

Cabinet

14 October 2015

Item
8(i)

Report of	Assistant Chief Executive	Author	Sean Plummer
Title	2016/17 Revenue Budget		☎ 282347
Wards affected	Not applicable		

This report provides Cabinet with an update on the 2016/17 Revenue Budget forecast

1. Decisions Required

1.1 Cabinet is requested to consider the following items:

- i) Note the updated 2016/17 budget forecast as set out at paragraph 6.1 shows a current gap of £355k
- ii) Note that officers are working towards delivering a balanced budget and that progress has been made to identify savings to assist with the delivery of the budget strategy. (See section 9).
- iii) Determine whether the cost pressures set out at paragraph 7.1 should be included in the 2016/17 budget forecast.
- iv) Determine whether the provisional savings set out at section 9 should be included in the 2016/17 budget forecast.
- v) Note the potential 2016/17 budget forecast variables and risks set out in Section 11
- vi) It is recommended that the decision to be included in any NNDR pooling submission for 2016/17 be delegated to the Portfolio Holder for Resources following consideration of
 - further work to update NNDR forecasts for 2015/16 and 2016/17
 - confirmation of those authorities wanting to be in the pool
- vii) To note the position on the Housing Revenue Account set out in section 13.
- viii) To note the capital programme position set out in section 14 and agree the change set out in section 14.2.

2. Reasons for Decisions

2.1 The Council is required to approve a budget strategy and timetable in respect of the year 2016/17.

2.2. This report relates to the budget update and a review of the capital programme.

3. Alternative Options

3.1 There are different options that could be considered and as the budget progresses changes and further proposals will be made and considered by Cabinet and in turn Full Council.

4. Background

4.1 A timetable for the 2016/17 budget process (see Appendix A) was agreed at Cabinet on 8 July 2015.

4.2 At this stage in the budget process it is important to identify the main areas of cost pressure and any planned growth areas together with the approach to balance the budget. Detailed budgets are currently being produced with the aim to complete this task by December. Work is currently progressing well and is in line with the budget timetable.

5. Budget 2015/16 - Review

5.1. The Scrutiny Panel reviewed the budget position for the current year including outturn projections on 18 August 2015. The total position reported at what was an early stage showed a potential net underspend of £552k.

5.2. Scrutiny Panel will receive a report on the half year position on 10 November and this will in turn be reported to the next Cabinet meeting when any impact on balances will be assessed.

5.3. One of the main issues at the moment contributing towards the net underspend is car park income being higher than budget. Consideration is being given to the extent to which this is expected to continue into 2016/17, and this will therefore improve the 2016/17 budget position.

5.4. The 2015/16 budget included a number of additional budget allocations. These included:-

- A recurring provision of £200k for service pressures re: growth in borough (e.g. waste)
- An allocation of £547k from the New Homes Bonus for projects that support the Strategic Plan

5.5. This report makes reference to these allocations where they impact on the 2016/17 budget.

6. Summary of 2016/17 Budget Forecast

6.1. Should Cabinet approve the items detailed in this report the current 2016/17 budget forecast shows a reduced gap from £534k of £355k. This reflects changes mainly in respect of anticipated savings. The following table sets out the overall position:-

	2016/17	note
	£'000	
Base Budget	23,321	
15/16 One-off items	(436)	Removal of one off cost pressures, growth items and savings.
Cost Pressures	490	See sections 7,8 & 9
Savings	(849)	
Forecast Base Budget	22,526	
<i>Funded By:</i>		
Revenue Support Grant	(2,195)	See para. 10.1
Business Rates Baseline	(4,006)	
<i>Settlement funding</i>	<i>(6,201)</i>	
Increase in NNDR / taxbase above baseline	(800)	
New Homes Bonus	(4,611)	
Total Gov't grants	(11,612)	
Council Tax	(10,539)	See para
Use of Reserves	(20)	
Total Funding	(22,171)	
Budget gap	355	

- 6.2. As indicated later in this report, further work is ongoing to fully assess options to balance the budget including completion of remaining budget reviews and developing delivery plans for all savings, completion of detailed budgets and the ongoing assessment of risk areas.

7. Cost Pressures

- 7.1. The following cost pressures expected in 2016/17 have been previously identified through the Medium Term Financial Forecast (MTFF) process either as specific pressures or as risks areas. The table sets out estimated pressures for next year some of which are indicative provisions which will be revised as more detail becomes known. The table includes three items for which are being funded from the growth allocation originally included in the 2015/16 budget.

