return). Any forecast reserves position is subject to finalisation as part of the Financial Statements and audit, any changes will be reported to Members through financial monitoring reports, and the reports relating to the out-turn and financial statements. For 2016/17 it is proposed to use £930K of General Fund Reserves to support the budget. Member's attention is drawn to the prudent treatment of putting 50% of the 2016/17 New Homes Bonus into an earmarked reserve in preparation for national changes in the allocation of this grant. This is reflected in a net increase of £928K in earmarked reserves over the same period to help prepare for the future. Movements on Reserves are detailed at **Appendix D.**

4.2 Revised Estimate

4.2.1 The Council in February 2015 approved a Net Expenditure budget requirement of £11.682K in 2015/16. The Quarter 2 budget monitoring reported to Executive on 30th November 2015 forecast an underspend of £902K for the financial year 2015/16.

4.3 Budget Assumptions

4.3.1 The budget is approved annually each year. The budget is prepared on the basis of a series of estimates on Government funding, cost pressures and income forecasts. In addition, the Executive is proposing a series of growth and savings proposals (including utilisation of reserves). These proposals aim to deliver the Council priorities within a reducing level of funding from Central Government.

The key Budget assumptions are

(a) Inflation:

The budget only provides inflation on contract inflation (for example Environmental Services contract, computer maintenance contracts etc.) where indexation clauses are included within individual contract. No inflation has been added to the non contract inflation as inflation (measured by the CPI) has been zero or below for the third quarter of the year.

(b) Level of Government funding

The provisional local Government finance settlement announced on the 17th December for 2016/17 provided a one year funding allocation and indicative budgets for 2017/18 to 2019/20 to assist Councils with planning. The Government has introduced an offer that 'any council that wishes to take up a four year funding settlement to 2019/20 can do so as long as they have an efficiency plan'. It is not clear at this stage what the efficiency plan will consist of or how authorities who do not 'sign up' will have their allocations notified in the future. The final Local Government Settlement had not been received at the time of writing this report. Executive will be updated at their meeting if the settlement is received.

The provisional settlement issued on 17th December 2015 indicates a reduction in core funding of £568K between 2015/16 and 2016/17, a reduction of 19.09%. The reduction in Revenue Support Grant is 42% with the indication that RSG as a funding source will effectively disappear for Harborough by 2018/19. It had been signposted that RSG would be removed nationally over the course of this parliament, but the speed of the reduction (especially on shire districts) was quicker than forecast. This should be partially compensated over the course of the parliament by an increase in retained business rates from the current percentage of 50%. However, no details or timings of these changes in business rates have been announced at this stage by the Government beyond the stated intention of the Government to allow local authorities to retain 100% of business rate growth by 2020.

Table 1: Reduction in Core Government Funding 2015/16 to 2016/17

2015/16		2016/17 Provisional
£000s		£000s
1,367	Revenue Support Grant (RSG) (includes previous Council Tax Freeze Grants)	785
1,607	National Share of Business Rates (NNDR)	1,621
2,974	**Total Provisional Settlement Funding**	**2,406**

Included within the above figure is a small increase, £7K, in rural services delivery grant which has increased nationally from £20 million to £35 million. The Government has announced a series of reforms to homelessness initiatives, or which some funding is within the RSG but not broken down – details of any additional expenditure commitments are being established.

The abolition of Revenue Support Grant indicates the ends of a needs based formula and core Government funding. By 2020 it is anticipated that local government will be reliant on just locally generated funds (i.e. Council Tax and Business Rates) along with targeted Government grants such as New Homes Bonus. These changes in the funding framework for Local Government and the indicative funding allocations detailed in the provisional settlement have informed the development of the Council's Medium Term Financial Strategy to be considered by the Executive today, elsewhere on this agenda. Harborough has traditionally received low levels of central government funding through being a high tax base authority and through the needs based formula.

Table 2: Comparison of Leicestershire Settlement Funding 2016/17

Settlement Funding Assessment	£ per head
Oadby and Wigston	36.80
Melton	35.09
North West Leicestershire	35.04
Charnwood	34.92
Hinckley and Bosworth	34.07
Blaby	31.27
Harborough	27.63
All English Districts	36.51

However, Harborough has benefited significantly from Housing Growth in recent years. Using the Government's new definition for 2016/17 called core spending power (which takes into account Council Tax, Settlement Funding Assessment, New Homes Bonus and other Government Grants) the Council has the highest spending power in the County.

