

## ITEM 11

## 2016/17 Budget Update

Report of the Economic Portfolio Holder

### Recommended:

1. That the savings options, income generation proposals and budget pressures, shown in Annexes 1 - 3, be noted.
2. That the budget position for 2016/17 and Medium Term Financial Forecast, shown in Annex 4, be noted.
3. That the forecast reduction in Revenue Support Grant and other Government Grants, shown in Annex 5, be noted.
4. That the Committee considers whether it wishes to make any recommendations to Cabinet prior to its meeting on 10 February when it will be making recommendations to Full Council on the Revenue Budget and Council Tax for the financial year 2016/17.

### SUMMARY:

- This report updates the Overview and Scrutiny Committee on changes to the 2016/17 budget forecast since the budget strategy was presented to Cabinet in December. This includes; the draft Local Government Finance Settlement, the Local Council Tax Support Scheme, New Homes' Bonus provisional allocations and changes to revenues savings and pressures.
- It also provides an updated Medium Term Financial Forecast covering 2017/18 and 2018/19.
- In order to achieve a balanced budget for 2016/17, it will be necessary to close the remaining budget gap of £86,000.

### 1 Introduction

- 1.1 The initial budget strategy and forecast for 2016/17 were presented to Cabinet on 16<sup>th</sup> December 2015.
- 1.2 Since that time, work has been carried out to revise the current year estimates, prepare original estimates for 2016/17 and update the Medium Term Financial Forecast.
- 1.3 The purpose of this report is to;
  - Provide the latest available information on the provisional Local Government Finance Settlement and how it affects Test Valley.

- Provide an update on the latest savings options, income generation proposals and revenue pressures.
- Update the Medium Term Financial Forecast after considering the above.
- Outline the remaining stages of the budget process.

1.4 Assuming no changes to the figures presented in this report, the Council has to close a gap of £86,000 to achieve a balanced budget for 2016/17.

## **2 2015/16 Revised Estimates**

2.1 Work is progressing well in preparing the revised estimates for 2015/16 but detailed figures are not ready at this stage. However, some of the more significant factors that are being considered in the preparation of the revised estimates are explained below.

2.2 The original budget for 2015/16 assumed there would be no change in the level of general reserves. This remains the same and general reserves are expected to remain at £2M at the end of the year.

2.3 Cabinet received a mid-year budget report on 28<sup>th</sup> October that highlighted significant budget variances in the first half of the financial year. The report highlighted a positive variance of £287,000 in Services and £63,000 on investment income to the end of September.

2.4 In light of this positive half-year position, £250,000 was recommended to be transferred to provide working capital to a new Housing Development and Management Company. This recommendation was duly approved by Council on 11<sup>th</sup> November.

2.5 Draft budget papers suggest that the £250,000 transfer will still be achieved from variances within budgets this year; however it is too early to determine exactly what the variance compared to the original estimate will be.

2.6 It is anticipated that any further variances that are identified in setting the revised estimates for 2015/16 will be shown as a transfer to earmarked reserves. The decision on how to allocate this will be taken at the end of the year once the outturn position is known.

## **3 2016/17 Budget Forecast**

### **3.1 Savings Options, Income Generation Proposals and Budget Pressures**

This report identifies a number of new increased income streams and additional pressures. These have been identified by Heads of Service, budget holders and Service Accountants as the estimates for next year have been progressed.

Annex 1 shows all the savings options that have been proposed. The annex contains two parts; the first shows the items considered by Cabinet in December, with the second section showing a small saving option of £3,380 that requires further review before being agreed.

Annex 2 follows the same format as Annex 1 and shows all income generation proposals as at December and also includes two new items of additional income. The additional income proposals identified in this report total £268,000.

Two new budget pressures totalling £84,000 have been identified in Annex 3. The most significant of these relates to a reduction in Housing Benefits Administration grant. Provisional figures released by DCLG show a £68,000 reduction in 2016/17 and the forecast assumes an accelerating reduction in this grant as Universal Credit is phased in. Another pressure of £55,000 included in Annex 3 relates to the new Apprenticeship Levy which will come into effect from April 2017.