	Current allowance £'000	Comment
Inflation	590	This includes assumptions in respect of pay, energy and other prices. The allowance has been reduced by £50k in respect of the proposed approach within the sport and leisure business case.
Inflation – pay award	(100)	Adjustment in respect of 15/16 pay award being less than budget

	Current allowance £'000	Comment
Extra waste vehicle and crew	130	CBC has seen significant housing growth in recent years. The Waste and Recycling service has accommodated this growth, year on year, within its existing resources. Whilst Food Waste collections have been introduced and vehicles provided, no additional routes for residual or recycling collections have been introduced, during a period where it is estimated in excess of 10,000 properties have been added to the Borough. The service is currently in the position where its capacity is stretched to accommodate the current level of collections required and therefore this funding will provide for an additional vehicle and crew.
SOS Bus – grant	5	A grant to support the SOS bus has been agreed in 2015/16 from the funding allocated for Strategic Plan priorities. It is proposed that this be included in the base budget to reflect the ongoing support of this service.
Less: provision for growth in budget	(135)	The budget includes a provision of £200k. Further pressures will be reported in due course.
	490	

- 7.2 Cabinet need to determine whether the cost pressures detailed above should be included within the current 2016/17 budget forecast.

8. Growth Items and Investment from New Homes Bonus

- 8.1. There is no new growth assumed within the budget forecast. There are though two areas to bring to the attention of Cabinet.
- 8.2. As shown later in this report there is no increase in the level of New Homes Bonus included in the 2016/17 budget forecast. However, assuming there is no change to the methodology of the scheme for payments in respect of previous years there will be £2.18million available to allocate to new one-off projects. Consideration has been given to how this might be used including the one off investment for the Sport and Leisure business case set out in this agenda.
- 8.3. On the basis that the New Homes Bonus continues as present into 2016/17 then there will also be an increase in the grant based on new growth, providing a further sum for one-off investment. At this stage it is estimated that this may be in the region of a further £1m.
- 8.4. The final budget report will include proposals for using New Homes Bonus in 2016/17.
- 8.5. The 2015/16 budget included an allocation of £547k to support delivery of the Strategic Plan Priorities. It was reported to Cabinet on 2 September that spending was likely to occur across different years. Where spending is specifically identified for 2016/17 this will be shown within the final budget report.

9. Savings/Increased Income

- 9.1. The budget strategy for 16/17 was agreed by Cabinet on 8 July. This included the continued operation of Budget Group to review budget options and specifically :-
- An outturn review
 - Confirmation of savings and income from commercial activities and business processes
 - A revised sport and leisure business plan
 - A number of budget options for efficiencies, income or reductions
- 9.2. Progress has been made in identifying budget savings including the review of earlier year outturn position. It is intended that budget proposals will be made to Cabinet in November. The following table summarises the current position.

	£'000	Comment
Full year impact of accommodation savings	(50)	In 2015/16 the saving from leaving Angel Court had contributed towards other UCC FSR savings. This reflects the full year additional impact of this decision.
UCC FSR savings – Business Process Savings	(320)	Detailed savings have recently been reviewed and the anticipated level of savings for 2016/17 has been reduced.
UCC FSR savings – Commercial income & procurement	(431)	The forecast level of commercial income has also been reviewed and has been increased. This reflects recent decision in respect of forecast income in respect of development in North Colchester.
Sport & leisure business Case	(48)	First year savings shown in report in this agenda. In addition, a further £50k saving is shown within the reduced allocation for inflation.
Total	(849)	

- 9.3. Further budget saving options have been identified and these are currently being assessed in more detail. These include the budget outturn review which is well advanced and is expected to identify cost reductions to support the delivery of a balanced budget.

10. Government Grants / Funding

Government Funding & Business Rates

- 10.1. The 2015/16 Finance Settlement announcement did not provide any provisional figures for 2016/17. Whilst not providing any real detail on which we can make projections for funding, the Autumn Statement did show that further reductions in grant should be assumed. The key figure for the Council's financial planning is the comparable level of settlement funding. The following table shows a *planning assumption* of a reduction of £921k (13%) in 2016/17.

	2015/16	2016/17	Change
	£'000	£'000	£'000
Revenue Support Grant	(3,195)	(2,195)	(1,000)
Business Rates Baseline	(3,927)	(4,006)	79
Settlement funding assessment)	(7,122)	(6,201)	(921)

- 10.2. The table above excludes the Council Tax freeze grant for 2015/16 which is assumed will not be paid in 2016/17.

