

**REPORT TO COUNCIL 23rd FEBRUARY 2015**

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**Meeting:** Council  
**Date:** 23rd February 2015  
**Subject:** General Fund Revenue Estimates and Capital Programme  
**Report of:** Simon Riley, Head of Financial & Commercial Services (s151 Officer)  
**Portfolio Holder:** Councillor Phil King  
**Status:** Decision  
**Relevant Ward(s):** All

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1 Purpose of the Report

- 1.1 Executive to recommend the 2015/16 Budget and Capital Programme to full Council.
- 1.2 To consider the comments, questions and response from the Resource and Performance Scrutiny Panel on 22<sup>nd</sup> January 2015.
- 1.3 To note that the final Local Government Finance Settlement is still awaited from Central Government.

2 Recommendations:

- 2.1 Approves the 2015/16 General Fund Revenue Account Net Expenditure Budget of £11,924,194 as set out in Appendix A, for recommendation to Council on the 23<sup>rd</sup> February 2015, resulting in no increase in the District Band D Council Tax for 2015/16
- 2.2 Delegates to the S151 Officer in consultation with the Leader and Portfolio Holder for Finance, Assets and Development 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 D**
- 2.5 Recommend to Council the tolerance level for the Capital Programme as set out in paragraph 4.7.8**
- 2.6 Recommend to Council the fees and charges as set out in Appendix F**
- 2.7 Recommend to Council a delegation to the S151 Officer in consultation with the Portfolio Holder for Finance Assets and Development to agree new fees and charges during the year and agree changes to fees and charges where required**

### 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 11<sup>th</sup> March. The duty to recommend a budget to the Council rests with the Executive.

### 4 Key Facts

#### 4.1 Financial Background

- 4.1.1 This budget has been prepared following the provisional local government finance settlement issued by the Department for Local Government & Communities on the 18 December 2014 and announcements in the Autumn Statement on the 4 December 2014. The final local government finance settlement was received on the 4<sup>th</sup> February 2015. There were no changes to the funding figures included within the provisional settlement. .

- 4.1.2 The draft budget is prepared against continued reduction in central Government funding as the Government addresses the public sector deficit. The reduction in central Government funding was broadly as forecast in the 2014/15 Two Year RSG Announcement. However, the Autumn Statement and the Office of Budget Responsibility forecasts make it clear that there will be significant reductions in public sector finances over the next parliament. There is also volatility arising from the end of the current five year parliamentary cycle in 2015 with a further Comprehensive Spending review expected later in 2015. The proposed budget therefore concentrates on proposals for 2015/16. An updated Medium Term Financial Strategy (MTFS) will be produced following the next spending review detailing a two to three year forward looking MTFS. There is consensus among all political parties and political commentators that nationally the Country is only 40-50% towards addressing the structural UK deficit and that the incidence of national reductions will continue to fall upon Local Government over the next parliament.

- 4.1.3 The Council is and will be increasingly reliant on funding sources arising from growth (New Homes Bonus and Business Rates) alongside opportunities for income generation. The Council has been to date very successful in delivering

proportionate Housing and Business Growth with the retained business rate growth being the highest in Leicestershire in 2013/14 (£903K retained by Harborough) and an additional New Homes Bonus receipt in 2015/16 of £543K through the addition of 409 New Homes, bringing 4 Empty Homes back into use, and 64 Affordable Housing units. The receipt of these funding sources have and continue to mitigate against the reduction in Central Government funding and will in the future remain a critical component of the Council's budget and financial strategy going forward. There remains significant volatility in these funding streams, especially in relation to Business Rates due to the high levels of appeals and backlogs within the Valuation Office. There is also a risk of a change in the New Homes Bonus programme (including possible redistribution towards more deprived areas of the country) during the next parliament which would have a major impact on the Council's financial position as the annual New Homes Bonus receipt is fully utilised supporting the Council budget.