Table 3: Comparison of Leicestershire Core Spending Power 2016/17

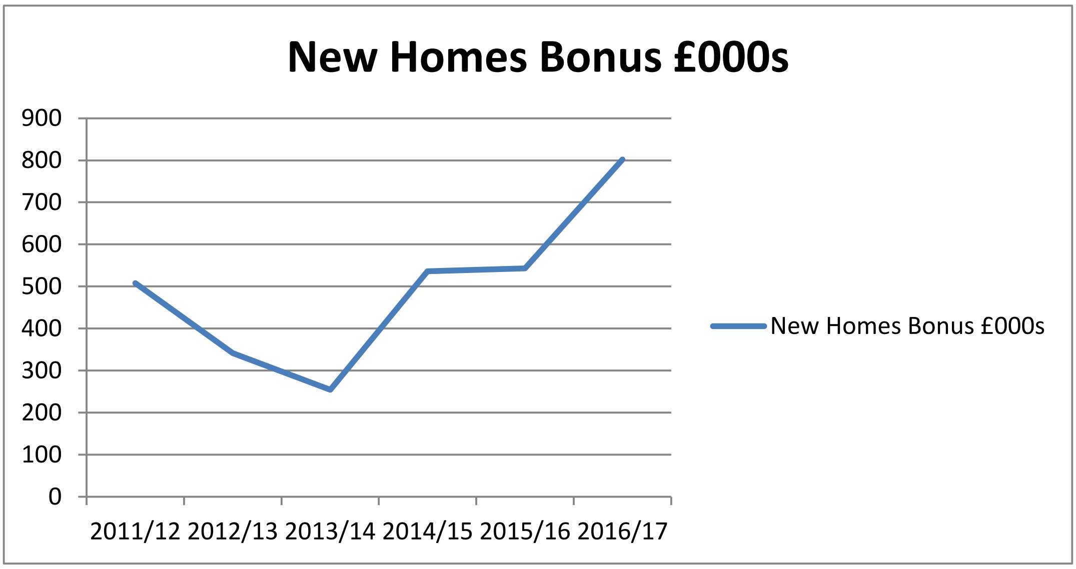
Core Spending Power	**£ per head**
Harborough	123.22
Melton	121.21
North West Leicestershire	120.26
Oadby and Wigston	104.76
Blaby	102.09
Hinckley and Bosworth	101.16
Charnwood	100.94
All English Districts	118.54

Harborough also has the highest retained business rate growth in the County, this is detailed later on in the report.

(c) New Homes Bonus

The Government in 2011/12 introduced the New Homes Bonus to incentivise Councils in respect of housing growth. The current scheme is based on Councils receiving money for six years following the level of completions in the previous year. The Government has confirmed the New Homes Bonus allocation of £802,477 for 2016/17. This is a significant increase on the previous year and continues to reflect the move towards the Council delivering its five year housing supply and the benefits of a review to bring empty homes back into use. The graph below shows the improved trend.

Figure 1: New Homes Bonus 2011/12 to 2016/17



Since the inception of New Homes Bonus, Harborough has received the highest New Homes Bonus in Leicestershire £34.32 per head, compared to Oadby and Wigston at only £7.69 per head. As a result of announcements by the Chancellor in the Autumn Statement and a recently issued consultation paper on the future of the scheme it is considered prudent not to utilise all of the year six allocation of £802K to support the recurrent budget. For 2016/17 it is proposed that £2.584 million is utilised in support of the core budget funding and to transfer £400K to an earmarked reserve to prepare for transitional arrangements for potential reductions in the future from changes in the scheme.

In addition, the Council proposes to utilise in 2016/17 for the fourth year the New Homes Bonus Reserve to support localism and community capacity through a £75K grant pot.

New Homes Bonus is currently a rolling six year grant scheme. Therefore, future receipt of this grant at this level is dependent on maintaining high levels of house completions and the Government maintaining the grant methodology currently in place. The recent consultation paper makes clear links to the future level of funding to the delivery of a Local Plan and housing approvals being granted. The Government is also consulting on reducing the number of years of the scheme down from six years. If this is the case, it is essential that the Council continues to generate high levels of housing completions to maximise this source of funding under any new distribution mechanism.

(d) Business Rates

The Government introduced in 2013/14 a Business Rate Retention Scheme with the aim of incentivising local growth and the ability to retain part of the business rate growth locally. Growth is compared to a Government determined baseline at the beginning of 2013/14. The Council entered into a pooling agreement for the 2015/16 financial year with the other Leicestershire Districts, City Council and the County Council in order to allow a share of business rate growth being retained regionally and targeted at economic growth through LLEP. Through being in a pool, it is anticipated that over £3 million of retained business rate growth (on top of that retained by individual Councils) will have been retained within the County to be distributed via the LLEP. The DCLG assume that pools continue from year to year unless the pool dissolves or re-constitutes itself. There were no policy changes in the provisional Local Government finance settlement that would prevent the Council remaining within the pool.

Harborough has consistently had the highest rate of business growth in the County. However, the level of retained business rate retention is materially impacted upon by the number of appeals which is managed by the Valuation Office. The appeals create significant volatility in the forecasting of business rate growth. This is demonstrated in 2014/15 by the impact of a large number of backdated business rate appeals, especially around logistic hubs in the Lutterworth area which led to a 45% reduction in the retained business rate growth levy in 2014/15.

