

## **Report to Cabinet**

**Subject:** Gedling Plan 2016-19 (including General Fund Revenue Budget)

**Date:** 18 February 2016

**Author:** Senior Leadership Team on behalf of Leader of the Council

### **Wards Affected**

Borough wide.

### **Purpose**

This report sets out the priorities, objectives and top actions for the Council for the forthcoming year with the associated revenue budget.

### **Key Decision**

This is a Key Decision.

### **Background**

- 1.1 The Constitution of the Council requires the Leader to present, before 21 February each financial year, a draft Budget and Performance Plan to the Cabinet for approval, highlighting budget priorities, growth items and proposed cuts.
- 1.2 The Executive is required to consider any comments made on the draft Budget and Performance Plan and present the final drafts to Council for adoption in accordance with the statutory requirements. To fulfil these requirements the 2016-19 Gedling Plan and revenue budget proposals will be presented to Budget Council on 7 March 2016. The Borough Council has a statutory responsibility to determine its Council Tax by 10 March.
- 1.3 This report ensures these requirements will be met for the 2016/17 budget process.
- 1.4 The severe financial pressures that the authority continues to face following the recent announcement in the Spending Review 2015 of further reductions in Government Grant Settlement funding make this another extremely challenging budget round. As the Council relies heavily on central funding to

deliver its services, any funding reductions require the Council to make budget cuts, efficiencies and generate additional income to deliver a balanced budget in the medium term.

## **Proposal**

### **2. Gedling Plan**

- 2.1 The Gedling Plan sets out what the Council intends to achieve between 1 April 2016 and 31 March 2019 and how it will go about it. A copy of the proposed plan is at Appendix 1 to this report.
- 2.2 This is the first time a 3 year plan has been developed, enabling a stronger link between the service and financial planning processes.
- 2.3 The Plan is based around 3 priorities, which have a range of objectives beneath them.

#### People

- Reduce anti-social behaviour, crime and fear of crime.
- Reduce hardship and provide support to the most vulnerable.
- Improve health and wellbeing.
- Promote and encourage pride, good citizenship and participation in the local area.

#### Place

- Create more jobs and better access to them.
- Ensure local people are well prepared and able to compete for jobs.
- Provide more homes.
- Provide an attractive and sustainable environment that local people can enjoy and appreciate.

#### Performance

- Improve the customer experience of dealing with the Council.
- Create a stronger commercial and entrepreneurial culture.
- Maintain a positive and productive working environment and strong staff morale.

The Plan also sets out a range of actions the Council intends to carry out to meet each objective, together with a number of indicators it will use to measure performance.

- 2.4 Should the recommendations be agreed, progress against the actions and indicators will be reported to Members, including Cabinet and Overview and Scrutiny Committee and to the public online. Accountability for individual

actions and indicators will be shown clearly in the reports, with each having an accountable officer and lead portfolio holder.

- 2.5 The Plan will be reviewed and updated on an annual basis to take consideration of new developments, emerging priorities and actions.

### **3. Proposed General Fund Budget 2016/17**

- 3.1 The Council's proposed General Fund budget sets out the financial strategy and framework for overall financial control and administration for the Council. It also details how individual items such as Central Government Funding, Taxation levels, Resource Developments etc. impact on the annual budget and this has been taken into account in presenting this annual budget and Medium Term Financial Plan (MTFP) Summary.

### **3.2 Spending Review and Autumn Statement**

- 3.2.1 The Chancellor of the Exchequer presented his annual Spending Review and Autumn Statement to Parliament on 25 November 2015. It provided an update on the Government's projections for the economy based on the latest forecasts from the Office for Budget Responsibility.
- 3.2.2 The Government continues to plan for a public spending surplus of £10 billion in 2019/20. Public spending control is central to the Government's commitment to achieving a surplus. The Chancellor announced a real terms reduction of 24% in central government funding for local government over the Spending Review period 2016/17 to 2019/20.
- 3.2.3 The Chancellor announced the launch of consultation exercises for two major sources of local government funding i.e. Business Rates and New Homes Bonus.

#### **Business Rates**

It has been confirmed that by the end of this Parliament local government will retain 100% of business rates revenues to fund local services and that the system of top-ups and tariffs will be retained. The Government's intention is for this change to be fiscally neutral. The consultation will take into account the main resources currently available to councils, including council tax and business rates. As part of these reforms, the revenue support grant will be phased out and additional responsibilities devolved to local authorities, empowering them to drive local economic growth and support their local community. It is intended that the Uniform Business Rate will be abolished and any local area will be able to cut business rates, to win new jobs and generate wealth. Powers to increase business rates are only currently proposed for city-wide metro mayors for local infrastructure projects, with the support of local business.

## New Homes Bonus

The consultation on the reform to the New Homes Bonus proposes reducing the length of payments from 6 to 4 years. This includes a preferred option for savings of at least £800m to be transferred to social care funding. The potential impact of these proposals is considered further at para 3.4 below.

### **3.3 Local Government Finance Settlement 2016/17**

- 3.3.1 The annual local government finance settlement is concerned with the distribution of revenue raised from business rates and other funding streams through Revenue Support Grant and Business Rates Retention. The 2016/17 Settlement determines how much Revenue Support Grant central government will give to each local authority in England in 2016/17.