- 4.1.4 The Council Tax Support scheme will be in its third year for 2015/16 with the contribution rate for affected claimants remaining at 15% as in 2014/15. The Revenue Support Grant (RSG) for 2014/15 includes an amount from central government to cover some of the impact on the Council and towns and parishes. The Council approved on the 15<sup>th</sup> December 2014 the passing of £56,028 in respect of the impact of the scheme to parishes. This is a reduction from 2014/15 where this grant was protected at the original 2013/14 level. In future this grant will reduce in the same proportion as the Government's reduction in Revenue Support Grant/NNDR to the Council. The Council Tax Base Report approved by Council on the 15<sup>th</sup> December 2014 showed an increase in the Council Tax Base of 612 Band D Equivalents, thereby generating an additional £103K of Council Tax yield (without any increase in Council Tax)
- 4.1.5 The Council has since 2010/11 made significant savings in its net budget (including the impact arising from the Council's transformation programme and significant capital investment programme). The Budget for 2015/16 builds in the full year impact (and savings profiles) of these programmes.
- 4.1.6 The Budget continues to utilise reserves on a recurrent and non recurrent basis to support delivery of corporate priorities and promote localism through an extension for a third year of the passporting of a share of the 'gains' from New Homes Bonus to localities and across the District. The 2015/16 budget also utilises some of the business rate growth reserve to stimulate the local economy through business support grant and apprenticeships. This initiative will also be available to Council Services in providing apprenticeships. The proposed budget further reduces the call on recurrent reserves to support the delivery of Council priorities.
- 4.2 Revised Estimate
  - 4.2.1 The Council set a Net Expenditure budget requirement of £10,474K in 2014/15. The Revised Budget requirement is £11.491 million following

updated forecasts in respect of utilisation of reserves, especially around business rate growth and the drawdown of the Broadband Reserve.

### 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 for inflation/indexation on the Council's key contracts and partnerships. The budget assumes no increase in fees and charges for 2015/16 unless determined by statutory charging frameworks or cost recovery where legislation applies.

The budget does not provide for inflation on non contract inflation. Nationally there are forecasts that inflation could drop in 2015/16 to a level which would require the Bank of England to write to the Chancellor explaining why inflation is lower than the Government set target

(b) Level of Government funding

The provisional local Government finance settlement for 2015/16 provided a one year funding allocation. The funding reduction from Central Government was £452K (13.19%) from 2014/15. This reduction had been signposted in the Government Settlement on the 18<sup>th</sup> December 2013. In total, since 2011/12 core Government funding to this Council has decreased from £4.176 million to £2.974 million, a reduction of 28.7%.

There have been a number of minor movements including additional Rural Services Delivery Grant of £10K. However, this was offset by the cessation of the new burdens grant of £16K.

<b>2014/15</b>		<b>2015/16</b>
£000s		£000s
1,849	Revenue Support Grant (RSG) (includes previous Council Tax Freeze Grants)	1,367
1,577	National Share of Business Rates (NNDR)	1,607
<b>3,426</b>	<b>Total Settlement Funding</b>	<b>2,974</b>

The Government publicise their figures using a methodology known as 'spending power' which it defines as ' an Authority's total income which is comprised of its Council Tax requirement less Council Tax Support Funding, Council Tax Freeze Grant, plus its Start Up Funding Assessment, plus any Specific Grants'. Using this methodology which includes New Homes Bonus (but is locally generated growth) the Government publicise that the Council's spending power increased by 1.2% between 2014/15 and 2015/16.

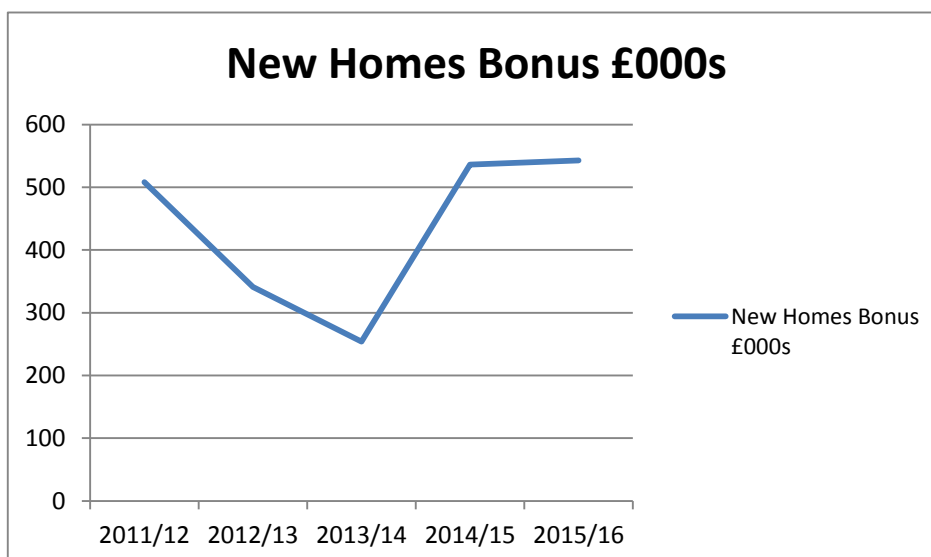
Whilst it is evident that the Council has significantly benefited from both Housing and Business Growth it receives the lowest level of core Government funding in Leicestershire as evidenced in the table below :

