PAPER NO. 2

REPORT TO THE EXECUTIVE MEETING OF 9th JANUARY 2017

Meeting:	**Executive**
Date:	**9th January 2017**
Subject:	**General Fund Revenue Estimates and Capital Programme**
Report of:	**Simon Riley, Head of Finance and Corporate Services (s151 Officer)**
Portfolio Holder:	**Councillor Phil King, Portfolio Holder for Financial and Commercialisation**
Status:	**Decision to issue budget for consultation.**
Relevant Ward(s):	**All**

1 Purpose of the Report

1.1 To advise Executive of the projected base budget position for 2017/18 based on the provisional grant settlement for 2017/18.

1.2 To review the savings and growth proposals put forward for the year 2017/18, and to begin a period of consultation.

1.3 To consider a draft Capital Programme for the period 2017/18 – 2019/20 and to begin a period of consultation.

2 Recommendations:

2.1 That the Executive endorses the proposed Revenue Budget for 2017/18 for consultation.

2.2 That the Executive endorses the proposed Capital Programme for 2017/18 to 2019/20 for consultation.

3 Summary of Reasons for the Recommendations

3.1 To provide the opportunity for consultation on the Revenue and Capital budgets as well as potential pressures, savings and income generation opportunities.

4 Key Facts

4.1 Financial Background

4.1.1 This draft budget has been prepared for consultation following the provisional Local Government finance settlement issued by the Department for Local Government & Communities on the 15th December 2016 and announcements in the November Autumn Statement. The final budget will be presented to Executive on the 14th February 2017 following receipt of the final Local Government finance settlement expected in late January.

4.1.2 The draft budget attached at **Appendix A** reflects continued reduction in Central Government funding as the Government addresses the public sector deficit. In order to provide stability in forecasting the Government offered four year funding, subject to submission of an efficiency plan. The Council's efficiency plan (submitted in October) has been approved and the settlement funding assessment received on the 15th December was consistent with the funding assumed within the Council's Medium Term Financial Strategy where the reduction in Settlement Funding Assessment (Revenue Support Grant (RSG) and NNDR Baseline) of £452k was anticipated. This is part of a move by Government to totally remove RSG as a funding source during the course of this parliament. It is expected that the move to 100% business rate retention should partially mitigate against the impact of this, though details of the 100% scheme are still being determined nationally.

4.1.3 Within the provisional settlement the Government has revised the New Homes Bonus scheme following a consultation over a year ago. The basis of these changes is detailed in paragraph 4.3.1(c). In summary, the Government's New Homes Bonus was £319K less than the indicative amount provided in February by Government. Key changes leading to this reduction is the introduction of a 0.4% 'deadweight' housing growth threshold for which no New Homes Bonus would be paid, along with a change that new homes bonus is only paid for 5 years instead of 6 years.

4.1.4 The Council continues to be successful in growing business rates and thereby retaining the benefits of business rate growth. Since 2013 Harborough has been consistently one of the best performers within Leicestershire in respect of Business Rate growth despite a high level of appeals. The Council has prudently only used previously retained business rate growth and operates a business rate retention reserve to manage the inherent volatility within the system. The Council has been part of the Leicester and Leicestershire Business Rate pool for every year except 2014/15. This has retained monies within Leicestershire which would otherwise have gone to Central Government. As a result over £4 million is expected to be distributed by the Leicester and Leicestershire Enterprise Partnership (LLEP) into local

Economic Growth projects. Details of the proposed receipt and utilisation of the retained business rates to support the budget are detailed in paragraph 4.3.1(d).

The Council continues to have to provide for a large number of appeals due to a backlog of determining appeals by the Valuation Office. To date, the Council has prudently provided for appeals and it is expected that a significant proportion of the appeals will be settled in 2017/18 for the previous 2010 rating list. However, the new rateable value list comes into operation on 1st April 2017 and it would be expected that further appeals will be received. Initial forecasts for 2017/18 forecast £1.119 million of retained business rates will be generated in 2017/18.

The importance of business rate growth as a locally generated income stream (and the withdrawal of Revenue Support Grant) means that the 2017/18 Budget is now having to apply £1.2 million of business rate growth on a recurrent basis (2016/17 £424K). In 2017/18 £100K of the Business Rate Reserve is also being utilised (as a one-off call on reserves) to support Economic Initiatives.

4.1.5 The Government has issued Council Tax referendum guidance which continues the previous policy of the limiting of Council Tax Increases for District Councils to 2% or £5 whichever is the greater. The published MTFS assumes a 1.99% increase for 2017/18 to 2019/20. The budget proposes an increase in Council Tax of 3.12% which equates to £5 for a Band D property and generates an additional £61K in 2017/18 over and above that forecast in the MTFS. Given the re-emergence of Council Tax as an important component of core spending power (after many years of Council Tax freezes) it is appropriate for the Council to consider increasing Council Tax for the first year since 2010/11 to ensure that the Council Tax baseline is increased, as this is what any future years decisions will be based upon. The Government has also included within its definition of core spending power the assumption that District Councils will avail themselves of the £5 option. 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).