The final settlement figures for 2016/17 were announced by the Department for Communities and Local Government on 8 February 2016. It has also issued indicative minimum settlement figures for each year up to 2019/20 as detailed in paragraph 3.3.2 below.

The Government intends to offer any council, which wishes to take it up, a four year funding settlement to 2019/20 which will be conditional upon the publication of an efficiency plan. Multi-year settlements can provide the funding certainty to enable more proactive planning of service delivery and it is recommended by the Chief Financial Officer that the four year settlement be accepted by Council, subject to a review of the final conditions attached to the offer. It is recommended that the final decision regarding acceptance, or otherwise, of a four year settlement be delegated to the Chief Financial Officer in consultation with the Portfolio Holder for Resources and Reputation. Councils have until 14 October 2016 to respond to the offer.

A full analysis of the provisional Settlement, which was announced on 17 December 2015, was completed by the Local Government Association and is attached at Appendix 2 for information.

For Gedling Borough Council the final settlement figure for 2016/17, known as the Settlement Funding Assessment, totals £4,231,225. This represents the aggregate of Revenue Support Grant of £1,415,715 and estimated retained Business Rates of £2,815,510 (the actual amount of business rates funding will be determined by the actual amount of rates collected and movements in the business rates base in accordance with the business rates retention scheme). The Settlement Funding Assessment of £4,231,225 represents a cash reduction of £707,246 or **14.32%** from the comparative 2015/16 figure.

### 3.3.2 Four Year Spending Review Period 2016/17 – 2019/20 – A Funding Settlement Offer for Future Years

As detailed in paragraph 3.3.1 above, indicative figures up to 2019/20 have been provided with the offer of a four year funding settlement.

Year	Revenue Support Grant £	Business Rates £	Total £	Movement from Prev. Year
2016/17	1,415,715	2,815,510	4,231,225	-14.32%
2017/18	780,538	2,870,887	3,651,425	-13.70%
2018/19	384,894	2,955,580	3,340,474	-8.52%
2019/20	0	3,050,000	3,050,000	-8.70%

The total cumulative settlement grant reductions equate to 38.24% or £1.89m in cash terms over the period 2016/17-2019/20, an increased cut of 6.91% or £341,070 when compared to the previous indicative settlement figures for this same period as included in the 2015/16 Medium Term Financial Plan.

### 3.3.3 Council Tax Freeze Grant

The Government have not announced any funding for local authorities which freeze council tax for 2016/17.

### 3.3.4 Council Tax Reduction Scheme Grant

The Council Tax Benefit system was replaced on 1 April 2013 with the Council Tax Reduction Scheme (CTRS) which provides a discount on the council tax bill for eligible applicants. Gedling's initial scheme, which was approved by Council on 19 December 2012, was devised to ensure the most vulnerable are protected by making the discount receivable equivalent to the benefit which would have been payable under the previous system. The basis of the original scheme is proposed to continue for the 2016/17 financial year updated to reflect legislative changes.

The CTRS is funded partly by Government Grant, initially set at a rate 10% less than previously available as benefit subsidy, and the remainder by introducing new tax charges for empty properties. The Council Tax Reduction Scheme non-ringfenced grant, was previously specified at £706,325 for 2013/14, but this has now been incorporated into the base Settlement funding assessment and specific grant figures for CTRS are no longer identifiable or quantifiable. It is reasonable to assume that the government funding for CTRS is reducing in line with the settlement funding assessment reductions.

The non-ringfenced CTRS grant included an amount to fund the impact of taxbase reductions on local parish precepts, initially predicted by Government at £47,500 and this amount is included in the current approved 2015/16 budget for payment to Parish Councils.

However, as the CTRS grant is not protected from settlement funding reductions the amount of grant to be paid to Parish Councils needs to be determined on an annual basis. Accordingly, it is now proposed that the grant for 2016/17 be reduced by £6,800 to £40,700, equivalent to the 14.32% reduction in the overall settlement funding assessment for 2016/17.

### 3.3.5 Council Tax Increase Referendum Trigger

The Localism Act 2011 gives powers to the local community to either endorse or veto Council Tax rises that are above a limit which is to be set annually by the House of Commons. If a local authority decides to implement a council tax increase above the government set limit this will trigger a referendum so that local voters can either support or reject the proposed rise.

In the final settlement the Government announced that the referendum limit for 2016/17 to 2019/20 for all Shire Districts has been set at a 2% or £5 increase, whichever is greater. In previous years the limit was set at 2% with the ability to increase by £5 only available to Shire Districts with a Council Tax level in the lower quartile. Any Council which sets an increase greater than the referendum limit and does not get support from the electorate via the referendum will have to revert to a council tax level that is compliant.

### 3.4 New Homes Bonus

During 2011/12 Central Government introduced the New Homes Bonus (NHB) which is now funded from the centrally retained share of Business Rates income and paid as a separate non-ringfenced grant which is not part of the Settlement Funding Assessment. When the NHB was introduced, the Department for Communities and Local Government stated in its final scheme design that it was intended to be a predictable, permanent and enduring feature of local government funding.

The principles of the grant are to reward local authorities for each new property completed within their boundary. The value of the reward is linked to the national average council tax band D property and each individual award is currently for a six year period.