- 10.3. The above figures are provisional and details will be announced in the Finance Settlement expected in November / December.
- 10.4. The New Homes Bonus figure for 16/17 is expected to be announced alongside the 'Settlement'. This is expected to show a significant further increase in our grant and as previously stated the budget strategy is that any increase will be used for one off purposes.
- 10.5. Currently, the Council is using £1.971million (43%) of the 2015/16 New Homes Bonus grant to support the base budget. In recognition that there is a risk to the level and methodology of this grant consideration will be given to reducing this in the final budget paper.
- 10.6. The Council receives other grants for services such as Council Tax collection and benefits. A number of changes have already been allowed for within the budget but further changes are likely and will be reported in due course.
- 10.7. The localisation of Business Rates (NNDR) was introduced in 2013/14. For 13/14 and 14/15 we had been broadly budgeting at the baseline level, but as part of the 15/16 budget additional income of £700k was included .
- 10.8. One of the main risks within the current scheme is that businesses can appeal their Rateable Value (RV), and get decisions backdated. This means there is a risk that we have to refund business rates in respect of previous years, and also the ongoing income may drop. To put some of this into context, currently about a third of the total RV of the borough is under appeal. We have made provision for appeals in our accounts, but this is an area which is impossible to predict
- 10.9. Looking ahead, the budget forecast currently assumes that we might see an increase in our retained NNDR income of £100k in 16/17. We will continue to monitor income levels and appeal decisions, and will revisit this assumption as appropriate.
- 10.10. For 2015/16 the Council agreed to be part of an Essex business rate "pool". The rationale for this is that the pool provides an opportunity to keep a greater share of NNDR income above the baseline. Based on forecasts provided by authorities within the pool there is currently a potential for Colchester to receive c£0.5million from the benefit received by being in the pool. This figure must be viewed with caution as there remain a large number of variables for all councils within the pool.
- 10.11. The pool agreement stays in place for 2016/17 unless there are new members who wish to join the pool or there are any existing pool members who wish to leave the pool. In either case, it will be necessary to make a new submission to Government by 31st October to express an interest in creating a 'new' pool.
- 10.12. Pool members and other Essex authorities are currently considering their position and given the timescales it is recommended that it be delegated to the Portfolio Holder for Resources to agree the expression of interest to join the pool should this be required.

11. Risks and Variables

- 11.1. On 8 July 2015 Cabinet considered the budget strategy and MTFF. The MTFF set out the key areas that may impact on 2015/16 budget forecast and potentially later years. These have been reviewed and continue to represent the key variables including areas that may have positive or

negative affect on the budget forecast. The list is provided at Appendix B and several of these items are considered within this report and we will continue to review all issues as the budget progresses.

11.2. Some of the key risk and variables at this stage in the budget process are:-

- Completion of detailed budgets (including any impact of changes in costs between the General Fund and HRA)
- Announcement of Government grants (including New Homes Bonus and impact of Business Rates Retention Scheme).
- Consideration of the level of New Homes Bonus used to support the base budget
- Completion of on-going budget reviews.
- Review of balances and reserves including consideration of any ongoing use of reserves and an impact on reserves of in year budget position.
- Provisional taxbase forecasts.

11.3 A review of the risk assessment of the recommended level of balances will be made and reported to the next Cabinet meeting. This will propose any changes to the recommended level of balances and also consideration of all reserves held by the Council.

12. Future Years

12.1 As part of consideration of budget issues facing the Council, SMT and Leadership Team have been considering future year budgets. The Medium Term Financial Forecast (MTFF) reported to Cabinet in July showed a potential budget gap rising to c£3m by 2018/19. Given the uncertainty over future levels of Government funding this forecast needs to be treated with caution. An update of the MTFF will be provided as part of the final budget report and this will reflect the position reported in the Comprehensive Spending Review and the Finance Settlement.

13. Housing Revenue Account (HRA)

13.1. The HRA is a ring fenced account that relates to costs and income in respect of the Council's housing stock. The HRA budget and rent setting process is carried out alongside the General Fund budget and elements of the process are carried out simultaneously. The budget approach for the HRA will continue to be fully integrated within the General Fund budget process, with the final budget report and rent setting being included within the overall budget and Council Tax decisions.

13.2. HRA Self-Financing has been in operation since 1st April 2012, and Cabinet have agreed a 30 year HRA Business Plan.

13.3. The Chancellor of the Exchequer announced in July's budget that there will be annual decrease of 1% in social housing rents from 2016/17 for 4 years. After that it is expected to revert to Government policy of Consumer Price Index (CPI) + 1%. The justification for this rent reduction requires "*Housing Associations and Local Authorities to deliver efficiency savings, making better use of the £13 billion annual subsidy they receive from the taxpayer*".