### Budget Forecast 2016/17

As with the revised estimate figures for 2015/16, the original estimate figures for 2016/17 are also currently being worked on.

If the assumptions used in this report are accurate there is still some work to be done to achieve a balanced budget for 2016/17.

When the budget forecast was presented in December there was a budget gap of £130,100. The current budget gap includes some major variances, but has been reduced to £86,000. A reconciliation of the movement in this gap is shown in the table below.

	<b>£'000</b>
<b>Budget gap per December report</b>	<b>130</b>
Revenue Support Grant reduction larger than expected due to frontloading of cuts	234
Business Rates Retention funding less than anticipated	47
Adjust savings option pending further review – Annex 1	3
Additional income generation proposals – Annex 2	(268)
Additional pressures – Annex 3	84
Additional Council Tax income resulting from increase in tax base	(144)
<b>Current Budget gap</b>	<b>86</b>

There are a number of factors that will impact on the completion of the estimates for 2016/17 that still retain a degree of uncertainty. These are discussed in the following paragraphs.

### 3.2 Local Government Finance Settlement

The provisional Local Government Finance Settlement (announced on 17<sup>th</sup> December) has provided the headline grant figures that the Council can expect to receive in core funding (Settlement Funding Assessment (SFA)) in 2016/17 and provides some indicative figures for the next four years up to 2019/20.

The cuts continue to be severe, with a reduction in SFA of 19.3% (£762,000) in 2016/17, a further cut of at least 17% expected in 2017/18 (£552,000) and an overall reduction to 2019/20 of around 40% (£1.6M). All of these reductions are frontloaded as Revenue Support Grant is phased out over the four year period as Annex 5 shows.

### 3.3 Council Tax Increase – Referendum Threshold and Council Tax Freeze Grant

When the Budget Strategy was presented in December, it was assumed that the Band D level of Council Tax would increase by 2% in 2016/17. In 2015/16, councils were allowed to increase Council Tax by 2% - any more, and they would have to put it to a local referendum. Next year's rise has been capped at 2% for the majority of councils. However, the DCLG has allowed special dispensation to 51 low tax authorities including this Council to raise Council Tax by a higher amount if it chooses to do so. The £5 p.a. limit means that the Council could, in theory, raise Council Tax next year by nearly 4% without triggering a local referendum.

When the Cabinet next meets on the 10 February, the final Local Government Finance Settlement figures will have been announced. Members will then have the opportunity to consider three options for Council Tax levels to recommend to Full Council on the 25 February:

- a) A Council Tax freeze for a fourth year in a row. This option would increase the budget gap by £117,600. In a departure from the practice of recent years, the Government has announced that it will **not** offer any "Freeze Grant" to councils who do not put up their Council Tax in 2016/17. Previous years' Council Tax Freeze Grants have been rolled into the Revenue Support Grant and have been cut pro rata to the overall cut in government grants.
- b) A 2% increase, equating to less than 5p per week for a Band D property. This option would accord with the budget strategy assumptions and would not have any effect on the budget gap.
- c) A £5 increase, equating to less than 10p per week for a Band D property. This option would generate additional income of £123,000 p.a. for the Council and will close the budget gap identified in the table above. It should be noted that as part of the Government's "spending power" calculations, it has assumed that the Test Valley Borough Council element of Council Tax will increase by £5 in 2016/17.

It should also be noted that Hampshire County Council will have the ability to increase its share of Council Tax by up to 4% and the Hampshire Police and Crime Commissioner by up to 2% without triggering a referendum.

### 3.4 Local Council Tax Support Scheme

2015/16 is the third year that the Local Council Tax Support Scheme has been in operation. Changes put in place in respect of discounts and exemptions have generated more Council Tax income than was originally anticipated.

This means that the 2015/16 scheme could continue into 2016/17 without additional cost to the Council, even after taking into account the transitional grant funding being withdrawn and removing the draw from the New Homes Bonus reserve that was originally approved to fund it.

A detailed report has been prepared for consideration at the Council meeting on 27<sup>th</sup> January 2016, to approve a final scheme for 2016/17.