Gedling has been awarded £368,775 for 2016/17 which is in addition to the £2,031,528 awarded for 2011/12-2015/16, giving a total cumulative New Homes bonus of £2,400,303. 2016/17 represents the end of the cumulative six year award period and it was expected that the amount would stabilise at this level thereafter.

However, as detailed in paragraph 3.2.3 above, the Government is now consulting on proposed changes to the scheme to be effective from 2017/18. The consultation sets out a variety of options for increasing the focus of the NHB on the delivery of new homes and freeing up resources, approximately £800m, to be recycled within local government settlements to support authorities with particular pressures, such as adult social care. The Autumn Statement indicates that the consultation will include proposals to introduce a floor to ensure no authority loses out disproportionately.

### Illustrative New Homes Bonus 2017/18 to 2019/20

The Spending Review set out the expected available revenue for local government spending through to 2019/20. To provide some certainty for the period 2016/17 to 2019/20, local authority core spending power figures have been made available which set out indicative figures for the potential income from core components that could be available over those four years. For Gedling the core components include the Settlement Funding Assessment, estimated Council Tax and the New Homes Bonus as detailed in paragraph 3.5 below.

For 2017/18 onwards the New Homes Bonus figures are illustrative in recognition that the final methodology for its award will be determined following the consultation process. The illustrative New Homes Bonus figures are based on the overall envelope for New Homes Bonus payments as set out in the spending review, which assumes a 40% reduction in funding. The reduction has been apportioned between local authorities according to local authority shares in 2016/17. For Gedling the illustrative figure provided for 2018/19 onward is £1.5m i.e. a £900k or 40% reduction from the £2.4m awarded for 2016/17. The 2017/18 indicative figure remains at £2.4m which suggests a level of transitional protection which is one of the proposals contained in the consultation document. The precise figures will not be known until the methodology is finalised but clearly this presents a significant risk to future funding levels.

The NHB award is currently split 80% to Lower Tier District Councils and 20% to Upper Tier Councils, therefore the reduction of resources and its move to social care, which is an upper tier responsibility, appears to result in a disproportionately negative impact on lower tier funding. However, as detailed above, the Autumn statement suggested floors may be introduced to ensure no disproportionate impact and whilst this isn't evident in the technical consultation there may be some future measure to mitigate the impact on District Councils.

The technical consultation has a deadline for responses of 10 March 2016. A response will be completed by the Chief Financial Officer in consultation with the Portfolio Holder for Resources and Reputation.

### 3.5 **Core Spending Power 2019/20 Compared to 2015/16**

For Gedling the components of Core Spending Power include the Settlement Funding Assessment, the Government's estimate of Council Tax Receipts and the New Homes Bonus.

Year	Settlement £m	Assumed Council Tax £m	New Homes Bonus £m	Total £m	Movement from Previous Year
2015/16	5.0	5.5	2.0	12.5	
2016/17	4.2	5.7	2.4	12.4	-0.8%
2017/18	3.7	6.0	2.4	12.1	-2.4%
2018/19	3.3	6.3	1.5	11.2	-7.4%
2019/20	3.0	6.6	1.5	11.1	-0.9%

The Government's estimate of council tax receipts assumes that District Councils will increase Council Tax by the maximum possible of £5 or 2%, whichever is greater. However, actual council tax receipts will be determined by the local decisions for council tax increases and actual taxbase growth. The Government forecast presents a total cumulative reduction in core spending power by 2019/20 of 11.5% when compared to 2015/16, making Gedling the 59<sup>th</sup> worst affected council in the country.

As the council tax increase for Gedling is proposed at 0% for 2016/17 the actual core spending power will be below the Government's assumed projection.

### 3.6 **General Fund Budget 2016/17 Summary**

- 3.6.1 The following table summarises the proposed General Fund Budget for 2016/17. The detailed Gedling Plan budgets are presented at Appendix 3 together with an explanation of major variances between the original estimate for 2015/16 and the estimate for 2016/17. In developing a budget proposal, assumptions on the core budget have to be made and the various assumptions in respect of inflation are shown at Appendix 4. These have been included in both the annual base budget and MTFP calculations.



## General Fund Budget Summary 2016/17

Portfolio	Original Budget 2015/16 £	Base Budget 2016/17 £	Variance £
Community Development	1,466,200	1,511,700	45,500
Housing, Health and Well-being	2,485,200	2,357,100	(128,100)
Public Protection	1,512,300	1,613,800	101,500
Environment	4,508,800	4,426,600	(82,200)
Growth and Regeneration	1,227,600	934,300	(293,300)
Resources and Reputation	1,677,700	1,779,800	102,100
<b>Base Budget</b>	<b>12,877,800</b>	<b>12,623,300</b>	<b>(254,500)</b>

### 3.6.2 Major Budget Pressures

In addition to the expected inflationary pressures detailed in Appendix 4 the base budget and medium term financial plan include the following major budget pressures **greater than £50,000**:

- Pay line – Proposed increase to address low pay and align Gedling pay rates more closely to the market as part of staff recruitment and retention measures - £395,000 (rising to £545,000 2018/19);
- National Insurance change in statutory contributions and rebates - £211,000;
- Hackney Carriage Licencing - decline in demand for the service - £64,400.