The local Council Tax support scheme will be in its fifth year for 2017/18 with the contribution rate for impacted claimants remaining at 15% as in 2016/17. The maintenance of the contribution rate reflects the volatility for claimants of other welfare changes and the introduction of universal credit. However, as the original funding transfer was included within the Revenue Support Grant in 2014/15 and the Revenue Support Grant is scheduled to be removed by 2018/19 the costs of the scheme are therefore now effectively being funded by other Council funding sources.

The S151 Officer issued the Council tax-base on 13th December 2016 as 33,482.0 (2016/17, 32,787.5), an increase of 694.5 Band D equivalents from 2016/17. This has generated £111K additional Council Tax without a need to increase the Council tax levied on individual properties. The tax base increase has been supported by bringing empty homes back onto the Council Tax List and the cancellation of a significant number of single person discounts following a single person discount review. A 3.12% increase Council Tax generates £168K of additional income.

4.1.6 The budget provides for the proposed pay award of 1% alongside the first year of the recent tri-annual actuarial review of pensions which requires a increase in pension contributions of 2% for each of the next three years.

4.1.7 The budget provides for inflation at 1%, which is also used to apply to fees and charges.

4.1.8 The 2017/18 budget provides for a series of growth, savings and income generation proposals from Portfolio Holder challenge sessions – these are identified in **Appendix B and C.**

4.1.9 The budget reduces the recurrent use of a contribution from the General Fund Balance from £764K to £0 from 2016/17 to 2017/18. This reduction (at a time of continued funding reductions from Central Government) is a significant achievement and supports the overall financial strategy set out in the Council's MTFS. The Budget continues to utilise earmarked reserves on a recurrent and non recurrent basis to support delivery of corporate priorities. Earmarked Reserves are both added to (for example, New Homes Bonus and Retained Business Rates) and utilised (for example, Business Rates, Local Plan). Movements on Reserves are detailed at **Appendix D.**

4.1.10 The 2017/18 proposed budget builds on the previous track record of delivering sustainable budgets in recent years despite significant reductions in Government funding. This is illustrated in the table below from the Efficiency Plan.

Table 1: Delivery of Savings and Income Generation 2014/15 to 2016/17

	Reduction in Core Government Funding £000s	**Savings £000s**	**Income Generation £000s**	**Sub Total £000s**
2014/15	438	(107)	(55)	(162)
2015/16	452	(338)	(203)	(541)
2016/17	568	(710)	(460)	(1,170)
Total	**1,458**	**(1,155)**	**(718)**	**(1,873)**

4.1.11 In issuing the draft budget for consultation for 2017/18 the Council has had to plan for significant reductions in Government funding and continued cost pressures. In response, the Council continues to have to balance the need for limited growth proposals to be offset by significant income generation and savings proposals. This report details the proposed budget to deliver the Council priorities in 2017/18.

4.112 The proposed budget also sets out a proposed Capital Programme totalling £10.405 million, The Capital Programme is detailed at **Appendix E.**

4.2 Revised Estimate

4.2.1 The Council in February 2016 approved a Net Expenditure budget requirement of £11.824K in 2016/17. The Quarter 2 budget monitoring reported to Executive on 5th December 2016 forecast an underspend of £900K for the financial year 2016/17. The in-year underspend will be added to the reserves once confirmed as part of the 2016/17 Statement of Accounts.

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 provides inflation on contract inflation (for example Environmental Services contract, computer maintenance contracts etc.) where indexation clauses are included within individual contracts. Other Price Inflation has been applied at 1% rounded to the nearest £100. Nationally there is no consensus on what level inflation will be in 2017/18. If inflation was higher, services would be expected to manage these pressures within the approved budget.

(b) Level of Government funding

The provisional local Government finance settlement announced on the 15th December for 2017/18 provided a provisional funding allocation for 2017/18 and indicative budgets for 2018/19 to 2019/20 to assist Councils with planning. There was confirmation that the four year funding ‘guarantee’ linked to the submission of the Council’s efficiency plan in October has been honoured by Central Government.

The provisional settlement issued on 15th December 2016 indicates a reduction in the settlement funding assessment of £452K between 2016/17 and 2017/18, a reduction of 18.79%. This reduction is as forecast in the indicative four year funding totals provided by DCLG in February 2016 and which have been confirmed with the Governments approval of the Council’s efficiency plan submitted in October. The Council’s MTFS had already factored this reduction into the financial forecasts.