The actual and forecast retained business rate growth forecasts are detailed in the table below

Table 4: Retained Business Rate Growth

	£000s
2013/14 Retained Business Rate Growth (actual)	903
2014/15 Retained Business Rate Growth (actual)	495
2015/16 Retained Business Rate Growth (forecast)	1,245
2016/17 Retained Business Rate Growth (forecast)	1,117

Looking forward, the Government will be increasing the retention of business rates from the current 50% to 100% by the end of the parliament. A consultation paper is expected to be issued in the near future setting out the Government’s intention in this area. It is clear that this will be the major driver in respect of funding for the future and that the Council should encourage business growth through its strategies and decisions.

The budget assumes that £624K of the retained business rate growth reserve will be utilised in supporting the revenue budget in the following areas. In addition, the full £1.117 million of the estimated retained business rate growth in 2016/17 is forecast to be transferred into an earmarked reserve. The Council has been able to continue the initiative commenced in 2015/16 to provide £200K of support to businesses and apprenticeships.

Table 5: Utilisation of Business Rate Retention Reserve

	£000s
Business Rate Growth Reserve at 1st April 2016	**1,763**
Less: Support to the 2016/17 Revenue Budget	(424)
Business Support Initiatives/Apprenticeships	(200)
Contribution to Earmarked Reserve: 2016/17 Retained Business Rate Growth (forecast)	1,117
Business Rate Growth Reserve at 31st March 2017	**2,256**

(e) Council Tax

The budget issued for consultation assumes that there will be no increase in the District share of Council Tax in 2016/17. The provisional settlement indicated a continuation of the 2% 'capping threshold' that has been in place for a number of years. There is also no Council Tax Freeze Grant offered by Government for 2016/17. Previous years Council Tax Freeze Grants have been rolled into the Revenue Support Grant. The Government did provide flexibility for District Councils in the lowest quartile to increase Council Tax by 1.99% or £5, whichever was the greatest. However, as Harborough's Band D Council is in the median, this does not apply to Harborough; therefore, Council Tax increases would be limited to 2% under the published referendum guidance.

Council on the 14th December 2015 approved the taxbase for 2016/17 as 32,787.5 (2015/16, 32,163), an increase of 624.5 Band D equivalents from 2015/16. This has generated £100K additional Council Tax without a need to increase the Council tax levied on individual properties.

From the 1st April 2013, the responsibility for administering a local Council Tax support scheme (LCTS) was transferred to Local Government with a level of funding included within the Council's revenue support grant. Since 2013, an element of this funding has been passed to parishes (£56,028 in 2015/16). It is proposed that the passing over of funding to parishes linked to the LCTS ceases from 1st April 2016. This is consistent with the approach taken by many Councils.

(f) Fees and Charges

The Council levies fees and charges for a wide range of services. The budget assumes that collectively income from fees and charges will increase by 0% (the CPI inflation rate at September 2015 was -0.1%). However, many of the Council's fees and charges are based on full cost recovery or nationally set and will be set accordingly. Full details of fees and charges will be appended to this report and recommended for approval by full Council on February 22nd 2016.

(g) Employee Costs

During 2015/16 a number of changes in the staffing establishment were made responding to demand led activity (for example, development management), staffing cover requirements (for example, control centre & customer services). These are now built into the 2016/17 budget. The establishment budget now includes a 1% vacancy/turnover factor totalling £70K which will be managed in-year by the Corporate Management Team.

Provision has been made in the budget for the estimated net pay costs for 2016/17. In particular the pay budgets have been updated for the National Insurance changes detailed within the Chancellor's budget, the proposed Local Government pay award of 1% to 31st March 2017. The pay budgets have also been updated for the additional 1.9% pension contribution arising from the tri-annual review. The next tri-annual review due later this year takes effect from the 1st April 2017.

The impact of Service Reviews (where consultation has been completed) has been incorporated within the proposed budget. In particular, the full year effect of a restructure of the Leicestershire Revenues and Benefits Partnership has been included within the budget, this generated an estimated saving of £87K.

The 2016/17 proposed budget does not require or anticipate an organisation wide redundancy programme for cost cutting purposes at this stage. However, the organisation may carry out redundancies through service review restructures or via individual applications during the course of 2016/17.

(h) Environmental Services Contract

During 2015/16 the Council reviewed its Environmental Services Contract leading to an extension to the contract with the existing provider, FCC until 2022/23. This was in response to a significant reduction in excess of £1.4 million in waste funding by 2018/19. These included removal of recycling credits; cessation of a guaranteed recyclate income from FCC; payment of gate fees to treat recyclates and other changes. In particular, the Council will be paying £655K more for the treatment of recyclables in 2016/17 than in 2015/16. This significant pressure has been mitigated through the medium term financial strategy, service changes and the introduction of a subscription based garden waste service (which is a discretionary service).