The budget forecast has been prepared on the basis that the existing Local Council Tax Support Scheme continues with only changes to reflect statutory requirements as recommended in the report.

### 3.5 Localisation of Non-Domestic Rates (NDR)

2013 year saw the introduction of the Business Rate Retention Scheme. This was a significant change for local government that aimed to provide some incentive for local authorities that can achieve business growth, but also carried with it significantly more risk than the previous “pooling” arrangements.

Each year’s local government finance settlement builds upon the business rate retention starting position that was established in the 2013-14 local government finance settlement.

The table below shows this starting position compared with the provisional finance settlement figures for 2016/17:

	£	Comments
Area Business Rates	44,475,312	Average collectable over last 2 years
Less: Govt. share	<u>(22,237,656)</u>	Represents 50% of amount collectable
Local Business Rates Baseline	22,237,656	Represents 50% of amount collectable
TVBC BR Baseline	17,790,125	Represents 80% of above figure
Less: Tariff paid to Govt.	<u>(15,709,857)</u>	
TVBC Baseline Funding 2013/14	2,080,268	Retained share of Business Rates
TVBC Baseline Funding 2014/15	2,120,774	Retained share of Business Rates
TVBC Baseline Funding 2015/16	2,161,298	Retained share of Business Rates
TVBC Baseline Funding 2016/17	2,179,309	Provisional share of Business Rates

Work is still being carried out to estimate levels of income, appeals in the pipeline, likely future appeals, discounts and reliefs, etc. By the end of January 2016, it is hoped that the Council will have a better understanding of the likely financial position compared with the baseline funding announced by the Government shown above.

### 3.6 Revenue Support Grant

Revenue Support Grant (RSG) is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement.

The provisional local government finance settlement shows a continuing and expected reduction in the amounts of grant support given to local authorities. The Government’s stated intention is to phase out RSG entirely by 2019/20. For this Council, the actual and provisional figures are as follows:

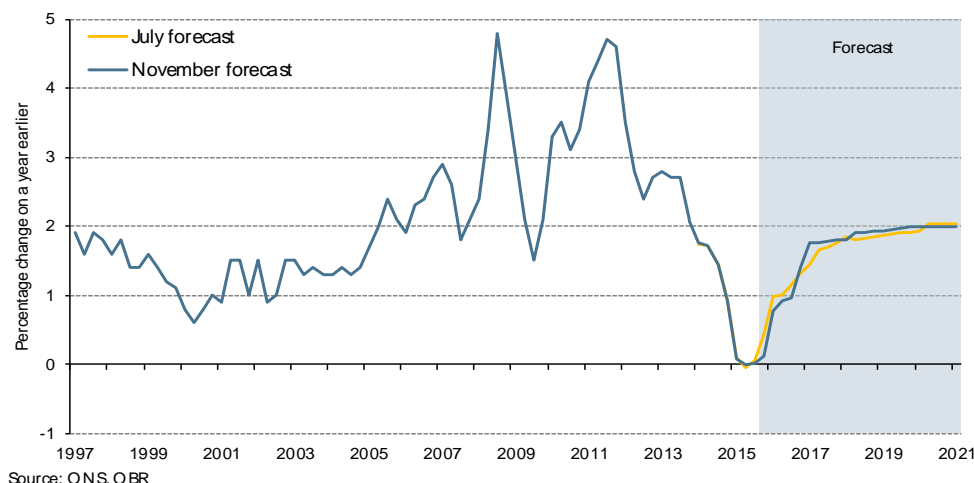
2013/14	£3.127m
2014/15	£2.445m = 21.8% reduction year on year
2015/16	£1.696m = 30.6% reduction year on year
2016/17	£1.012m = 40.3% provisional reduction year on year
2017/18	£0.417m = 58.8% forecast reduction
2018/19	£0.056m = 86.6% forecast reduction
2019/20	£NIL = 100% forecast reduction

### 3.7 Inflation

The budget forecast assumes a general zero inflation allowance for all expenditure budgets except for contractual obligations and a possible staff pay award.