Table 2: Reduction in Core Government Funding 2016/17 to 2017/18

2016/17		2017/18
£000s		£000s
785	Revenue Support Grant (RSG) (includes previous Council Tax Freeze Grants)	300
1,620	National Share of Business Rates (NNDR)	1,653
2,405	**Settlement Funding Assessment**	**1,953**
133	Rural Services Delivery Grant	108
64	Rural Services Transitional Grant	64
2,602	**Total Provisional Settlement Funding**	**2,125**

Harborough receives the lowest settlement funding assessment within Leicestershire and is significantly below the average for Districts of £31.01. This is illustrated in the table below:

Table 3: Comparison of Leicestershire Settlement Funding 2017/18

Settlement Funding Assessment	£ per head
Oadby and Wigston	31.11
Charnwood	30.60
Hinckley and Bosworth	29.81
North West Leicestershire	29.72
Melton	29.20
Blaby	26.64
Harborough	22.44
All Districts	31.01

The lack of funding from the Settlement Funding Assessment has meant that Harborough has had to be successful in delivering growth and the associated benefits of New Homes Bonus and Business Rate Retention in order to maintain service levels. However, the relatively low level of dependency on Central Government for funding (relative to others) means that the planned reduction on funding from Government will have a lesser impact. Harborough has traditionally received low levels of central government funding through being a high tax base authority and through the needs based formula.

The Government also publishes another definition called core spending power which details Government funding support alongside an assessment of the Council Tax that a Council could levy. The Core Spending Power reduced by 4.89% from 2016/17 to 2017/18. The core spending power includes:

- Settlement Funding Assessment (SFA).
- Council Tax. The Government has assumed that authorities will increase their Band D council tax by the maximum amount. For Harborough they have assumed that the Council will increase their Council Tax by the £5 criterion that is available to District Councils.
- New Homes Bonus. There has been a reduction in the planned NHB payments (down from £1.493bn to £1.251bn), and a change in the way that local authority allocations are calculated.
- Rural Services Delivery Grant. No changes in the allocations from those previously announced.
- Transition Grant. No changes in the allocations from those previously announced.

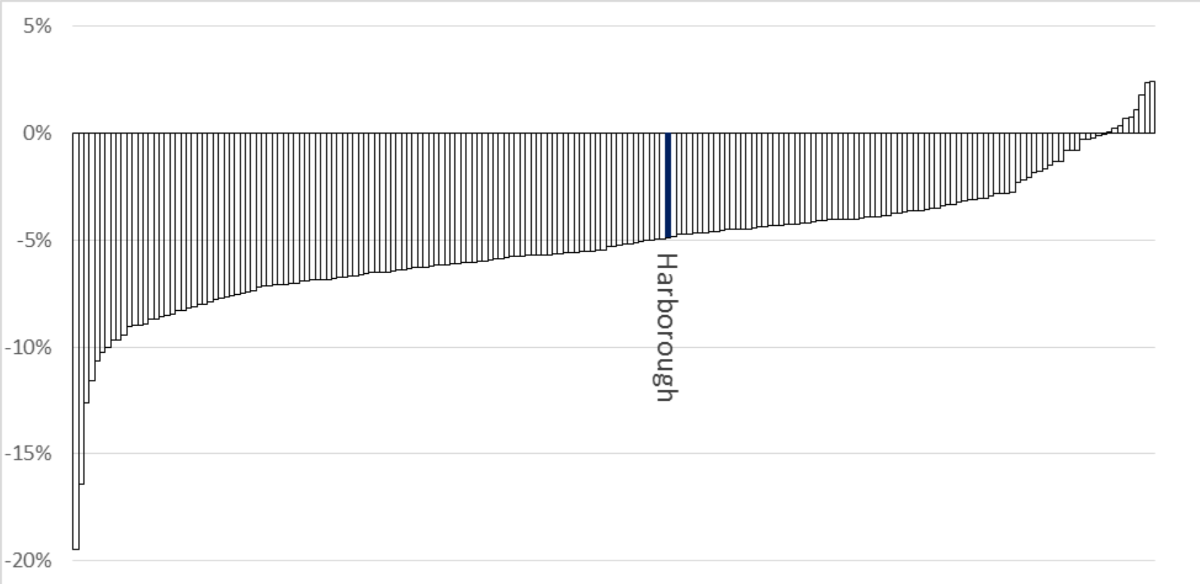
The Core Spending definition illustrates that despite the Settlement Funding Assessment being the lowest in Leicestershire, the success of the locally generated sources (New Homes Bonus) over the past 7 years has provided the most spending power per head within Leicestershire to deliver the range of Council Services.