<b>Settlement Funding Assessment 2015/16</b>	<b>£ per head</b>
Oadby and Wigston	44.06
Melton	43.22
North West Leicestershire	40.33
Charnwood	38.98
Hinckley and Bosworth	38.31
Blaby	35.63
Harborough	33.58

Any future change in Government policy to target resources with high levels of deprivation could have a significant redistributive impact on Government funding for Harborough

(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 £543,522 for 2015/16. This is an increase on the previous year and continues to build in the benefits of a review to bring empty homes back into use. The graph below shows the improved trend.



Since the inception of New Homes Bonus, Harborough has received the highest New Homes Bonus in Leicestershire £25.12 per head, compared to Oadby and Wigston at only £5.49 per head. All of the recurrent £2.182 million New Homes Bonus is being used as part of the Council's core budget funding.

In addition, the Council proposes to utilise in 2015/16 for the third year the New Homes Bonus Reserve to support localism and community capacity through a £250K grant pot and through targeting an additional £50K of funding into Improved Access to Services (Community led solutions). This leaves £260K from this reserve for utilisation in future years.

New Homes Bonus is 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. This grant, alongside business rates growth retention remains the most volatile in the budget.

#### (d) Business Rates

The Government introduced in 2013/14 a Business Rate Retention Scheme with the aim of incentivising local growth, with the ability to retain part of the business rate growth locally. In addition, the Council entered into a pooling agreement with the other Leicestershire Districts and the County in order to allow a share of business rate growth being retained regionally and targeted at economic growth through the LLEP. Growth is compared to a Government determined baseline at the beginning of 2013/14.

In 2013/14 Harborough received the highest level of growth in Business Rates within Leicestershire retaining £903K for Harborough. This money was put in a Business Rate Retention Reserve.

The Leicestershire Business Rate pool made a £706K surplus in 2013/14, with £400K being retained within the pool in preparation for any future pool and £306K being passed to the LLEP for redistribution. Under the pooling arrangements there is no guarantee that any of the retained funds will come

back to Harborough. This is dependent on having shovel ready schemes (see section 4.7 on Capital Programme)

The Council did not enter into a pool for 2014/15 due to uncertainties in respect of business rate policies, accounting issues and level of appeals. Council on the 15<sup>th</sup> December 2014 agreed to be part of the Leicester and Leicestershire Pool for 2015/16. There were no policy changes in the provisional local government finance settlement that prevented us re-entering the pool.

The retention of business rate growth in 2013/14 demonstrates the importance of this funding stream going forward. It is the Government's stated policy that the retention scheme will operate until at least 2020. However, in the recent Autumn Statement the Government has announced a review of business rates to report back in time for the 2016/17 financial year. This therefore places increased uncertainty in respect of this funding stream.

The Council continues to adopt a prudent approach to the utilisation of this funding source, utilising already banked business rate growth only as part of its budget strategy. The proposed use of the business rate reserve in 2015/16 is shown in the table below.

	<b>£000s</b>
<b>2013/14 Business Rate Growth (put in a reserve)</b>	<b>903</b>
Less: Support to the 2014/15 Revenue Budget	(250)
Less: Support to the 2015/16 Revenue Budget	(424)
Business Support Grants/Apprenticeships	(206)
<b>Balance on Business Rate Growth Reserve arising from the 2013/14 Business Rate Growth</b>	<b>23</b>

The Council plans to utilise £206K of the banked business rate growth from 2013/14 to target in 2015/16 the development of small and medium enterprises and the skills agenda through the provision of business support initiatives and support for apprenticeships. The Council will also promote apprenticeships itself through this funding. This is for one year initially to establish need and demand with a view to committing to the recycling of the benefits of business growth in the medium term through this reserve to generate further business rate growth.