### 3.6.3 Major Budget Reductions

#### Budget Reduction Proposals 2014/15 Budget Process – Progress Update

During the 2014/15 budget process, in response to reductions in government grant funding, a significant programme of budget reductions totalling £2.458m was approved for delivery between 2014/15 and 2016/17 to ensure achievement of a sustainable medium term financial plan. The approved budget reductions covered a range of revenue and capital related proposals

using a variety of strategies i.e. efficiency, new ways of working, income generation and service cuts. A risk assessment of the programme of budget reductions identified the establishment of a risk reserve of £179,500. Delivery of the programme has progressed well and final outturn figures are expected to be broadly in line with the original estimates net of the risk reserve. However, the timescale for delivery of the planned community centre and capital receipt related reductions is slower than anticipated with the latter being due to the delay in the sale of a major development site with savings now expected over the period 2017/18 to 2021/22. Remaining items planned for delivery during 2016/17 have now been reflected in the budget and are included in the variance table at paragraph 3.6.6 below.

In order to facilitate the delivery of the budget reduction programme the 2014/15 budget report approved the establishment of a Transformation Reserve over 3 years totalling £500,000 i.e. £300,000 2014/15, £150,000 2015/16 and £50,000 2016/17. Based on current expectations this figure is projected to be sufficient.

#### Other Major Budget Reductions

The base budget and medium term financial plan include the following major budget reductions **greater than £50,000**:

- Rent Allowances/Rent Rebate/Council Tax Benefit run off - saving due to improved subsidy levels and a reduced contribution to the bad debt provision following a review of aged debt - £170,500;
- Reduced PWLB and MRP due to the planned repayment of debt and slippage in the 2015/16 capital programme - £103,400;
- Savings in Energy Budgets - reduced fuel, gas and electricity prices and usage volumes and solar panel income - £130,000;
- IT and CCTV procurement and maintenance contract efficiencies - £69,000;
- Additional income generation due to customer growth and new income streams in a variety of service areas i.e. Waste, Leisure, Public Offices and Planning (excluding inflation) - £194,600.

### 3.6.4 Proposed Revenue Resource Developments 2016/17

Following discussions with the Leader, the Revenue Resource Developments detailed in the tables below are recommended to Cabinet for approval.

In light of the overall financial position, and the need to reduce net revenue expenditure significantly in order to achieve a balanced budget over time, the MTFP, at paragraph 4 below, assumes no future ongoing revenue development bids.

#### **(a) Revenue Resource Developments 2016/17**

Description	Gross Revenue Bid 16/17	2017/18 Ongoing
	£	£
Enhanced Community and Voluntary Sector Support	8,400	8,400
Health Promotion Scheme	3,600	800
Free Swimming (already approved for 2016/17)	-	15,500
Free Bulky Waste Collection	19,400	19,400
Citizen Advice Bureau Additional Service (funded from Housing Benefit Reserve – 2 years)	15,000	15,000
<b>Total Ongoing Resource Developments</b>	<b>46,400</b>	<b>59,100</b>

In addition to the revenue resource development proposals a number of capital resource developments (see capital programme report an item elsewhere on this agenda) have ongoing revenue implications which have been included in the revenue budget and MTFP, as detailed in the table below:

#### **(b) General Fund Ongoing Revenue Cost of the Proposed Capital Resource Development Proposals (excluding borrowing costs)**

Description	Capital Budget – For Information	Revenue Costs 2016/17	Revenue Costs Ongoing
	£	£	£
Gedling Country Park Visitor Centre	900,000	0	50,000
Carlton Cemetery Expansion	506,500	-	-
Redhill Leisure Centre Pitch Replacement	75,000	(7,000)	(12,000)
Civic Centre Public Toilets	22,000	4,900	4,900
<b>Total Ongoing Revenue Costs</b>		<b>(2,100)</b>	<b>42,900</b>

Note: The budget for the Gedling Country Park Visitor Centre is indicative and subject to confirmation following the completion of a full option appraisal/feasibility study to determine the final scope and cost of the scheme. A £500,000 contribution from the revenue budget is proposed for the financing of the visitor centre at Gedling Country Park with the balance to be financed by prudential borrowing. During the 2015/16 budget process it was agreed that £1m be earmarked from the General Fund Balance to make provision for future investment in the Council's leisure centres. It is now proposed that £500,000 of the £1m to be earmarked for leisure centres be allocated to financing of the alternative leisure facility Gedling Country Park visitor centre. This proposal puts increasing pressure on the future resourcing of replacement leisure centres in the long term. As detailed in the Gedling Plan the Council's leisure strategy is due to be reviewed in 2016/17.

### 3.6.5 Income Inflation

The Medium Term Financial Plan includes income inflation at 3% on discretionary income, (excluding leisure DNA and Trade Waste, Building Control), which equates to £72,300, and the increase per Portfolio is shown in the table below. Each additional 1% increase will raise a further £24,100.

It is suggested that the Portfolio Holder agrees individual charges with the relevant Corporate Director, with discretion to vary the percentage increase, as long as the overall cash amount for that Portfolio is raised.