(j) Impact of Previous Year's Capital Investment

The budget is based on the capital financing requirement arising from the approved capital programme for 2016/17 and previous years. The Council has in recent years used its internal investments to fund capital investments negating the immediate need to undertake more expensive borrowing. It is likely that borrowing may not need to be undertaken in 2016/17 which would lead to net borrowing savings – these have not been factored into the budget at this stage.

The revenue consequences (i.e. borrowing costs, running costs, income generation, etc.) are included within the budget.

4.4 Growth and Savings Proposals

4.4.1 The 2016/17 budget consolidates the organisational change and savings programmes undertaken in previous years. In addition, there has been another round of portfolio holder challenge on the Council's operating budget.

4.4.2 The budget includes £1.170 million of savings and income generation opportunities proposals**.**

Table 6: Summary of Savings and Income Generation

	£000s
Savings	710
Income Generation	460
Total	**1, 170**

The savings include £75K full year effect of savings approved by Council in 2015/16. The savings proposals are attached at **Appendix B**

4.4.3 The 2016/17 budget process also looked at contractual commitments and priorities for growth including growth funded from reserves.

The most significant growth area is in respect of the Environmental Services Contract where the withdrawal of the guaranteed recycling rebate of £455K and the payment of gate fees for recycling mean that the 2016/17 budget has had to accommodate £655K of growth in this area. The Council in October 2014 agreed a 'cap and collar' arrangement with FCC in respect of gate fees, Any Movement of more than 10% in gate fees up or down from an agreed gate fee as at 1st January 2016 will be shared on a 50/50 basis with our Environmental Services partner. There remains volatility within this area. Details of the pressures and funding solutions in this service area were detailed in a report to the Executive on 7th September 2015.

Table 7: Summary of Growth Proposals

Area of Growth	Growth	Funded by		Net Growth
		Additional Income	Reserves	
	£000s	£000s	£000s	£000s
Staffing Costs (net of 1% turnover/vacancy factor)	141	(99)		42
Legislation and Contractual Commitments	117			117
Withdrawal of Guaranteed Recycling Rebate and Gate Fees for dry recyclables	655			655
Economic Growth	245		(245)	0
Management of Change	160		(150)	10
Other Growth	189		(50)	139
Total	**1,507**	**(99)**	**(445)**	**963**

4.4.4 The majority of the growth relates to contractual commitments and therefore is unavoidable recurrent growth. Analysis of the growth figure of £1,507K between recurrent and one-off funding is detailed in the table below:

Table 8: Summary of Recurrent and One-off Growth

	£000s
Recurrent Growth	1,117
One-off Growth	390
Total	**1,507**

4.4.5 The Growth proposals are attached at **Appendix C**

4.5 Utilisation of Reserves

4.5.1 The Council has a series of reserves that have been set aside to deliver Council priorities and to support Medium Term financial planning. In addition, the Council retains a General Fund Reserve which is retained at or above a level recommended by the S151 Officer detailed later in the report. This is used to mitigate against the impact of risks of delivery of the budget proposals.

4.5.2 An review of the level of reserves has been undertaken (as required by the Local Government Act, 2003). Based on this there is scope for the use of reserves on a recurrent and non recurrent basis to support the delivery of Council priorities and delivery of a balanced budget in 2016/17.

4.5.3 The planned utilisation of reserves is shown below

Table 9: Planned Utilisation of Reserves 2016/17

	Estimated Opening Balance 2016/17	**2015/16 Planned Use of Reserves**	**Estimated Closing Balance 2016/17**
	£000s	**£000s**	**£000s**
General Fund Balance	3,344	(930)	2,414
Earmarked Reserves (excluding General Reserve Fund)	4,233	928	5,161
General Reserve Fund	977	(150)	827
Capital Reserves	2,032	0	2,032
Total	**10,586**	**(152)**	**10,434**

4.5.4 Overall, it is anticipated that there is only the need for a £152K drawing on the overall Council Reserves in 2016/17. Announcements in the autumn statement and the provisional finance settlement make a clear statement that Councils will increasingly rely on locally generated funds (business rates and new homes bonus) in the future. Contributions to earmarked reserves of £1.767 million have been made in the draft 2016/17 budget and will assist with transitional impact of any changes in the future. Members should note that the operation of the business rate retention scheme require a series of accounting entries to be made through the General Fund Balance with associated timing impact. Based on the NNDR1 (submitted at the end of January) there will be the need to debit the general fund by approximately £900K. The final position of the NDR collection fund will be included in the annual financial statements and the NDR3 return to the Department for Communities and Local Government later this year. This will be reported to Members in the outturn report and the financial statements in the summer.