Table 4: Comparison of Leicestershire Core Spending Power 2017/18

Core Spending Power	**£ per head**
Harborough	118.56
North West Leicestershire	118.04
Melton	111.56
Blaby	102.95
Oadby and Wigston	101.50
Hinckley and Bosworth	98.49
Charnwood	96.37

This is further illustrated in Figure 1 below that demonstrates that the planned reduction in settlement funding assessment and revised criteria for New Homes Bonus has not had as significant an impact on Harborough as other District Councils

Figure 1: Change in Core Spending Power for Districts 2017/18



(c) New Homes Bonus

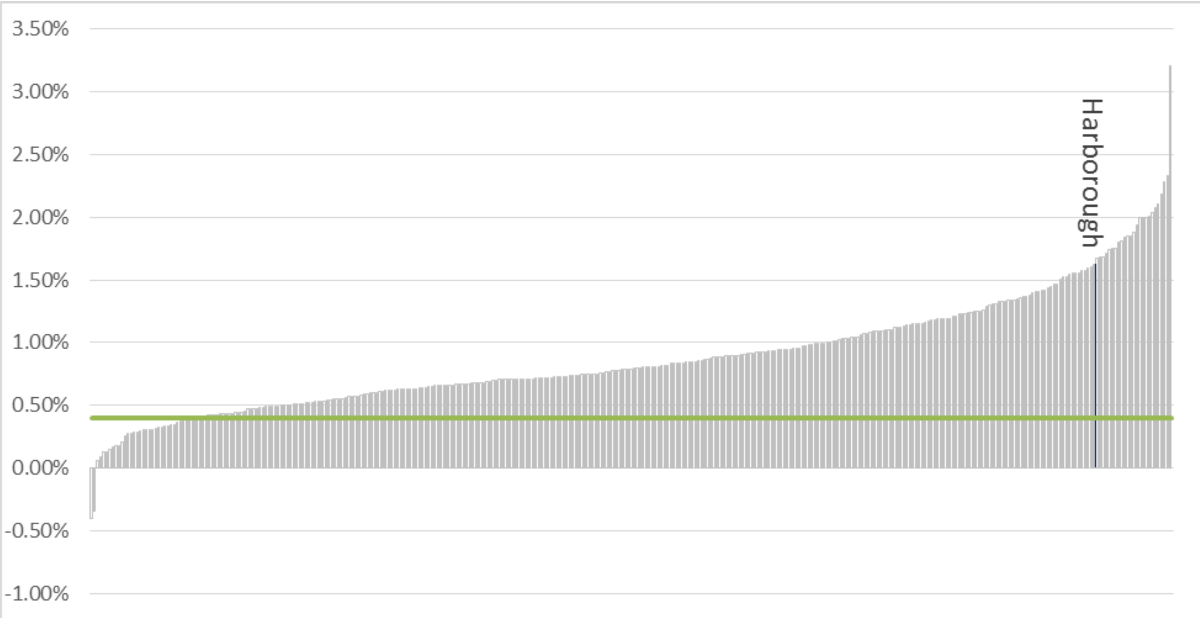
The Government in 2011/12 introduced the New Homes Bonus to incentivise Councils in respect of housing growth. Until 2017/18 the scheme was based on Councils receiving money for six years following the level of completions in the previous year.

In the provisional settlement the Government has announced significant changes to the New Homes Bonus, following the publication of the consultation paper a year ago. The key changes are

- The Government is implementing its preferred option: to reduce legacy payments from 6 years to 5 years in 2017-18 and then to 4 years in 2018-19.
- A “deadweight” factor or national baseline will be introduced, so that no NHB payments will be made to a local authority for housing growth of less than 0.4%.
- From 2018-19 the Government will withhold payments from authorities not supporting housing growth. This will potentially include no or reduced payments for houses that are built following a successful appeal and to local authorities who do not have an approved Local Plan. There will be a further consultation on these elements.
- To calculate the Year 7 (2017-18) NHB payment, the increase in the number of dwellings (converted to Band Ds) is calculated, and the national baseline of 0.4% is deducted. Payments are only made on the increase in the number of houses above the national baseline; no payments are made for growth in housing below this threshold. This approach ensures that there are no cliff edges for authorities above and below the threshold.

The Government has confirmed the New Homes Bonus allocation of £2.686 million for 2017/18 against £3.005 million that was within the Government's illustrative figures in February. The introduction of the change to 5 years in 2017/18 and the setting of a relatively high 'deadweight' housing growth percentage at 0.4% are the reasons for the change. The impact of this change is that the Council did not receive New Homes Bonus for 151 properties that it would have had received funding for in the scheme that has been operating for the past 6 years. Translating this into a financial impact the deadweight adjustment accounts for £194K of the £319K reduction in New Homes Bonus in 2017/18.