Portfolio	Discretionary Income £	1% increase £	3% increase £
Community Development	(82,500)	(800)	<b>(2,400)</b>
Housing, Health and Wellbeing	(1,487,100)	(14,900)	<b>(44,600)</b>
Public Protection	(25,200)	(300)	<b>(900)</b>
Environment	(487,600)	(4,900)	<b>(14,700)</b>
Growth and Regeneration	(3,000)	(0)	<b>(100)</b>
Resources and Reputation	(315,500)	(3,200)	<b>(9,500)</b>
<b>Total</b>	<b>(2,400,900)</b>	<b>(24,100)</b>	<b>(72,300)</b>

Some of the services operated by the Council are not included in the general fee inflation increase due either to: the sensitivity of demand to price changes e.g. Leisure DNA, Garden Waste or; being operated on a commercial basis and therefore required to breakeven e.g. Trade Waste Services and Building Control. The levels of fees which are set in these areas are considered separately and the base budget amended to ensure appropriate fees are set.

### 3.6.6 Summary of Significant Budget Changes 2016/17

In summary, the table below highlights the areas of significant variance in expenditure/income, in excess of £10,000, per annum which have been reflected in the base budget 2016/17.

#### Significant Budget Changes 2016/17

	Budget Impact 2016/17 £	£
<b>Original Budget 2015/16</b>		<b>12,877,800</b>
<b><u>Revenue Budget Pressures</u></b>		
Pay Line Review (rising to £545,000 in 2018/19)	395,000	
Inflation (Pay 1%/Water)	136,000	
National Insurance Contribution Rate Increase	211,000	
Increased Insurance Premiums	47,700	
Reduced Housing Benefit Admin Grant	48,100	
Waste Management – revenue cost of new round to accommodate housing growth and garden waste service demand (net saving of £4000 by 2018/19 due to expected income growth)	34,500	
Hackney Carriage Demand Reductions	64,400	
Increased vehicle maintenance and reduced vehicle scrappage income	32,000	
Postage Costs in Council Tax	16,000	
Other minor variances (net)	11,900	
<b>Total Pressures</b>		<b>996,600</b>
<b><u>Revenue Budget Growth</u></b>		
Development Bid commitments made during 2015/16:		
• Community Hub Carlton (total cost of hub £90,000)	60,000	
• Gedling Country Park Project Fund one off (£50,000 addition giving total fund of £100,000 in 2016/17)	50,000	
Ongoing revenue development bids (see table above)(rising to £59,100 2017/18). Partly offset by contribution from earmarked reserve of £15,000 for CAB	46,400 (15,000)	

	Budget Impact 2016/17 £	£
Revenue Contribution to Gedling Country Park Visitor Centre (one off)	500,000	
Ongoing Revenue Implications of Proposed Capital Programme (rising to a cost of (£42,900 ongoing)	(2,100)	
<b>Total Growth</b>		<b>639,300</b>
<b><u>Other Base Budget Reductions</u></b>		
Efficiency Commitments made during 2014/15 Budget Reduction Process:		
<ul style="list-style-type: none"> <li>Reduce Grass Cutting frequencies;</li> </ul>	(47,300)	
<ul style="list-style-type: none"> <li>Customer Service/Admin Staffing.</li> </ul>	(10,800)	
IT and Customer Services procurement efficiencies	(44,000)	
CCTV replacement and maintenance efficiencies	(25,000)	
Utility Contract Price/Usage efficiencies	(43,000)	
Reduction in Fuel Prices	(54,000)	
Reduction in energy consumption following upgrade of boiler at Arnold Leisure Centre (rising to £21,700 2017/18)	(16,000)	
Gedling Country Park Solar Panel Income	(17,000)	
Fees and Charges Income Inflation (see para 3.6.5)	(72,300)	
New Income:		
Additional Trade Waste Income net (customer growth)	(38,500)	
Additional Garden Waste Income (customer growth)	(33,000)	
Additional Leisure DNA offset by reduced swimming	(25,000)	
Additional Arnold Theatre/Cinema/Bar Income (net)	(15,600)	
Additional Health Suite Income	(17,000)	
Additional Public Office Rental Income	(50,000)	
Planning Pre-Application Advice net income	(15,500)	
Rent Allowances/Rebates and Council Tax Benefit Run Off (improved subsidy and bad debt position)	(170,500)	

	Budget Impact 2016/17 £	£
Reduced PWLB Debt Interest and Minimum Revenue Provision	(103,400)	
Planned removal of 2015/16 Election Budget	(90,000)	
Removal of Holiday Pay Provision	(20,000)	
Planned reduction in Transformation Reserve (leaves £50k in 2016/17)	(100,000)	
Removal of the Direct Revenue Financing of the 2015/16 capital programme (one off)	(500,000)	
Planned Removal of Budget Reduction Risk Reserve	(25,000)	
Planned removal of the 2015/16 one off Environmental Projects Fund	(37,500)	
Planned removal of the 2015/16 one off contribution to the Economic Development Fund	(320,000)	
<b>Total Other Budget Reductions</b>		<b>(1,890,400)</b>
<b>Net Decrease in Budget 2016/17</b>		<b>(254,500)</b>
<b>Proposed 2016/17 Net Budget</b>		<b>12,623,300</b>

Note: In addition to the above 2016/17 budget changes the MTFP includes the following:

- Impact of Pension Auto Enrolments £46,500 in 2017/18 rising to £92,900 2018/19;
- In the Autumn Statement the Government announced the introduction of an Apprenticeship Levy with effect from April 2017 which is estimated at £35,000;
- Increased Service demands rising from an increasing number of households, ageing population and future pay pressures are anticipated to the value of £100,000 in 2018/19;
- Assumptions about the transfer of Housing Benefit administration to the Department of Works and Pensions following the introduction of Universal Credit have been made. The net cost to the authority is expected to be £50,000 in 2017/18 rising to £200,000 by 2019/20;
- Assumptions have been made regarding the transfer of Land Charges functions to the Land Registry in 2019/20 which has a budget impact of £83,500.