4.5.5 The budget proposes that £250K will be contributed to an earmarked reserve for the cost of preparing and adopting a local plan; an essential prerequisite to the success of generating locally generated funds in the future.

4.5.6 Adopting this forward looking and prudent approach means that the Council anticipates utilising £930K of General Fund Balances to support the budget in 2016/17. However, it is likely that the utilisation of the General Fund balances will be partially covered by the forecast underspend reported to Executive on 30th November of £652K. The 2015/16 underspend has not yet been added into the reserves table in paragraph 4.5.3 as the underspend position may alter between quarter 2 and the end of the financial year. If this level of underspend does materialise then reserves would be £500K higher at the end of 2016/17 than at the beginning.

4.5.7 The utilisation and movement of reserves are detailed in **Appendix D**

4.6 2016/17 Revenue Budget

4.6.1 The draft budget was issued for consultation on 11th January with the public and businesses. In addition consultation with Scrutiny on 21st January 2016 (minutes attached at **Appendix F**) took place. There were no amendments arising from the scrutiny process. Comments from the public and business consultation are attached at **Appendix G (**to be tabled at the meeting). The proposed budget is attached at **Appendix A** with the recommendation that this be approved by Executive and recommended to Full Council on the 22nd February 2016, where the Council Tax resolution will be considered. The Council must set a balanced budget and Council Tax by 11 March 2016.

4.6.2 The Council estimated budget requirement in 2016/17 is £11.877 million. This is based on estimated expenditure of £33.639 million and income (including Government Grants) of £21.762 million. Expressed on a daily basis the Council spends over £90,000 per day. The breakdown by portfolio is detailed in **Appendix A (i)**

4.6.3 The proposed budget consolidates previous year budget decisions as well as the budget assumptions and proposals detailed earlier in the report for the financial year 2016/17.

4.6.4 Since issuing the budget for consultation on the 11th January, there have been two small changes. Firstly, an increase in the collection fund surplus (which is determined on the 15th January each year and shared with preceptors and secondly an update in the budget for Harborough Market to reflect the profit share arrangement based on current occupancy. These two amendments effectively netted each other off. Other technical adjustments will be made in respect of NNDR once the final settlement is received.

4.7 2016/17 – 2018/19 Capital Budget

4.7.1 The Capital Programme for the next three years continues the targeting of Council resources to the Councils priorities of business growth, vibrant communities and housing. In addition, there is the need to continue planned maintenance in the Council’s core assets. During 2015/16 approvals were granted for redevelopment of the three retained Garage Sites in Market Harborough, Great Glen and Lubenham. This initiative is using the Council’s land holding and prudential borrowing powers to bring forward plans for low cost and affordable housing. On sale of the properties, the Council should generate a positive capital receipt; these were identified in the business case and also in the attached Capital Programme.

4.7.2 Council on the 22nd June 2015 considered a report on a proposed scheme to develop business Move On space for small and medium enterprises (SMEs) on the Airfield Farm Site. To date external funding bids have been submitted to secure Growth Fund monies and European Structural Investment Funds

(ESIF). Announcements on whether these have been secured are awaited. The Capital Programme is based on the funding scenario linked to the ESIF bid. If this was secured there would be some ineligible costs that would have to be funded (probably from capital and earmarked revenue reserves). Any utilisation of reserves for ineligible costs for this scheme has not yet been factored into the draft budget. The funding of these would be considered as part of the detailed business case which would be brought back to Council for approval.

4.7.3 The Capital Programme also provides for planned maintenance of the Council's assets. During 2015/16 full condition surveys have been undertaken of the Council Assets and planned maintenance priorities identified. These total £351K over the next three years. In addition, specific investment projects in The Symington Building and Harborough Market have been included within the Capital Programme to ensure that these buildings operate efficiently and that longer term maintenance liabilities are not created.

4.7.4 The Capital Programme also identifies some investment required in the Harborough Innovation Centre. The Centre has now been open five years and a number of schemes have been identified for investment. Schemes such as the investment in developing the Café will generate additional income from the operator of the café and increase the attractiveness of the centre for conferences.

4.7.5 The Capital Programme continues to retain support for Disabled Facilities Grant (DFGs) at £300K per year. This remains a Council priority. Recent announcements by Government of increased funding for DFGs over the course of the parliament and efficiencies anticipated from the county wide Lightbulb programme should allow more people to remain in their own homes through the provision of aids and adaptations.

4.7.6 The Capital Programme includes £313K of slippage from the 2015/16 Capital Programme.

4.7.7 The indicative Capital Programme for the next three years total £9.892 million with the funding assumption that £7.998 million of external funding and/or capital receipts will reduce the need for unsupported borrowing over this period. The unsupported borrowing over this period is estimated to be £1.895 million.