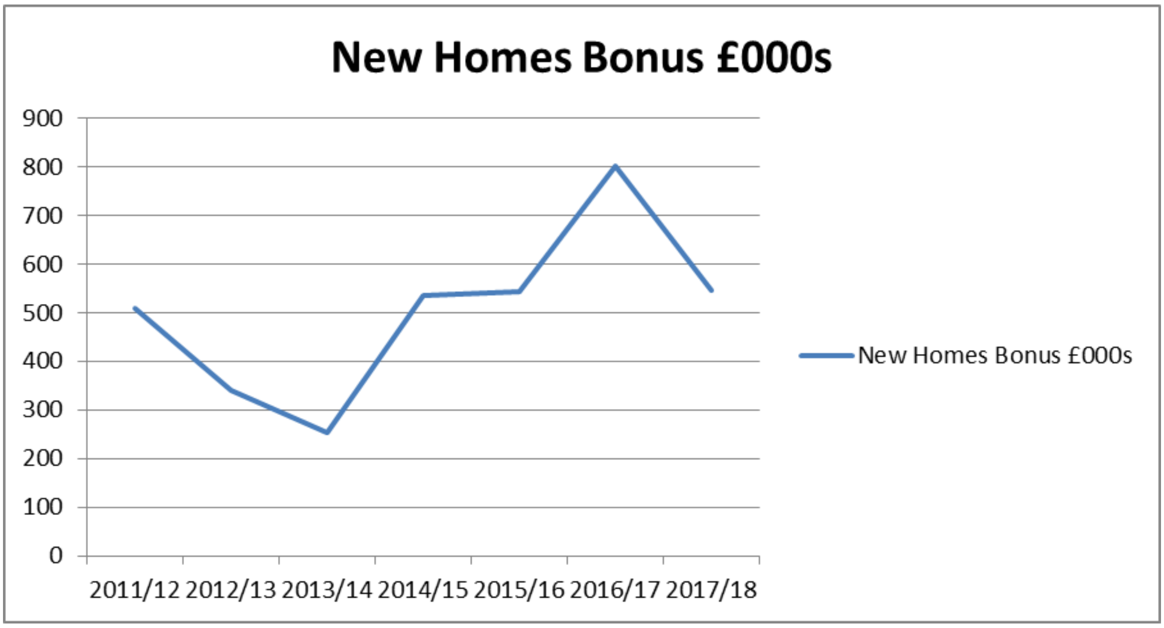
Figure 2: Change in Housing Stock 2016/17 to 2017/18 (All Councils)



The above graph illustrates the strong position of Harborough in being able to secure New Homes Bonus based on the current and projected level of housing completions. Harborough was the 27th most successful Council in the Country in the change in housing stock (+1.63%) in the last year. As a key funding source, maintaining housing growth above the 'deadweight' baseline is essential to support the Council's priorities in the future. To illustrate the impact of the new housing growth criteria, Melton Borough Council increased their Housing Stock by 0.4% (90 houses) but did not receive any additional New Homes Bonus in 2017 because of the application of the 'deadweight' criteria.

The annual New Homes Bonus receipt over the past 7 years is illustrated in Figure 3 below. The reduction in 2017/18 is due to the application of the new 5 year criteria and application of the 'deadweight' criteria.

Figure 3: New Homes Bonus 2011/12 to 2017/18



Despite the change in New Homes Bonus methodology, Harborough remains the highest recipient of New Homes Bonus within Leicestershire in 2017/18 as illustrated in Table 5 below

Table 5: New Homes Bonus per head – Leicestershire Authorities

New Homes Bonus	£ per head
Harborough	30.84
North West Leicestershire	30.02
Hinckley and Bosworth	26.23
Blaby	24.39
Charnwood	23.29
Melton	10.99
Oadby and Wigston	7.05

The Council had been anticipating the reduction in New Homes Bonus and had set out in its MTFS a plan to transfer £800K of the New Homes Bonus received from Government to an earmarked reserve to prepare for, and smooth for the time when New Homes Bonus is based on only 4 years of receipts. The proposed budget provides for the second year of this transfer (£400K) which adds to the £400K put into a reserve as part of the 2016/17 budget strategy. Indicative forecasts by Government indicate slightly higher receipt of New Homes Bonus in future years than their forecasts issued in February.

The proposed budget therefore only utilises £2.286 million of New Homes Bonus on a recurrent basis, compared to the receipt in 2017/18 of £2.686 million. This should mean that future receipts of New Homes Bonus based on the Council's strong build profile and limited drawdown from the earmarked reserve should allow us to plan for this to remain as an essential funding source.

(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 has been in a pooling agreement with the other Leicestershire Districts, City Council and the County Council for every year apart from 2014/15. An assessment will be taken by all the Leicestershire Authorities on whether to operate the scheme in 2017/18. This decision has to be reached within 28 days of the provisional settlement. The pooling of business rates allows a share of business rate growth being retained regionally and targeted at economic growth through LLEP. Through being in the pool, it is anticipated that at least £4 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.

Harborough has consistently one of the highest rates 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. At the end of 2015/16 the Council as the billing authority had provided for £5.7 million of appeals of which £2.3 million is Harborough's share. A significant proportion of these relate to the logistic hubs at Magna Park which are still waiting determination by the Valuation Office. The Council is assuming a further £250K provision for appeals will need to be made in 2017/18 within its forecasts. It is hoped that some of the appeals will not be found valid and that as a result it may result in additional funds being returned to the Council and the preceptors in the future.