Current forecasts of Business Rate Growth to be retained by the Council indicate that a further £1 million each year will be added to the Business Rate Growth Reserve at the end of the 2014/15 and 2015/16 financial year. In addition, the proposed Leicester and Leicestershire Business Rate Pool for 2015/16 anticipate retention of a further £3 million of business rates as a result of pooling. This will be distributed through the LLEP.

The figures included in this budget report for 2015/16 are consistent with the statutory submission of the NNDR1 form to the DCLG made on the 29<sup>th</sup> January 2015.

There remains volatility on this area due to the level of appeals being evaluated by the Valuation Office.

(e) Council Tax

The finance settlement announced the continuation of the Council Tax Freeze Grant for the 2015/16 financial year. The grant is similar to previous years where the Council will receive a grant equal to a 1% increase. For Harborough, this equates to £57k. The Government has indicated that the Grant will be included in the baseline for future years. If Council's were to set an 'excessive' increase (which the Government defines as over 2%) there would be the requirement to hold a referendum.

The budget proposes that there will be **no increase** in the District share of Council Tax in 2015/16 and that the freeze grant will be taken up.

Council on the 15<sup>th</sup> December 2014 approved the taxbase for 2015/16 as 32,163, an increase of 612 Band D equivalents from 2014/15. This has generated £102K additional Council Tax without a need to increase the Council tax levied on individual properties.

The Collection Fund surplus is calculated on the 15<sup>th</sup> January 2015. The District Share of the estimated surplus is £61,675 (2014/15 £34,174). The increase in this funding source has currently increased the contingency budget, pending the final settlement announcement.

(f) Fees and Charges

The Council levies fees and charges for a wide range of services. Full details of fees and charges are detailed in **Appendix F**

(g) LCC budget reductions

The County Council (as part of their MTFs) are making a series of budget reductions including services delivered in partnership with Harborough District Council. The proposed budget includes two major reductions arising from the County Council's proposals:

<b>Budget Reduction</b>	<b>£000s</b>
Cessation of District Led commissioning for the Children and Young People partnership – this was fully funded by the County Council. Therefore the income budget has been reduced by the corresponding amount	340 (340)
Cessation of Green Waste Recycling Credits from the 1st April 2015	346



The Council received on the 23rd December 2014 a draft agreement from Leicestershire County Council regarding arrangements for the recycling of green waste and recycling credits. This agreement seeks to implement new arrangements (superseding the existing 2006 agreement) from the 1st April 2015. The Revenue Budget makes budgetary provision for the withdrawal of green waste recycling credits from the 1st April 2015. A separate report detailing the proposed arrangements was considered by the Executive on the 9th February which recommended further discussions with the County Council. However, it is recommended that the budgetary provision for the cessation of green waste recycling credits is approved within the 2015/16 budget pending the further discussions.

In addition, there are a series of reductions from the County Council that will impact on the communities with Harborough including library services, support to the voluntary sector etc.

#### (h) Employee Costs

The 2015/16 Budget removes the budget provision (£206K) for the following posts which are all vacant

- a) Chief Executive
- b) Service Manager, Culture and Leisure
- c) CMT Support Officer (0.5FTE)

The interim costs of the Director Led Model are incorporated into the 2015/16 Revenue Budget

Provision has been made in the budget for the estimated net pay costs for 2015/16. In particular the pay budgets have been updated for the recent Local Government pay award to 31<sup>st</sup> March 2016 and the additional 2% pension contribution arising from the tri-annual review.

The impact of 2014/15 Service Reviews (where consultation has been completed) have been incorporated within the proposed budget. During 2014/15 the Leicestershire Revenues and Benefits Partnership have undertaken a restructure consultation, following an IRRV review. At this stage the incidence of savings and costs is still being determined and therefore is not included within the 2015/16 budget.

The 2015/16 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 2015/16.

#### (i) Impact of Previous Year's Capital Investment

The budget now includes the costs and income generation arising from the significant investment in The Symington Building and Harborough Market. These include the approved borrowing costs for the refurbishment, forecast

operating costs from and levying of service charges to other partners within the building and rentals from the retail units and other occupants of the building.

