

Report of the Budget Panel

The Budget Panel met for the first time during this financial year on 14th October. The objectives of the meeting were to review the Council's Medium Term Financial Strategy and to consider the Fees and Charges schedule proposed for the years 2016-2017. From these deliberations, the Panel expected to provide the Overview and Scrutiny Committee with recommendations for its consideration.

Medium Term Financial Strategy

In the event, the Council's Medium Term Financial Strategy could not be finalised due to a very recent government announcement about significant changes to funding which it proposed to unveil on 25th November this year and which had created some uncertainty. Primarily, these would apply to the business rates which the Council collects and, although it was stated that full retention of these would be available to local councils by the end of the parliament (2020-2021), these changes might begin to be implemented by the beginning of April next year. The timing and expectations associated with the proposed changes need to be clarified. Hence the Head of Finance had determined that it was unwise to produce the strategy until further details were known on 25th November, the date of the Chancellor's Spending Review announcement.

The Head of Finance, in support of this decision had provided helpful observations on what could transpire as a result of the business rate proposals, summarised as follows:

It is expected that Revenue Support Grant (RSG) will be phased out as had been expected. Any increase in taxes collected locally, be they from business or other sources, will result in councils being responsible for more services. No net gains to councils could be expected. It was unclear as to whether the expected burden of increased services would fall on county councils or on borough and district councils.

It was possible that funding could be moved around the system by adjusting top-ups and tariffs. Each approach has consequences that go beyond simply funding new burdens. Local areas would be challenged to promote growth and attract business to benefit. However, a balance might be effected between the areas which can do this successfully and those which cannot. This could result in successful areas subsidising less successful ones. Any reduction in business rates which a council might contemplate will have to take account of State Aid requirements. Furthermore, the power to award discounts has been open to local authorities for a number of years, although it has rarely been used. Where it has, the Government has funded 50% of the cost of discounts but will not do so in future. Any increases may require

approval from the Local Enterprise Partnership rather than voters in the Test Valley area. It rather militates against the government's encouragement of city and county devolution proposals although it is possible that some councils could become self-funding.

There will continue to be some kind of mechanism for resources to flow between areas of high and low resource (akin to the current transfers through top-ups and tariffs) and central government will retain control of the main elements of the rates scheme including revaluation and mandatory discounts. The main benefit for most self-funded authorities is that they will be able to keep a larger share of any local growth in taxation – as long as their local tax bases actually increase.

The Panel was aware that the strategy was further dependent on other grants referred to by the government representative as “core grants” which are not defined until mid-December usually. So it isn't possible to make a recommendation regarding the Medium Term Financial Strategy to the Overview and Scrutiny Committee at this time. Hence a further review will take place in January when it is expected that a recommendation can be made.

Budget Gap

Nonetheless, it is always necessary to provide for the shortfall in funding expected between the amount which the Council will collect from Council Tax for the year 2016-2017 and the financial obligations which it must meet. This budget gap will be met by savings in the least risky elements of service provision as identified by service heads. This is referred to as the Corporate Challenge. Further details will be available by mid-December.

Recommendations to OSCOM:

In light of the uncertainty presented by the recent Government announcement regarding Business Rates and Grants, that consideration of the Medium Term Financial Strategy be deferred until after the Chancellor's Autumn Statement has been made on 25 November. Thereafter, consideration can be given to the ways in which a resulting Budget Gap can be closed.