These figures are estimates of what may occur during the next financial year and may increase or decrease before the budget is set.

The Office for Budget Responsibility expects inflation to rise slowly over the medium term. Small increases are expected in 2016 and 2017 and CPI is forecast to plateau at around 2% by 2021.



### 3.8 Investment Income

The income that the Council earns from its investment portfolio is dependent on three key factors; the prevailing base interest rate, the level above or below the base rate that the Council can invest at and the size of the investment portfolio.

The Council regularly receives interest rate forecasts from two external sources; both are expecting an increase of 0.25% from the current base rate of 0.50% in the 2<sup>nd</sup> quarter of 2016. This remains their view despite the recent rise in the US Federal Reserve interest rate for the first time in almost a decade.

Investments of up to three months currently attract typical interest rates slightly higher than base rate at 0.55%. A one-year investment attracts an average return of around 1%.

The perceived risk in the banking sector has eased over the past four years and there are now more creditworthy counterparties with which investments for periods of up to one year can be placed. The over-riding priority continues to be the security of investments rather than the return on them.

The investment portfolio is estimated to be between £60M and £63M throughout the year.

Following the latest advice on interest rate forecasts and current rates available, the budget forecast for investment income has been increased by £118,000.

### 3.9 New Homes' Bonus

When the Budget Strategy was presented, the forecast income from the New Homes' Bonus (NHB) in 2016/17 was £4.252M. The provisional figures for 2016/17 have now been announced and the Council can now expect to receive £4.793M – some £541,000 more than forecast.

The additional grant for 2016/17 will be transferred into the New Homes' Bonus reserve where it will be used in accordance with the Budget Strategy.

In late December 2015, the Government published a consultation paper on the future of the New Homes Bonus entitled, "New Homes Bonus: Sharpening the Incentive". This paper includes a number of proposals, all of which will adversely affect the Council:

- Reduction in NHB Grant payments from the current 6 years to 4 years, but the Government "is considering whether to move further and reduce payments to 3 or 2 years"
- Consideration of whether there should be a transition period, ie, 5 then 4, 3, 2 years, or big bang approach
- Reforms to improve the incentive:
  - Withholding new Bonus allocations in areas where no Local Plan has been produced until such time as there is a plan in place.

- Reducing payments for homes built on appeal to reflect the “additional costs and delays for applicants arising as a result of the appeal process”
- Only making payments for delivery above a baseline, representing what DCLG calls “deadweight”. The proposal is to set an arbitrary baseline of 0.25% of Band Ds. For Test Valley, that would be 116 properties and a bonus would only be payable on additional properties built above this baseline.

### 3.10 Homelessness Prevention

Councils are responsible for spending their resources according to local priorities and in the interests of their residents. None of the Settlement Funding Assessment received from Government is ring-fenced for specific purposes. However, as part of the Provisional Local Government Finance Settlement, the Government has provided the following indicative figures relating to what was previously paid as a separate grant for Homelessness Prevention:

2016/17	£86,332
2017/18	£86,451
2018/19	£86,619
2019/20	£86,909

This is not new, or additional money as it is included in amounts receivable in Revenue Support Grant (shown in paragraph 3.6) and in the retained share of Business Rates (shown in paragraph 3.5). It should be noted that these notional amounts have been provided “in order to signal the priority the Government attaches to this issue and to encourage local prioritisation of Homelessness Prevention”, but ultimately it is a matter for Full Council to decide on the allocation of scarce and reducing resources as it sets the 2016/17 budget at its meeting on 25th February.

### 3.11 Other risks affecting the budget process

There are a number of other factors that will affect the budget process to a lesser extent. These include items such as: grants, fee income streams that are largely outside the control of the Council, and staff vacancy rates.

In light of the variances identified in 2015/16 to date, Heads of Service have been more optimistic in their approach to setting budgets for grants and fee income. In the event that the actual income does not reach budgeted levels it will be possible to draw from the Income Equalisation Reserve at the end of the year to ensure that there is no negative impact on the General Fund balance.