13.4. Based on our 2015/16 Business Plan agreed in January 2015 by Cabinet, our projected rental income over the next 30 years drops from £1,161million to £1,018million, a reduction of £143million.

- 13.5. The Council is working with Colchester Borough Homes to identify steps that will need to be taken to balance the housing budgets and proposals will be reflected in future budget papers.

14. Capital Programme

- 14.1 The following table sets out a summary of the total capital programme excluding the Revolving Investment Fund (RIF). This shows a forecast surplus of £1.3m by 2018/19

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
GENERAL FUND				
Shortfall / (Surplus) B/Fwd	(506)	(956)	(1,056)	(1,156)
New schemes	350	100	100	100
Capital receipts	(800)	(200)	(200)	(200)
Shortfall / (Surplus) C/Fwd	(956)	(1,056)	(1,156)	(1,256)

- 14.2. There is one update to report which relates to the decision to agree the loan to Colchester Community Stadium Company of £55k in respect of works to the Stadium car park. This is the second loan for works to the car park and is being matched by the football club. Almost half of the other loan has now been repaid. The cost needs to be accounted for and funded within the capital programme with loan repayments treated as capital receipts. It is therefore recommended that the loan be included within the capital programme.

15. Proposals

- 15.1 It is proposed that the budget position should be noted including proposals relating to cost pressures, growth items, savings and risk and variables and that the capital programme change be approved.

16. Strategic Plan References

- 16.1. The 2016/17 budget and the Medium Term Financial Forecast will be underpinned by the Strategic Plan priorities and will seek to preserve and shift resources where needed to these priorities.

17. Consultation

- 17.1. The Council is required to consult on its budget proposals. A consultation exercise took place as part of the production of the Strategic Plan agreed by Council in February 2015.
- 17.3. The budget strategy and timetable aims to ensure that information is available for scrutiny and input from all Members on proposals in the process. The aim is that detailed information will be available prior to the final budget report being submitted to Cabinet and approval by Council in February.
- 17.4. As has been the case in previous years the opportunity remains open for the leader of the opposition to meet with officers to assist with consideration of any alternative budget proposals.
- 17.5. Furthermore, we will continue with the statutory consultation with business ratepayers and will meet with parish councils in respect of grant funding.

18. Financial implications

18.1 As set out in the report

19. Equality and Diversity Implications

19.1 Consideration will be given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This will be done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

20. Risk Management Implications

20.1. The strategic risks of the authority will be considered in developing the 2016/17 budget and all forecast savings/new income options will be risk assessed as part of the budget process. This report sets out some of the key risks / variables at this stage in the budget process and as stated earlier this will be refined during the year.

21. Other Standard References

21.1 There are no specific Publicity, Human Rights, Community Safety or Health and Safety implications at this stage.

Background Papers

Report to Cabinet 8 July 2015

Revenue and Capital budget position reported to Scrutiny Panel on 18 August 2015

2016/17 Budget Timetable	
Budget Strategy March 15 – July 2015	
March – June (SMT and Budget Group)	Budget Group Meetings Agreed Update MTFF /Budget Strategy Review potential cost pressures, growth and risks Consider approach to budget Initial budget reviews started
Cabinet – 8 July 15	<ul style="list-style-type: none"> • Review 14/15 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 21 July 15	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options now - December	Review budget tasks Consider delivery of existing budget savings Carry out outturn review
Cabinet – 2 September 15 and /or 14 October 14 (<i>likely to be 14 October</i>)	<ul style="list-style-type: none"> • Budget Update • Review of capital resources / programme
Cabinet – 25 November 15	<ul style="list-style-type: none"> • Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available) • Review in year budget position
Scrutiny Panel – 26 January 16	Review consultation / Budget position (Detailed proposals)
Cabinet – 27 January 16	Revenue and Capital budgets recommended to Council
Council – 17 February 16	Budget agreed / capital programme agreed / Council Tax set

Leadership Team to review budget progress during year.