#### 4.4 Growth and Savings Proposals

4.4.1 The 2015/16 budget consolidates the major organisational change, property and transformation programmes of previous years. For the 2015/16 financial year a comprehensive Portfolio Holder challenge process was undertaken to review priorities and spend requirements. This identified **£540.9K** of savings in 2015/16 on a recurrent basis rising to **£695.9K** in 2016/17. The savings proposals are attached at **Appendix B**

4.4.2 The 2015/16 budget process also reviewed areas for growth. These were appraised against the Council priorities and comprise recurrent growth to

- (a) build capacity in core services, for example legal services
- (b) provide one-off support to the Council's 'Delivering for Harborough' change programme, including support to major projects (including the Environmental Services Contract)
- (c) address identified (and unavoidable) cost pressures
- (d) to invest in Communities and Businesses to build capacity and promote economic growth (including skills)

The 2015/16 Budget also identifies a series of one-off growth, primarily funded from early banking of savings in 2014/15 from the Portfolio Holder Challenge to deliver Council priorities

The Growth proposals totalling **£1.055 million** 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 A 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 2015/16. The Medium Term Financial Strategy (MTFS) assumes the removal of reliance on reserves to fund recurrent expenditure by the end of the current MTFS period

4.5.3 The planned utilisation of reserves is shown below

	<b>Estimated Opening Balance 2015/16</b>	<b>2015/16 Planned Use of Reserves</b>	<b>Estimated Closing Balance 2015/16</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
General Fund Balance	1,663	(299)	1,364
Earmarked Reserves (excluding General Reserve Fund)	3,696	(52)	3,644
General Reserve Fund	1,488	0	1,488
Capital Reserves	925	0	925
<b>Total</b>	<b>7,772</b>	<b>(351)</b>	<b>7,421</b>

Note: The Reserves assume that Business Rate Growth receipts of £1.008 million in 2014/15 and £1.245 million in 2015/16 will be transferred to the Business Rate Growth Reserve. Actual growth will be impacted upon by valuations, appeals etc.

- 4.5.4 The budget plans to utilise £250K of the VAT Shelter Reserve to support a further extension to the Superfast Leicestershire programme into the District's rural communities. Phase 2 of the programme involves significant investment from the LLEP Growth Fund, BDUK funding and County Council funding alongside commercial leveraged investment. Phase 2 of the programme also commits to a higher speed commitment than Phase 1 of the programme. The District Council will be asked to formally determine whether to make an additional investment in Spring 2015. The budget sets aside monies if the Council was to determine Phase 2 of the Superfast Leicestershire Project demonstrates value for money.
- 4.5.5 The budget continues the utilisation of the New Homes Bonus Reserve for a further year to support delivery of corporate priorities and promote localism. In addition to the £250K that has been targeted for the past couple of years a further £50K is being targeted specifically around Improved Access to Services in rural communities. It is intended that the additional £50K is delivered in partnership with communities.
- 4.5.6 The budget assumes the utilisation of £299K of the General Fund Balance to support the budget in 2015/16. The 2015/16 budget only utilises £14K of General Fund Balance on a recurrent basis, with the remaining £285K funding one-off growth proposals. These are summarised in paragraph 4.4.2 and are detailed in **Appendix D**. The £14K utilisation of the General Fund Balance is a reduction from the £141K utilisation in the 2014/15 Budget and is consistent with the stated aim in the Council's MTFs to remove the reliance of reserves to fund recurrent expenditure.

#### 4.6 2015/16 Revenue Budget

4.6.1 The proposed budget for consultation (based on this report) is attached at **Appendix A**. Following consultation with Scrutiny on 22<sup>nd</sup> January 2015 a further budget report will be considered by the Executive on the 9 February 2015 and by Full Council on the 23 February 2015, where the Council Tax resolution will be considered. The Council must set a balanced budget and Council Tax by 11 March 2015.

4.6.2 The Council estimated budget requirement in 2015/16 is £11.924 million. This is based on estimated expenditure of £33.010 million and income (including Government Grants) of £21.086 million. Expressed on a daily basis the Council spends £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 2015/16.

#### 4.7 2015/16 – 2018/19 Capital Budget

4.7.1 The Capital Programme for the next four years refocuses the Council's capital investment from the major refurbishment projects of The Symington Building and the Market Hall to the Council's priorities of business growth, vibrant communities and housing. To facilitate this ambition the Council plans to use its' land holding and prudential borrowing powers to bring forward plans for low cost and affordable housing on three retained Garage Sites in Market Harborough, Great Glen and Lubenham.