### **3.6.7 Review of Balance Sheet Reserves and Provisions**

Reserves and Provisions on the balance sheet have been reviewed to ensure appropriate levels of funds are retained for specific future purposes and risks.

As detailed in paragraph 3.6.3 the additions proposed to the Transformation Reserve during the 2014/15 budget process i.e. £50,000 2016/17 have been reflected in the 2016/17 budget. This will continue to accommodate any change management costs that arise during service reviews.

### **3.6.8 Financing of the Capital Programme**

As detailed in the Capital Programme report earlier on this agenda it is currently forecasted that borrowing will be required to finance part of the capital programme in 2016/17 to 2018/19. Borrowing has an impact on the revenue budget in terms of interest costs and principal repayment. This is reflected in the Medium Term Financial Plan.

As detailed in the paragraph 3.6.4 a £500,000 contribution from the revenue budget is recommended to finance the Gedling Country Park Visitor Centre in 2016/17.

### **3.6.9 Business Ratepayers Consultation**

Statutory consultation with 100 business ratepayers has been undertaken and any responses will be reported at the meeting.

## **4. MEDIUM TERM FINANCIAL PLAN**

4.1 The implementation of the Local Government Act 2003, which introduced a requirement for the Council's Chief Financial Officer to comment on the robustness of the Council's estimates, and the need to look at the medium term (3 years) in order to produce the required indicators as detailed in the Prudential Code, means great emphasis needs to be placed on the Council's medium term financial planning. Although an absolute requirement to look over three years is required, it is considered good practice to look over as long a period as is reasonable. This Council has a history of producing a medium term financial plan over a 5 year horizon and this is still considered the appropriate period for this authority.

4.2 The following table (a) identifies the impact of all the options that are proposed in this report:

- The incremental increase in base revenue expenditure from 2015/16 and budget growth items (paragraph 3.6.4);
- Fees and charges to be increased by an average 3%;



- The achievement of the budget reductions (paragraph 3.6.3);
- Anticipated cost of borrowing to finance the capital programme for 2016/2017-2020/21 and a £500,000 contribution to capital in 2016/17;
- A zero percent Council Tax increase has been assumed for 2016/17. Beyond that a £5 per annum increase is assumed which is in line with the Government's assumption that all districts will use their maximum flexibility to increase Council Tax as included in their Core Spending Power calculation (as detailed at paragraph 3.5). However, future council tax increases will be dependent upon future spending decisions, total local government funding and the achievement of efficiency savings.

Table (a) demonstrates that additional savings and/or income will need to be identified beyond year 4 to achieve a sustainable plan.

**(a) MEDIUM TERM FINANCIAL PLAN 2016/17 TO 2020/21-HIGH LEVEL SUMMARY**

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Total Net Projected Expenditure	12,623,300	12,270,200	12,515,400	12,953,200	13,088,200
Less: Net Settlement Funding Assess.	(4,231,200)	(3,651,400)	(3,340,500)	(3,050,000)	(3,050,000)
New Homes Bonus	(2,400,300)	(2,400,300)	(1,520,400)	(1,458,800)	(1,458,800)
NNDR Growth/ Collection Fund (Surplus)/Deficit	15,000	(250,000)	(300,000)	(390,000)	(490,000)
Less: Amount (from)/to Balances	(480,300)	(187,900)	(1,330,000)	(1,782,100)	(1,565,600)
Council Tax Requirement	5,526,500	5,780,500	6,024,600	6,272,300	6,523,800
Council Tax increase	0%	£5 (3.27%)	£5 (3.16%)	£5 (3.07%)	£5 (2.97%)
Tax Base	36,105	36,570	36,945	37,320	37,695

Expected balances at year end	5,186,200	4,998,200	3,668,300	1,886,100	320,600
Required balance (7.5% projected exp)	946,700	920,300	938,700	971,500	981,600
<b>(Surplus)/Deficit on required balances</b>	<b>(4,239,500)</b>	<b>(4,077,900)</b>	<b>(2,729,600)</b>	<b>(914,600)</b>	<b>661,000</b>

- 4.3 Table (b) demonstrates the impact on balances if an equally spread efficiency/budget reduction target of £1.15m is delivered between 2017/18 and 2020/21 i.e. a surplus on balances at the end of the medium term plan. However, at 2020/21 a contribution from balances of £416k will still be required to balance the budget meaning that further efficiencies will be required beyond the term of this MTFP to achieve a sustainable financial position.