4.7.8 Indicative debt charges have been calculated for the proposed Capital Programme and the 2016/17 debt charges (based on the Capital Financing Requirement) included within the proposed 2016/17 budget. In recent years' the Council has not had the need to borrow money from the Public Works Loans Board (PWLB), instead using Council investments and reserve to delay the need to borrow. This is likely to provide in year savings in debt charges during 2016/17, though these have not been factored into the 2016/17 budget.

Table 10: Estimated Debt Charges 2016/17 to 2018/19

Estimated Additional Debt Charges	2016/17	2017/18	2018/19
	£000s	£000s	£000s
Principal	203	656	697
Interest	49	87	99
Total	**252**	**743**	**796**

4.7.9 The Capital Programme includes the borrowing linked to the redevelopment of the Council's garage sites, which would be subsequently covered by the anticipated Capital Receipt. Whilst the table includes the maximum debt charges arising taking out short term borrowing of less than three years to fund the scheme (prior to sale of the property) it is anticipated that the current situation of using internal investments to delay borrowing, use of the capital receipts reserve (not currently built into this budget report) and/or early receipt of capital receipt from the sale of the properties may not require this borrowing to take place. Where possible development and marketing of the properties will be in the same year.

4.7.10 Detailed Business Cases will be developed for the major capital projects, detailing spend profile, funding opportunities and conditions and an assessment of risk. If external funding is not available, a further assessment of the affordability of additional borrowing under the prudential framework would need to be undertaken and considered by Members.

4.7.11The Capital Programme has been profiled across the next three years. It is intended to continue the policy adopted last year of Members approving the funding envelope for the three years of the programme, allowing flexibility as to when the expenditure is incurred. This will allow external funding opportunities to be maximised and allow opportunities (e.g. strategic land acquisitions) to be made at the most appropriate time.

5. Report of the Chief Finance (Section 151) Officer under Section 25 of the Local Government Finance Act, 2003

5.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report has to be considered by Executive and the full Council as part of the budget approval and council tax setting process.

5.2 Reductions in Public Sector Finances and volatility arising from the localising of business rates, the localised council tax support scheme and New Homes Bonus make forward financial planning less certain. There is increased uncertainty linked to the current consultation paper on the future of new homes bonus, not having an adopted local plan and a lack of visibility about the proposed move to 100% business rate retention.

The Council's S151 Officer is required to report to Executive and full Council the key risks facing the Council in relation to current and future budget provision. The key risks and associated mitigating actions or provisions are:

(a) Business Rates

The Government introduced the Business Rate Retention Scheme from the 1st April 2013. Government grant is reducing to take account of the fact that Councils are able to keep more of the business rates they raise from April 2013. The intention is that Councils will be able to keep 50% of any increase they achieve in business rate collection as an incentive to encourage local economic growth. The Budget continues a prudent use of this funding stream and continues to transfer amounts to reserves, rather than utilising all the retained business rate reserve to support the annual budget. This approach helps to mitigate some of the volatility arising from appeals and is intended to assist with the funding and smoothing of MTFS proposals over the next four years. The accounting for NNDR remains overly complex with associated timing and funding issues arising from Government submissions and changes in the local business economy. Further work will be commissioned to be able to more intelligently forecast in this volatile area. Members' attention is drawn to the converse side of Business Rate retention which is if we suffer losses of business rate income; the Council will have to fund the first 7.5% of losses before any safety net comes into effect. The Council is part of a Business Rate Pool with the rest of Leicestershire Councils with the aim of maximising retention of business rate growth and sharing the risk of Councils having to meet the costs of the Safety Net.

(b) New Homes Bonus

The New Homes Bonus remains a key component of the Council's funding framework. New Homes Bonus is currently given for six years and then falls out. The Council received receipt of £2.984 million of New Homes Bonus. A recently issued consultation paper indicates changes in methodology and the amount to be distributed in the future. The budget therefore only assumes £2.584 million to support the budget and has transferred £400K into a newly created earmarked reserve. This is proposed in the MTFS to be repeated for the 2017/18 Revenue Budget. The size of potential reductions in this area is significant and it is hoped that some form of transitional support may be introduced. Another key dependency going forward is that a Council must have an adopted local plan to maximise New Homes Bonus in the future. The Budget includes a £250K Growth bid to prepare for adoption of the local plan in 2017.

(c) Economic Growth

The economic recovery continues to have an impact on Council activity. Recent forecasts by the Office for Budget Responsibility on growth and public sector finances include a growing economy, low interest and inflation rates and a further major contraction in Public Sector Finances. This makes forward financial planning uncertain (though the Government has provided indicative four year funding totals). The budget is prepared on a prudent basis and where quantifiable the budget proposals have factored in changes in demand or income levels. Close monitoring of demand, income levels and investment yields will be needed to ensure that in year pressures are managed. A small contingency budget has been established to mitigate risk and to alleviate pressures that cannot be contained within directorate cash limits. Provision has been made for contract inflation within the budget.