The Council also intends developing 'shovel ready schemes' to secure funding from the LLEP in relation to 2 of the key priorities within the District Growth Plan, these being:

- (a) Business Move on Space: The HIC is currently at 95% occupancy. It is essential that businesses can grow and 'graduate' from the Innovation Centre. It is proposed that the Council develop a scheme (possibly with a private sector partner) to provide new and flexible business grow on space.
- (b) Market Town Centres: Investment in respect of town centre infrastructure, transport and public realm space to maintain and develop vibrant retail and tourism offer.

The shovel ready schemes will be designed to maximise LLEP or private sector investment. The Capital Programme provides for £200K from the Council funds to bring these schemes to bid and/or development stage. If these schemes were not eventually to progress the costs of feasibility and design work would have to be charged to Revenue. A target of £4 million external funding is included in the programme. Any further call on Council resources to deliver this ambition would be subject to a separate business case.

- 4.7.2 The Capital Programme proposes an increase in the support for Disabled Facilities Grant from £256K to £300K per year. This additional approval is anticipated to enable approximately 10 additional grants to be awarded each year.
- 4.7.3 The Capital Programme also provides for planned maintenance of the Council's assets. Investment proposed in the next four years includes improvement in access within The Symington Building, roof replacement, improvements in the Market Hall heating and air conditioning.
- 4.7.4 The indicative Capital Programme for the next four years total **£10.028 million** with the funding assumption that **£7.918 million** of external funding and/or capital receipts will reduce the need for unsupported borrowing over this period.
- 4.7.5 Indicative debt charges have been calculated for the proposed Capital Programme and the 2015/16 debt charges (based on the Capital Financing Requirement) included within the proposed 2015/16 budget. In recent years' the Council has not had the need to borrow money from the PWLB, instead using Council investments and reserves to delay the need to borrow. This is likely to provide in year savings in debt charges during 2015/16, though these have not been factored into the 2015/16 budget.

<b>Estimated Additional Debt Charges</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Principal	120	220	262	216
Interest	35	89	105	108
<b>Total</b>	<b>155</b>	<b>309</b>	<b>367</b>	<b>324</b>

- 4.7.6 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.
- 4.7.7 The Capital Programme has been profiled across the next four years. However, Members are requested to approve the funding envelope for the 4 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.
- 4.7.8 It is proposed in the 2015/16 Budget to provide for a net tolerance on the in-year Capital Programme. It is proposed that this is within 10% of the approved programme. Any additional debt charges would be funded from the earmarked General Reserve Fund.

**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. 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 1<sup>st</sup> 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. In 2013/14 the Council benefited from £903K of locally retained growth. This was put in an earmarked reserve. The 2015/16 budget utilises the majority of the £903K to support recurrent and one-off budgets. There is no requirement in the proposed budget to utilise any of the expected retained growth in 2014/15 or 2015/16. This is a prudent approach and mitigates against risk of appeals in these financial years. 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 has entered into a Business Rate Pool with the rest of Leicestershire Councils from the 1<sup>st</sup> April 2015 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 is now a key component of the Council's funding framework. New Homes Bonus is given for six years and then falls out. The receipt of £2.182 million of New Homes Bonus is incorporated within the 2015/16 budget as the fifth year of the New Homes Bonus scheme. In the context of the rolling six year scheme being Government policy this is viewed as sustainable. It is recommended that the Council when setting its budget for 2016/17 and beyond consider the impact of historic year allocations falling out and new year completions replacing them. This should inform the utilisation of the sixth year allocation. There are national uncertainties in respect

of the future application of New Homes Bonus. If changes were to occur, a mixture of Government 'damping' schemes and a healthy level of reserves would allow the Council to plan for any changes.

(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. 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 announced in January 2014 and subsequently refreshed in their Medium Term Financial Strategy have a major impact on the level of services that can be provided and the potential that funding pressures move between the two tier Councils. The budget provides for withdrawal of recycling credits for Green Waste and changes in the commissioning of Children's Services. It is not expected that there will be other in-year changes in 2015/16 but proposals within the County Council's MTFS will impact in future years, for example, withdrawal of dry recyclate recycling credits. 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 2015/16. In addition, the Council contribution to the Local Government Pension Scheme is fixed following the last tri-annual review. Therefore, in 2015/16 there are minimal risks in respect of pay costs. Establishment budgets are monitored on a regular basis.