The Council has a strong track record of delivering efficiency savings/budget reductions but in previous years savings targets have been supported by outline business plans. As the indicative New Homes Bonus reductions have only recently been announced, firm efficiency proposals still need to be developed and therefore this aspect of the financial plan is less robust than usual. It is recommended that Members approve the cumulative efficiency target of £1.15m for 2017/18 onwards, made up of the following annual ongoing targets: **2017/18 £350,000; 2018/19 £300,000; 2019/20 £250,000; 2020/21 £250,000.**

**(b) Proposed Efficiency/Budget Reduction Target and Impact on MTFP/General Fund Balance**

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
<b>New Efficiency Target – reducing Net Projected Expenditure</b>	0	(350,000)	(650,000)	(900,000)	(1,150,000)
<b>Amount (from)/to Balances</b>	(480,300)	162,000	(680,000)	(882,100)	(415,600)
<b>Expected balance at year end</b>	5,186,200	5,348,200	4,668,300	3,786,100	3,370,500
<b>(Surplus)/Deficit on required balance</b>	<b>(4,239,500)</b>	<b>(4,454,200)</b>	<b>(3,778,400)</b>	<b>(2,882,100)</b>	<b>(2,475,200)</b>

**5. COUNCIL TAX**

- 5.1 The Council Taxpayer has to meet the difference between the planned expenditure and the Government grant receivable after the use of any balances are taken into account. It is this difference that is used to calculate individual Council Tax bills for 2016/17.
- 5.2 The council tax for a band D property for 2015/16 is £153.07. The level of council tax for 2016/17 depends on the extent of service reductions/developments and financial risk issues (see paragraph 5 below) that the Council decides to provide for in the budget for next year. For illustration, an increase in Council Tax by 1% provides additional funding of

£55,300. In the above MTFP a freeze has been assumed which retains the Council Tax for a band D property at £153.07.

- 5.3 As detailed in paragraph 3.3.3 the Government have not announced any funding for local authorities which freeze council tax for 2016. An increase above 2% or £5, whichever is greater, would require a referendum.

## 6. **FINANCIAL RISK ISSUES**

- 6.1 The Chancellor's recent announcements, following the Comprehensive Spending Review 2015, identify a number of significant changes to future local government financial settlements. The overall message is one of continuing financial restraint which in itself creates some degree of inherent risk. The following specific items carry a particular risk for this authority:

- **Business rates retention**: It is intended that over the spending review period that business rates will be 100% retained locally and the Central Government support in respect of Revenue Support Grant will be phased out. The intention is that this will be fiscally neutral and in order to achieve this additional responsibilities will need to be transferred to Local Government. Any retention of business rates will still require a mechanism to ensure funding is distributed in respect of need which will create winners and losers. With an obvious emphasis already in CSR2015 to support upper tiers authorities in respect of their funding for social care there is a real risk that district councils could lose further under any new allocation process.

In addition care will need to be had to ensure that new transferred responsibilities are capable of being fully funded in both the short and long term.

The current retention of business rates has shown the volatility of this funding in respect of the appeals process, the prediction of future growth, and the potential for significant local impact where a large business relocates/closes. These changes are likely to require local authorities to hold higher levels of reserves in the future.

- **New Homes Bonus**: the main body of the report identifies the significant impact that changes to this funding stream will have. This is modelled on the governments stated preference although other options have been identified by central government that would have an even greater negative financial impact on the authority.
- **Council Tax**: The CSR2015 figures are based on the assumption that Council Tax will be increased by 2% or £5 per annum whichever is greater, and that significant growth in the tax base will be achieved by the creation of additional hereditaments. These may be optimistic assumptions and in any case leave very little room for local discretion to set a higher Council Tax in order to plug any funding gaps.

- **Economic Growth/Inflation**: The Chancellor has based future spending decisions based on estimates of future growth and an assumption on inflation. Although these figures are supported by the independent Office of Budget Responsibility there is a degree of uncertainty in these figures especially in respect of the impact of international markets. The Chancellor though has given his commitment to balancing Government spend meaning that if growth proposals and expected taxation receipts are not achieved then additional cuts to expenditure can be expected. This is one of the reasons to accept a four year settlement offer to help mitigate against this risk.

6.2 A minimum balance of 7.5% of total projected net expenditure on the General Fund is recommended by the Chief Financial Officer to be a prudent amount given the scale of the business conducted by the Council. The external auditor regards this level of balance on the General Fund to be satisfactory, and it is also appropriate to reflect uncertainties in the financial position in the medium term. The minimum balance required for 2016/17 is £946,700.

6.3 The (surplus)/deficit on balances in MTFP table (a) above shows amounts (above)/below the recommended minimum General Fund balance in any one year. Current spending plans show a surplus of £4,239,500 in 2016/17 gradually declining to a deficit on balances of £661,000 by 2020/21 if no new efficiency plans are progressed during the period of the MTFP. Underlying this is an annual deficit between the amounts of income expected and anticipated expenditure. MTFP projections at paragraph 4.3 above show that this can only be accommodated within available balances by setting additional spending reduction targets for 2017/18 onward. If the proposed target of £1,150,000 is approved, the surplus on balances by 2020/21 will be £2,475,200 but this still leaves an annual deficit between income and expenditure of £415,600 to be managed beyond the five-year horizon.

**Inclusion of Future Non-costed Savings targets:** The Medium Term Financial Plan can only be balanced by the inclusion of over £1m of future savings targets. Usually when future efficiency savings are included in our financial planning processes these figures have robust outline business cases, but in this case these targets have been assessed as the **minimum** figure required in each year in order to deliver a sustainable plan. Beyond the current MTFP similar levels of savings will be required in the future also. Although the council has a good track record of delivering efficiencies and identifying areas for reduction/savings this element of the MTFP is less robust than that which is usually acceptable and therefore has a greater degree of uncertainty than is usually acceptable. The challenges that lie ahead are therefore even greater than in previous years, although this plan is overall still considered robust.