(d) Impact of Budget Reductions by Partners

The Council works closely with other public and voluntary bodies in the delivery of services. All organisations are experiencing a contraction in public sector funding. In particular, the budget proposals by Leicestershire County Council continue to impact on the Council and will do so in the future. All 2016/17 pressures have been incorporated within the budget. The Council continues to make representations and undertake forward financial planning to manage and mitigate the risk of any changes.

(e) Pay Costs

The Local Government pay award covers the period to the end of 2016/17. In addition, the Council contribution to the Local Government Pension Scheme is fixed following the last tri-annual review. Therefore, in 2016/17 there are minimal risks in respect of pay costs. Establishment budgets are monitored on a regular basis. The budget includes the impact of changes in National Insurance. There are no pressures from the living wage changes incorporated in the budget for 2016/17, though initial forecasts indicate pressures towards the end of the decade. Other pressures will be experienced from changes in Government policy, for example, the Apprenticeship Tax.

(f) Income Risks

A prudent level of income assessments has been factored into the budget for 2016/17. Fees and Charges have been changed by 0% or by the statutory fee or cost recovery needs. Regular budget monitoring of income identifies any income trends and appropriate action plans put in place. The income targets included within the 2016/17 budget are considered achievable based on 2015/16 income levels and business plans. The Council continue to receive a high level of planning applications that may lead to a repeat of ‘windfall’ income gains similar to those received by the Council in 2015/16.

(g) Welfare Reforms

During 2016/17 and through the course of the next parliament the Government continues to implement the largest change to welfare reforms since 1940. The complex changes will affect the amount of housing benefit people can claim, the introduction of universal credit and associated changes. There is a lack of visibility in the Government proposals and the speed of roll out and support required from the Council. The Council continues to work in partnership to understand and evaluate the changes and the impact on the Council’s finances and its’ communities. The Council’s level of reserves mitigates against any in-year pressures.

(h) Capital Spending

The three year Capital Programme details the Capital priorities and ambition for the Council. Detailed Business Cases will be developed and external funding opportunities and conditions evaluated. A level of unsupported borrowing has been estimated and debt charges incorporated in the budget. The capital budget is ambitious and is supported by External Funding and Capital Receipts. Detailed business cases will detail the risks and the funding options linked to major schemes.

(i) Contingent Liabilities

The Council is aware of a number of contingent liabilities which are detailed annually in the statement of accounts. During the year there is the potential for additional liabilities to be identified, for example, planning appeals. At the moment no separate provision has been made in the accounts until the nature and timing of the liabilities become more certain. To mitigate against this the projected General Fund balance will be maintained higher than the minimum level required.

5.3 Robustness of Estimates

There is an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change. This statement about the robustness of estimates cannot give a 100% guarantee about the budget but gives the Council reasonable assurance that the budget has been based on the best information and assumptions available at the time. The Council utilises a computer system (collaborative planning) where all the budget movements are documented and subject to sign-off by budget managers.

In setting the budget for 2016/17, current expenditure trends and service demands have been considered by the Corporate Management Team and Portfolio Holders. This included a forensic portfolio holder challenge. The budget for 2016/17 has therefore been set on the basis of need, demand and funding availability.

The Council has demonstrated its ability to deliver a very challenging savings programme in recent years through its transformation and other change programmes, without the need for unplanned call on reserves.

5.4 Adequacy of Reserves

The recommendation on the utilisation of reserves has been based on the robustness of estimates information and a risk assessment of the budget.

There is far greater financial uncertainty and volatility moving forward as the funding framework for local government moves from Central Government funding (Revenue Support Grant) to increased reliance on locally generated growth receipts (Business Rates, New Homes Bonus etc.).

The late announcement (December 2016) by the Government of potential changes in New Homes Bonus led to an assessment that not all of the New Homes Bonus Grant should be utilised to support the recurrent Revenue Budget. This resulted in £400K being transferred to a newly created New Homes Bonus Reserve and an equal and opposite increase in the use of the General Fund Balance. The MTFS assumes that the recurrent use of the General Fund Reserve in 2016/17 is reversed out in 2017/18. Due to the interdependency of needing an adopted local plan to secure future funding streams an additional growth bid (funded from reserves) was added into the 2016/17 budget to be funded from reserves.

The overall level of reserves, banked growth from business rates etc. allows for the application of a number of reserves to fund one-off growth – these are detailed in the report. In considering, the adequacy of reserves I have considered the General Fund, Balance, General Reserve Fund and the Business Rate Retention Reserve as being able to support the overall Revenue Budget. The estimated level of balances at the end of 2016/17 is forecast to remain healthy and collectively is significantly above the minimum level of reserves set down by the Council (7.5% - 15% of the net revenue budget). Based on this I would recommend retention of the specific General Fund Balance at 10% of the net revenue budget (£1.187 million) for 2016/17. The proposed balance on the General Fund has been forecast to be significantly above this.