There continues to be a vacancy management target of 3% applied against staffing budgets. This target was introduced several years ago to reduce the impact of manpower underspends related to staff turnover across the Council. Since this target was introduced the number of staff employed has reduced and temporary staff / overtime budgets have been cut back.



Achieving the target going forward will be a real challenge and will be monitored regularly throughout the year. In the event that the target is not reached it will be possible to draw from the Budget Equalisation Reserve to ensure that there is no negative impact on the General Fund balance.

#### **4 Medium Term Financial Forecast**

- 4.1 The Medium Term Financial Forecast has been updated to reflect the above changes and the latest version is shown in Annex 4. The position in respect of 2016/17 is addressed in section 3 above.
- 4.2 The Budget Strategy included a draw from the New Homes' Bonus reserve to offset the forecast reduction in government grant. As a result the forecast budget gaps in the medium-term are less than would normally be the case.
- 4.3 The figures for 2017/18 and 2018/19 assume that all further savings to close the remaining budget gap for 2016/17 are sustainable and will continue in the medium term. If it is necessary to draw from reserves when the final 2016/17 budget is approved, the 2017/18 budget gap will increase by this amount.
- 4.4 In order to maintain a balanced budget, current forecasts indicate savings of £939,000 need to be found in 2017/18. This amount increases by £488,000 to £1.4M which is the level of cumulative savings needed to close the forecast budget gap for 2018/19.

#### **5 Scrutiny of the Budget Process and External Consultation on the Budget**

##### Overview & Scrutiny review of the budget strategy

- 5.1 The Overview & Scrutiny Budget Panel is meeting to consider the Medium Term Financial Strategy and this Budget Update report on 11<sup>th</sup> January 2016.
- 5.2 The Panel's lead member (Cllr Finlay) will report the Panel's findings to the Overview and Scrutiny Committee meeting on 20<sup>th</sup> January and any recommendations will be considered by Cabinet at its meeting on 10<sup>th</sup> February.

##### Consultation with local business

- 5.3 In previous years, the Economic Portfolio Holder, Head of Finance and Economic Development Officer have met with representatives from local businesses. This consultation has produced very few comments or queries on the Council's budget strategy.
- 5.4 In view of this, the Economic Development Officer will be sending electronic links to the Medium Term Financial Strategy and this update report to the Hampshire Chamber of Commerce inviting their (and their members) responses by the end of January. If any comments are received, these will be reported in the budget report to Cabinet in February.

## **6 The Next Steps in the Budget Process**

- 6.1 The Overview & Scrutiny Committee will review the latest budget forecast at their meeting on 20 January 2016. Any recommendations from this meeting will be considered by Cabinet on 10 February when the final budget report will be presented.
- 6.2 The final budget report will be presented to Cabinet on 10 February 2016 for recommendation to Council on 25 February.

## **7 Risk Management**

- 7.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified some significant (red and amber risks). These are detailed in the Medium Term Financial Strategy report presented to Cabinet on 16<sup>th</sup> December 2015.

## **8 Resource Implications**

- 8.1 The resource implications of the 2016/17 budget process and the Medium Term Financial Forecast have been discussed throughout the report.

## **9 Equality Issues**

- 9.1 This report is for information purposes, so the Council's EQIA process does not need to be applied.

## **10 Conclusion and reasons for recommendation**

- 10.1 This report provides an update on the budget strategy that was approved in December. It takes into account the latest developments that will affect the budget process and forecasts a remaining budget gap of £86,000 for 2016/17.
- 10.2 The final budget report will be presented to Cabinet on 10 February 2016.

### Background Papers (Local Government Act 1972 Section 100D)

1. "The Provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years" - CLG Consultation December 2015
2. "The Referendums Relating to Council Tax Increases (Principles) (England) Report 2016/17" – CLG December 2015
3. "Apprenticeship Levy – Employer Owned Apprenticeship Training" – BIS November 2015
4. New Homes Bonus: Sharpening the Incentive" – CLG December 2015

Confidentiality

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

No of Annexes:	5	File Ref:	
(Portfolio: Economic) Councillor Giddings			
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Report to:	Overview and Scrutiny Committee	Date:	20 January 2016