6.4 Initiatives introduced to manage within reduced resources bring increased risks both financially and in terms of service delivery. For example:

- Reduced maintenance budgets – can be accommodated in the medium term but may bring pressures in the longer term as major capital investment plans may need to be accelerated as assets deteriorate faster;
- Earmarked reserves for specific purposes/risk management have been reviewed and will be managed at minimum requirement levels providing less scope for managing emerging risks. Although additional reserves have been set aside for the potential staffing redundancy/transfer costs in respect of the move of rent allowances payments to the Universal Credit system.

6.5 The Council's Pay Policy Statement indicates that employee pay levels, across all grades, are substantially below the average when compared to our nearest neighbours. As the economy grows and the job market becomes more buoyant the low level of the pay line may present a risk for the Council in terms of the ability to retain and recruit quality staff which in turn could have an adverse effect on service delivery. A significant budget development has been included in 2016/17 onwards assuming the application of the pay line review carried out in 2015/16. Although this will improve the comparative position of the Council, it still leaves the pay line towards the bottom end of the median pay for the sector so whilst reducing the risk it may not fully remove it.

6.7 The Authority continues with activities undertaken in association with a variety of partners. This requires reliance on partnership funding and/or the delivery of integrated programmes and is an approach which is integral to the Council's efficiency programme. However, a significant number of the Council's partners are public sector organisations which are also facing significant budget pressures and changing roles. This places increasing risk on the Council both directly, in respect of possible withdrawal of partnership funding, and indirectly, with the Council potentially facing additional burdens resulting from budget cuts in other organisations. This is especially true in respect of the most vulnerable in society which could therefore have a direct impact on troubled families initiatives, homelessness and those with specialist housing need.

6.8 Although there is increased risk arising from these assumptions, it is not considered necessary to increase minimum balances above the 7.5% of total projected net expenditure as the Council is responding to the challenges through efficiency measures and service reductions. In addition it is anticipated that further efficiency plans will be developed during the summer 2016 for implementation in future years of the MTFP. It is considered that the annual and medium term budgets are robust, but given the above risk assessment the achievement of the estimated Medium Term Financial Plan is uncertain.

6.9 Given the Council's excellent track record for budget management, careful budget monitoring and financial planning, which will continue, the structural deficit that remains in the Medium Term Financial Plan is considered to still be at a manageable level, although it should be expected that there may need to

be some contraction of service delivery/performance given the scale of the ongoing reductions required.

## 7. **Equality Issues**

The Council has a duty under the Equality Act 2010 to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups (such as disabled people or ethnic minority groups) when considering proposed new or changing policies, services or functions, including decisions on funding for services.

Service Managers have been asked to assess the equalities impact of the proposals for service changes contained in this report. It is not anticipated that there will be any significant cumulative impact on any protected group arising from these budget proposals.

Where appropriate, individual Equality Impact Assessments will be carried out in relation to specific proposals identified in this report. Any equality issues arising will be brought to the attention of the decision maker when the decisions on those proposals are made.

## 8 **Key Decision Thresholds**

In accordance with the Council's constitution, full Council will in each year determine the financial thresholds for each service or function above which expenditure or saving is regarded to be significant and should therefore be regarded as a Key Decision. Traditionally the threshold has operated at above £0.5m and it is proposed that this value be continued for 2016/17.

## **Alternative Options**

Cabinet could consider recommending an alternative budget and service plan. Recommending an alternative budget may alter the level of recommended Council Tax for 2016/17. If Cabinet chose not to recommend a budget to Council this would be in contravention of the Council's Constitution and would not be in compliance with the Local Government Finance Act 1992.

## **Financial Implications**

As detailed in the report.

## **Appendices**

Appendix 1 – Gedling Plan 2016/17 to 2018/19

Appendix 2 - Local Government Association Settlement Briefing

Appendix 3 – Detailed Gedling Plan Portfolio Budgets 2016/17

Appendix 4 – Major Price Indices – Medium Term Financial Plan

## **Background Papers**

Central Government Report – Local Government Finance Settlement in England 2016/17

Treasury Strategy 2016/17

Capital Programme Report 2016/17

## **Recommendation(s)**

Cabinet is asked to approve:

- i. a 3% income inflation increase for the individual portfolios as shown in the table at paragraph 3.6.5;
- ii. that the decision regarding the acceptance of a four year funding settlement from Central Government be delegated to the Chief Financial Officer in consultation with the Portfolio Holder for Resources and Reputation.

Cabinet is asked to recommend to Council on 7 March 2016:

- iii. that the financial threshold above which decisions will be regarded as Key Decisions be set at £0.5m for 2016/17;
- iv. a Council Tax increase of 0% which balances the financing of a Net Council Tax Requirement of £5,526,500 in 2016/17;
- v. that the Gedling Plan and the detailed budget for 2016/17, as detailed in Appendices 1 and 3 be approved;
- vi. the future cumulative efficiency target of £1.15m with the following annual ongoing targets: 2017/18 £350,000; 2018/19 £300,000; 2019/20 £250,000; 2020/21 £250,000, and to instruct officers to develop delivery plans for the 2017/18 budget process.

## **Reasons for Recommendations**

To obtain approval of the Gedling Plan 2016/17 to 2018/19 for referral to Council