Appendix B

Ref	Risk / Area of uncertainty	
1	<i>Government Funding / Business Rate Retention Scheme</i>	<p>The MTFF includes the reduction in the 'SFA' for 2016/17 of 13% with further reductions thereafter.</p> <p>An announcement is expected middle / end of December with initial spending review figures earlier.</p> <p>From 2013/14 a proportion of the Council's core income that used to be provided by Government grant is now funded by the Council keeping a share of business rates income. This poses a new risk as well as a potential reward.</p> <p>The budget includes an assumption that in 15/16 we will retain an extra £700k of NNDR income above our baseline figure and future years includes an assumption that this will increase each year by £100k.</p>
2	<i>Welfare Reform (including Local Council Tax Support - LCTS)</i>	<p>Budget papers have previously set out some of the key risks associated with the implication of the Council having approved the LCTS scheme. The combined impact of the Government's welfare reforms and demands on Council services will need to be considered during the period of the MTFF.</p>
3	<i>Government grants and partnership funding</i>	<p>The Council's budget has changed over recent years with a greater emphasis on funding from both partner organisations and Government bodies. These funding streams can rarely be guaranteed and can therefore add to our cost pressures.</p> <p>Provision has been made in the 2015/16 budget for the New Homes Bonus based on the notified grant and the MTFF takes a prudent view by forecasting no increase to this grant in 16/17 or future years.</p> <p>Provision has been made for changes in other Government grants, such as housing benefit administration, in 2015/16. Further reductions in these areas are likely and these will be considered as the 16/17 budget and MTFF is reviewed.</p>
4	<i>Pensions</i>	<p>An allowance has been built in for increases in pensions costs based on the results of the last actuarial review and which therefore are fixed until 2016/17. Thereafter an allowance has been assumed of £250k and this will need to be reviewed closer to the time.</p>
5	<i>Fees and charges and other income</i>	<p>Previous years has shown how changes in income have affected the budget both positively and negatively. Looking ahead to 2016/17 and beyond it is difficult to estimate how income levels may continue to be affected and the budget will consider any changes in due course and the risks to delivery of targets.</p>
6	<i>Inflation</i>	<p>An allowance for general inflation, including pay, has been built into the 2015/16 budget and MTFF.</p> <p>Not all the Council's costs are directly linked to RPI / CPI and therefore we will continue to monitor the impact of inflation on all Council costs.</p> <p>Specific assumptions in respect of pay and energy will be considered in more detail later in the year.</p>
7	<i>Use of reserves</i>	<p>The budget position for 2015/16 includes limited proposals to use and contribute to certain reserves.</p> <p>No proposals to use general balances are currently included in the MTFF.</p>

Ref	Risk / Area of uncertainty	
8	<i>Legislation</i>	There are likely to be several items of new legislation over the life of the MTFF for which any available funding may not cover costs or which may impact significantly on the Council e.g. universal credit.
9	<i>Impact of regeneration programme e.g. staff resources</i>	The 2015/16 budget includes an allocation of £100k for additional resources to support work in the Northern Gateway. Furthermore, the recently established Revolving Investment Fund (RIF) provides a framework for managing potential pressures.
10	<i>Property review</i>	A review of our assets was carried out and a 5-year Building Repairs and Maintenance Plan produced. There will continue to be financial implications arising from this for both the revenue budget and capital programme and these will continue to be considered in detail and included in the on-going updates of the MTFF. The 2015/16 budget maintains the additional allocation of £150k in respect of planned repairs. This will continue to be reviewed to consider if it is sufficient to meet ongoing requirements.
11	<i>Impact of growth in the Borough and demand for services</i>	<p>A number of Local Authority services are directly impacted by the increase of population in the Borough, such as waste services, planning, benefits etc.</p> <p>As part of future budgets it will be necessary to consider whether there is a need for additional resources in these or other areas in order to maintain levels of service. A financial assumption has been made that the Council's programme of service reviews will assist in identifying efficiencies to cope with changes in demand. However, the 2015/16 budget includes an allowance of £200k, recognising that there is likely to be some pressure on services from the increasing number of households in the Borough, for example, the cost of providing our waste service. Proposals for using this are included within this report.</p>
12	<i>Delivery of budget savings</i>	The 2015/16 budget includes c£2.2m of savings or increased income. These items were risk assessed and all are considered deliverable. The 2016/17 forecast includes further savings from the ongoing FSR work. These have all been reviewed and updated in the budget forecast and at this stage are considered achievable. However, there remain risks in respect of delivery of income figures and as such further budget updates will need to consider any necessary changes to these forecasts.
13	<i>Net Interest earnings and investments</i>	<p>The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy for 2015/16 highlights the outlook for interest rates in the medium-term, which points to continuation of unprecedented low levels into 2015/16.</p> <p>The Council's strategy of internal borrowing has helped minimise our interest cost, however, it is recognised that this is not a long term approach and therefore there may be future cost pressures from any need to borrow externally. This will be considered with the MTFF.</p>