The actual and forecast retained business rate growth forecasts are detailed in the table below. By the end of 2017/18 it is forecast that the Council will have retained locally £4.223 million locally as well as having been able to contribute £3.728 million to the Leicester and Leicestershire Business Rate Pool. This success in retained business rate has been essential when it is considered in the context that Revenue Support Grant has reduced significantly in recent years. Looking forward, the Council would expect the annual retained business rate growth to be in excess of £1.2 million.

Table 6: 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 (actual)	807
2016/17 Retained Business Rate Growth (forecast)	899
2017/18 Retained Business Rate Growth (forecast)	1,119
Total	**4,223**

Looking forward, the Government will be increasing the retention of business rates from the current 50% to 100% by the end of the parliament. Nationally discussions are underway on this issue.

The Council's current policy is that Business Rate growth is transferred to the Business Rate Retention Reserve and is then applied in future years. The budget assumes that £1.3 million of the retained business rate growth reserve will be utilised in supporting the 2017/18 Revenue Budget in the following areas:

Table 7: Utilisation of Business Rate Retention Reserve

	£000s
Business Rate Growth Reserve at 1st April 2017	**1,685**
Less: Support to the 2017/18 Revenue Budget [Recurrent]	(1,200)
Business Support Initiatives	(100)
Contribution to Earmarked Reserve: 2017/18 Retained Business Rate Growth (forecast)	1,119
Business Rate Growth Reserve at 31st March 2018	**1,504**

It is clear that Business Rates 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 impact of the 2017 Business Rate Revaluation is 'neutralised' within the financial settlement. However, this is only in respect of Day 1, 1st April 2017 and the Council is likely to have to manage and provide for further appeals.

(e) Council Tax

The budget issued for consultation assumes a 3.12% increase in the District share of Council Tax in 2017/18. This is equivalent to a £5 increase on a Band D property. The provisional settlement for District Councils set out a continuation of the 2% 'capping threshold' that has been in place for a number of years or £5, whichever was the greatest. The Government is assuming that Councils would avail themselves of the £5 option within its definition of core spending power.

The tax base for 2017/18 has been set as 33,482.0 (2016/17, 32,787.5), an increase of 694.5 Band D equivalents from 2016/17. This has generated £111K additional Council Tax without a need to increase the Council tax levied on individual properties. The proposed 3.12% Council Tax increase generates £168K.

(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 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 reported to Executive on the 14th February 2017 and recommended for approval by full Council on February 23rd 2017.

(g) Employee Costs

Pay: Provision has been made in the budget for the estimated pay costs for 2017/18. In particular, the pay budgets provide for the Local Government Pay Award of 1% for 2017/18.

Pensions: Every three years the Leicestershire Pension Fund undertakes a tri-annual actuarial review of the pension fund. Whilst the current deficit within the Pension Fund has decreased from the last revaluation to £16.8 million there is the ongoing need over a number of years to move to a fully funded pension scheme where projected liabilities are met by the assets. The deficit has arisen in past years due to significant drops in workforce level, and past employer's contribution rates, which has resulted in the amount of employers and employees contributions not covering the liabilities of current members, deferred members, and current pensioners. Most Councils are in a similar position and will, over a number of years need to make significant contributions to address their pension fund deficit.

Actuarial reviews are complex and provide for the Council to move towards a fully funded pension scheme over 20 years. The Actuaries have identified that to move to a fully funded scheme to remove the deficit it would require a 'full rate' of 41.7% which is broadly split 50/50 contributory rate and deficit repayment. The current contribution rate (2016/17) is 25.9%.

The headlines arising from the Actuarial Review and the required contribution rates are highlighted in the table below. The 2% increase in pension contributions costs cost approximately £110K per year. Therefore over the next three years annual pension contributions will have increased by approximately £340K over and above that paid in 2016/17.

Table 8: Headline Pension Information from the Actuarial Review

Pension Fund Headlines		**Contribution Rates**		
Pension Fund Deficit	£16.8 million	Year	Contribution Rate (%)	Comprising
Split:		2017/18	27.9	To be paid as 21.4% + £291k Cash Sum
Future Service Rate	21.4%	2018/19	29.9	To be paid as 21.4% + £381k Cash Sum
Deficit Repayment	20.3%	2019/20	31.9	To be paid as 21.4% + £471k Cash Sum

The impact of previous Service Reviews has been incorporated within the proposed budget. Additional savings were secured within the Leicestershire Revenues and Benefits Partnership following the transfer of the Benefit Fraud Service to the DWP.

The 2017/18 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 2017/18.

(h) Environmental Services Contract

In 2016/17 the Council commenced the seven year extension to its Environmental Services Contract which was approved last year. This has delivered operational savings in excess of £300K and introduced a subscription based garden waste scheme. The level of garden waste subscribers has been very successful with 19,000 subscribers. This is forecast to generate £225K net additional income over and above the business case. However, it is important to note that the subscription income only covers 57% of the cost of the service to the Council.