All earmarked reserves have been reviewed in detail to ensure that they are set at an appropriate level.

5.5 Assurance Statement of the Council's Section 151 Officer

The financial risks facing the Council over the next few years are significant but looking ahead the proposed MTFS, Organisational Change agendas and a planned utilisation of reserves provides a flexible approach to managing those risks in the medium term and creates scope for further innovation and efficiency in response to reductions in core Government funding and the opportunities/volatility arising from locally generated income sources.

In relation to the 2016/17 revenue budget, the continued need for savings to respond to the Government's austerity agenda are challenging, but are nevertheless achievable given political and management will to implement the change. The budget utilises a mix of savings and efficiencies along the prudent use of locally generated growth funds and short term use of reserves to propose a balanced and sustainable budget for 2016/17. The MTFS elsewhere on the agenda sets down a strategy for the period to 2019/20 to respond to future funding projections. The track record of the Council in successfully delivering transformation and savings over the past couple of years provides additional assurance. The Council has a good record of managing and planning for other potential financial risks that arise from time to time which provides further assurance that it can proactively manage risks. The healthy reserves position also provides against any future risks.

The levels of reserves, balances and contingencies held are in my opinion adequate. Clearly, there are risks in the achievement of some of the proposed savings and/or income generation proposals. Whilst it is not possible to guarantee that every single proposal will be achieved. I consider the overall package to be prudent and affordable, and I am assured of the robustness of the projected savings, and the extent of rigour in their calculation.

The Capital Programme sets out a three year programme from 2016/17 to 2018/19 and details estimates of external funding and need for unsupported borrowing and capital receipts. However, I draw to Member's attention that the prudential indicators arising from these spending plans are towards the top of what I consider affordable and sustainable under the Prudential Code in the medium term. Any revisions to the programme requiring an increase in the unsupported borrowing requirement should be subject to a separate review by the S151 Officer.

In my opinion, the estimates are sufficiently robust to allow the Council to set the revenue budget, capital programme and council tax for 2016/17. The budget strategy, level of reserves and proposed MTFS provides a sound approach for balancing the budget in future years.

6 <u>Legal Issues</u>

6.1 The Council is required to consult on its budget prior to formulating its budget requirement. In setting the final budget requirement the Council is required to set a balanced budget by the 11th March 2016.

7 Resource Issues

7.1 The budget sets down the spending plans and priorities for 2016/17. Subject to the passing of the budget resolution on the 22nd February at full Council the budget sets down the approved budget for 2016/17. Budgets are delegated to budget holders and monitored.

8 Equality Impact Assessment Implications/Outcomes

8.1 There are no specific Equalities & Diversity issues affecting the recommendation in this report, though any such issues affecting particular service pressures and savings have been considered when those proposals were submitted. Any changes arising from the consultation on the budget will be subject to assessment as appropriate.

9. Risk Management Implications

9.1 The budget proposals are subject to a risk assessment in their formulation and subsequent delivery. An overall assessment of the risks in the Budget Strategy by the S151 Officer is detailed in Section 5 in accordance with the requirements of the Local Government Act, 2003

10 Consultation

10.1 Executive issued the Budget for consultation on the 11th January 2016. The consultation period ran from 12th January 2016 to 7th February 2016. The Resources and Performance Scrutiny Panel considered the report on the 21st January 2016. In addition, consultation was undertaken with:

- Employee Relations Forum (including Trade Unions).
- Local Businesses and Commercial Ratepayers (through the business newsletter).
- General Public through the website and opportunity to comment on the budget. (this was also promoted through social media)
- Parishes and Town Councils - Annual Parish Liaison Meeting, 27th January 2016.

10.2 There were no issues arising from the Employee Relations Forum, Resource Scrutiny or the Annual Parish Liaison Meeting that required or led to changes in the proposed budget.

11. Options

11.1 The Council have to set a balanced budget. The Executive Budget report of the 12th January was issued for consultation between the 12th January and 7th February 2016. The outcomes of the consultation will be tabled at the Executive meeting on the 8th February as **Appendix G**. The Executive should consider the outcomes of the consultations in recommending a budget to the Council.

12 <u>Background Papers</u>

12.1 Budget working papers

Executive, Budget Report issued for consultation, 11th January 2016

Information Issued Under Sensitive Issue Procedure: N

Ward Members Notified: N

Appendices:

- **A. Proposed 2016/17 Budget**
- **A(i) Proposed 2016/17 Budget (Expenditure and Income)**
- **B. Savings Proposals 2016/17**
- **C. Growth Proposals 2016/17**
- **D. Summary of Reserves 2016/17**
- **E. Capital Programme 2016/17 to 2018/19**
- **F. Draft Scrutiny Minutes, Resource and Performance Scrutiny Panel, 21st January**
- **G. Public Consultation (to be tabled following end of consultation on 7th February)**