(f) Income Risks

A prudent level of income assessments has been factored into the budget for 2014/15. Fees and Charges have been increased by 0.5% or by the statutory fee increase. Regular budget monitoring of income identifies any income trends and appropriate action plans put in place.

The income targets included within the 2015/16 budget are considered achievable based on 2014/15 income levels and business plans.

(g) Welfare Reforms

During 2015/16 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 four 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. It is proposed in the 2015/16 Budget to provide for a net tolerance on the in-year Capital Programme. It is proposed that this is within a 10% of the approved programme. Any additional debt charges would be funded from the earmarked General Reserve Fund.

(i) Contingent Liabilities

The Council is aware of a number of contingent liabilities, for example land charges and charges against property. 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.

In setting the budget for 2015/16, 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 2015/16 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 programme, without the need for unplanned call on reserves.

#### 5.4 Adequacy of Reserves

The recommendation on the prudent level of General Fund working balance 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 overall level of reserves, banked growth from business rates etc. allows for the application of a number of reserves to fund one-off growth whilst reducing to a negligible level the use of reserves to support recurrent expenditure. It is prudent to retain relatively high levels of reserves to manage the inherent risks arising from the uncertainty over the future levels of Government funding and continuity of local generated income streams. For this reason I recommend the retention of a General Fund Balance towards the higher end of our Reserve Policy, 11.7% (2014/15, 13.1%). The Council also retains a General Reserve Fund and Business Rate Retention Reserve that can be used for General purposes.

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 (and uncertainties arising from the new parliamentary term) are significant but looking ahead the proposed Budget Strategy, Organisational Change agendas and reduced reliance on reserves on a provides a flexible approach to managing those risks in the medium term and creates scope for further innovation and efficiency.

In relation to the 2015/16 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 to propose a balanced and sustainable budget for 2015/16 and moving forward. 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 I am assured of the robustness of the projected savings, and the extent of rigour in their calculation.

The Capital Programme sets out a four year programme from 2015/16 to 2018/19 and details estimates of external funding and need for unsupported borrowing and capital receipts. The move to a four year capital programme allows for flexibility in funding decisions (and maximising funding opportunities) and commissioning of schemes between years. 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 2015/16. The budget strategy and level of reserves provides a sound basis for balancing the budget in future years.

## 6 Legal Issues

- 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 11<sup>th</sup> March.

## 7 Resource Issues

- 7.1 The budget sets down the spending plans and priorities for 2015/16. Subject to the passing of the budget resolution on the 23<sup>rd</sup> February at full Council the budget sets down the approved budget for 2015/16. 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 is detailed in Section 5 of this report by the S151 Officer in accordance with the requirements of the Local Government Act, 2003.

10 Consultation

10.1 The Resource and Performance Scrutiny Panel scrutinised the report on the 22<sup>nd</sup> January 2015. The minutes of the Scrutiny Panel are attached at **Appendix G**. The public consultation received two responses. These are shown at **Appendix H**.

11. Options

11.1 The Council have to set a balanced budget. The Executive Budget report of the 12<sup>th</sup> January was issued for consultation between the 12<sup>th</sup> January and 8<sup>th</sup> February 2015. The outcomes of the consultation and any revisions to the proposed budget for 2015/16 will be verbally reported to Executive on the 9<sup>th</sup> February 2015.

12 Background Papers

12.1 Budget working papers

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**Information Issued Under Sensitive Issue Procedure: N**

**Ward Members Notified: N**

**Appendices:**

- A. Proposed 2015/16 Budget**
- A(i) Proposed 2015/16 Budget (Expenditure and Income)**
- B. Savings Proposals 2015/16 & 2016/17**
- C. Growth Proposals 2015/16**
- D. Summary of Reserves 2015/16**
- E. Capital Programme 2015/16 to 2018/19**
- F. Fees and Charges Schedule**
- G. Minutes from the Resource and Performance Scrutiny Panel, 22<sup>nd</sup> January 2015**
- H. Public Consultation Results**
- I. Draft Minute from Executive, 9<sup>th</sup> February 2015**