(i) Impact of Previous Year's Capital Investment

The budget is based on the capital financing requirement arising from the approved capital programme for 2017/18 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 will 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 2017/18 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 £700K of savings and income generation opportunities proposals**.**

Table 9: Summary of Savings and Income Generation

	£000s
Savings	137
Income Generation	623
Prior Year Savings Adjustment	(60)
Total	**700**

The savings proposals are attached at **Appendix B**

4.4.3 The 2017/18 budget process also looked at priorities for growth including growth funded from reserves. Analysis of the growth figure of £403K between recurrent and one-off funding is detailed in the table below:

Table 10: Summary of Recurrent and One-off Growth

	Growth	**Funded By**		
	£000s	**General Fund**	**Reserves**	**Car Parking Income**
Recurrent Growth	240	160	0	80
One-off Growth	163	35	100	28
Total	**403**	**195**	**100**	**108**

The majority of growth is targeted at maintaining or developing existing services. A new growth bid has been proposed to develop destination management to promote the visitor economy and to develop the calendar of events run by the Council or voluntary groups.

4.4.4 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 which will be confirmed in the Annual Budget Report along with the assessment of risks of delivery of the budget proposals.

4.5.2 An initial 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 2017/18.

4.5.3 The planned utilisation of reserves is shown below:

Table 11: Planned Utilisation of Reserves 2017/18

	Estimated Opening Balance 2017/18	**2017/18 Planned Use of Reserves**	**Estimated Closing Balance 2017/18**
	£000s	**£000s**	**£000s**
General Fund Balance	4,928	(0)	4,928
Earmarked Reserves (excluding General Reserve Fund)	4,634	(240)	4,394
General Reserve Fund	1,169	(150)	1,019
Capital Reserves	2,575	(200)	2,375
Total	**13.306**	**(590)**	**12,716**

4.5.4 In line with the MTFS the proposed budget has fully removed the need for a recurrent use of the General Fund Balance to support the Revenue Budget. In 2016/17 £764K of the General Fund Balance was used to support the Revenue Budget. In 2017/18 this has reduced to zero, meaning that the ongoing revenue spending needs of the Council are met by the annual funds available. This puts the Council in a good position to deliver a sustainable budget over the MTFS period.

4.5.5 The Council continues to retain and utilise earmarked reserves to support the delivery of Council priorities and to provide financial resilience over the medium term. The budget assumes contributions to earmarked reserves of £1.539 million and drawdown from earmarked reserves of £1.779 million in 2017/18. The movement in reserves is detailed in Appendix D.

4.5.6 The budget assumes the drawdown of £1.2 million on a recurrent basis to support the budget from Business Rate Retention Reserve. This is again consistent with the MTFS and is targeted at the level of retained business rates that could realistically (after some provision for appeals) be realised in a financial year. This is evidenced by the estimated transfer into reserves of £1.119 million based on the initial forecast of business rates for 2017/18. At the end of 2017/18 the Council expects to have £1.504 million left in the business rate retention reserve which will assist with any volatility arising from the recent business rate revaluation or future appeals.

4.5.7 In line with the MTFS the proposed budget has provided for a second transfer of £400K of the 2017/18 New Homes Bonus into a reserve to prepare for when the New Homes Bonus reduces further in 2018/19 when the bonus will only be paid on 4 years of housing completions. This reserve reduces the volatility in this funding source. This means that the proposed budget utilises £2.285 million of the New Homes Bonus to support the budget on a recurrent basis in 2017/18, down from £2.686 million used to support the budget on a recurrent basis in 2016/17.

4.5.8 In recent years the reserves have been added to, through success in retaining locally generated funds (i.e. New Homes Bonus, Business Rate Growth) along with generating in-year surpluses which have been added to the General Fund. The current forecast surplus on the Revenue Budget for 2016/17 is £900K which will be added to the General Fund balance at the end of the year, subject to the final accounts process. The overall level of reserves will support the delivery of the Council's MTFS in response to further reductions in core Government funding, alongside investment in Council priorities.

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

4.6 2017/18 Revenue Budget

4.6.1 The proposed budget for consultation (based on this report) is attached at **Appendix A**. Following consultation with Scrutiny on 19th January 2017 a further budget report will be considered by the Executive on the 14th February 2017 and by Full Council on the 23rd February 2017, where the Council Tax resolution will be considered. The Council must set a balanced budget and Council Tax by 11 March 2017.

4.6.2 The Council estimated budget requirement in 2017/18 is £11.630 million. This is based on estimated expenditure of £33,971 million and income (including Government Grants) of £22.341 million. Expressed on a daily basis this equates to 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 2017/18. To provide a comparator with Table 1 arising from the proposed budget the following table has been updated to include the 2017/18 proposals. This clearly demonstrates the continued prudent financial management of the Council's finances.

Table 12: Delivery of Savings and Income Generation 2014/15 to 2017/18

	Reduction in Core Government Funding £000s	Savings £000s	Income Generation £000s	Sub Total £000s
2014/15	438	(107)	(55)	(162)
2015/16	452	(338)	(203)	(541)
2016/17	568	(710)	(460)	(1,170)
2017/18	477	(77)	(623)	(700)
Total	**1,935**	**(1,232)**	**(1,341)**	**(2,573)**

The above table clearly shows that savings and income generation proposals over the past four years has exceeded the reduction in Government funding and has contributed positively to addressing cost pressures (e.g. the withdrawal of recycling credits for waste) alongside continued investment into priority services.

4.7 2017/18 – 2019/20 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 invest in the Council's core assets. This report recommends a Capital Programme of £10.405 million for the period 2017/18 to 2019/20. A number of the schemes will be linked to the need for external funding and detailed business cases if the scheme is to progress, for example, the proposal for move on space for small and medium enterprises which is dependent on securing significant external funding and a detailed business case to progress.

4.7.2 The Capital Programme also provides for planned maintenance of the Council's assets following full condition surveys of the key Council Assets. The Council has also ensured that where the liability for repairs is the responsibility of a third party, for example Leisure Centres that dilapidation surveys have been undertaken and investment secured and programmed.

4.7.3 The Capital Programme provides for increased support to elderly and vulnerable people resulting from an increase in funding from the Better Care Fund from £199K in 2016/17 to £384K in 2017/18. It is planned to set aside £350K for Disabled Facility Grants (an increase of £50k on 2016/17) and to create a new capital project for Lightbulb/Social Care Capital projects of £135k in 2017/18. This is linked to the Lightbulb Programme initiative which aims to allow more people to remain in their own homes through the provision of aids and adaptations and targeted support.

4.7.4 The Capital Programme includes £4.480 million of slippage from the 2016/17 Capital Programme. This was approved by the Executive on the 5th December 2016.

4.7.5 The indicative Capital Programme for the next three years assumes £1.457 million of new borrowing to deliver the programme by 2019/20. This will be factored into the prudential indicators to be considered by Council in February 2017. Significant Capital Receipts are expected from the redevelopment of garage sites for low cost and affordable housing.

4.7.6 Debt charges for the proposed Capital Programme have been included in the Revenue Budget for 2017/18 along with revisions to the voluntary revenue provision (VRP) in line with the annual updating of this budget.

4.7.7 Detailed Business Cases will be developed for the major capital projects, detailing spend profile, funding opportunities and conditions and an assessment of risk. In particular, over the next three years of the Capital Programme business cases for refurbishment/provisioning of the Council's Leisure Centres will be need to be considered following from the Leisure Options appraisal that is currently underway. The Leisure Centre is therefore marked as to be confirmed (TBC) in the capital programme. Similarly, surveys are being undertaken at Harborough Market to assess future investment needs.

4.7.8 The Capital Programme has been profiled across the next three years. It is intended to continue the current policy 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.

4.7.9 The Capital Programme is attached at **Appendix E.**

5 <u>Legal Issues</u>

5.1 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 2017. The Council is scheduled to approve the budget on 23rd February 2017.

6 <u>Resource Issues</u>

6.1 There are no direct financial implications from approving this report for consultation. However, when the final budget report is approved there will be financial implications for the Council. These will form the formal budget resolution to Council in February.

7 <u>Equality Impact Assessment Implications/Outcomes</u>

7.1 There are no specific equalities & diversity issues affecting the recommendation in this report to issue for consultation, though any such issues affecting particular service pressures and savings have been considered when those proposals were submitted. Any changes arising from the consultation or implementation of policy thereafter will be subject to assessment as appropriate.

8. Risk Management Implications

8.1 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 forms part of the report to the Executive on the 14th February 2017 and Council on the 23rd February 2017.

9 Consultation

9.1 Executive is asked to endorse the Budget proposals contained in this report as a basis for consultation. These proposals will be subject to consultation over the period from 10th January 2017 to 13th February 2017. The Performance Scrutiny Panel will consider this report on the 19th January 2017. In addition, consultation will be with:

- Employee Relations Forum (including Trade Unions).
- Local Businesses and Commercial Ratepayers.
- General public through the website and opportunity to comment on the budget. This link will be promoted via social media.
- Parishes and Town Councils

10. Options

10.1 The Council has to set a balanced budget. The report details the proposed budget for 2017/18 that will be subject to consultation. The outcomes of the consultation and any revisions to the proposed budget for 2017/18 will be reported to Executive on the 14th February 2017.

11 Background Papers

11.1 Budget working papers.

11.2 Local Government Provisional Settlement, 15th December 2016.

Information Issued Under Sensitive Issue Procedure: N
Ward Members Notified: N

Appendices:

A. Proposed 2017/18 Budget
A(i) Proposed 2017/18 Budget (Expenditure and Income)
B. Savings Proposals 2017/18
C. Growth Proposals 2017/18
D. Summary of Reserves 2017/18
E. Capital Programme 2017/18 to 2019/20