

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: **Draft 2015/16 Revenue Budget and Medium Term Financial Strategy (2016/17 to 2019/20)**

Meeting/Date: Overview & Scrutiny Panel (Economic Well-Being)
8th January 2015

Cabinet
22nd January 2015

Executive Portfolio: Resources: Councillor J A Gray

Report by: Head of Resources

Ward(s) affected: All Wards

Executive Summary:

Members are aware that for the first time the Council's budget is being prepared within the principles of Zero Based Budgeting (ZBB). At the December 2014 Panel meeting, a report was presented to members that detailed the ZBB process to date, including a summary of service efficiencies that the ZBB Heavy process had identified prior to review by the Star Chamber in late November.

Since then, services have been refining their ZBB Heavy submissions and along with other service efficiencies (via the ZBB Light process and Facing the Future) and the application of inflation where necessary, this report highlights the draft revenue budget for 2015/16 and the Medium Term Financial Strategy for the period 2016/17 to 2019/20 (MTFS). At this point in the budget setting process, the draft Net Service Expenditure budget for 2015/16 is £19.925m (the detailed draft 2015/16 Budget and MTFS is shown in Appendix 1).

Net Service Expenditure

Upon comparing the draft Net Service Expenditure budget to the 2014/15 Forecast Outturn and the Updated budget, there has been a net saving of £0.286m (1.4%) and £1.781m (8.2%) respectively, as shown in Table 1 below:

Table 1	Saving on Net Service Expenditure: 2014/15 to 2015/16									
	2014/15		2015/16				Variance to Forecast Outturn		Variance to Updated Budget	
	Forecast Outturn	Updated Budget	ZBB	FtF	Inflation	Base Budget				
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	%	£ 000's	%
Net Service Expenditure	20,211	21,706	(1,873)	(109)	201	19,925	(286)	(1.4)	(1,781)	(8.2)
Key: ZBB: Zero Based Budgeting FtF: Facing the Future										

The Capital Programme will be reported in February 2015, once the currently approved capital programme along with any new capital projects have been appraised via the new Capital Project Appraisal Methodology.

Government Funding

The total government funding used within the Draft 2015/16 Budget is £11.828m, this decreases to £11.122m by 2019/20.

- New Homes Bonus

On the 16th December, the Secretary of State for Communities and Local Government announced the 2015/16 New Homes Bonus allocation of £4.403m; this is an increase of £0.390m over what was included in the 2015/16-2018/19 Medium Term Plan. Over the period of the Medium Term Financial Strategy, this is modelled to increase to £5.814m by 2019/20.

- Revenue Support Grant, Non-Domestic Rates and Council Tax Freeze Grant

On the 18th December, the Secretary of State for Communities and Local Government announced the 2015/16 Revenue Support Grant (RSG) and the Non-Domestic Rates (NDR) baseline of £3.183m and £4.160m respectively, this is a net marginal increase of £24,000 over what was included in the 2015/16-2018/19 Medium Term Plan. Over the period of the Medium Term Financial Strategy, it is modelled that RSG will have gone and NDR increased to £5.308m by 2019/20.

Grant Support for 2015/16	£'000
Revenue Support Grant	3,183
New Homes Bonus	4,403
Council Tax Freeze grant	82
	7,668
Retained Non-domestic Rates	4,160
	11,828

Council Tax

At the Full Council meeting held in July 2014, the Portfolio Holder for Resources announced that the Council was aiming to freeze Council Tax for 2015/16 and subject to the outcome of the 2015/16 general election and reasonable economic forecasts, to freeze Council Tax for the period of the MTFS; this would maintain Council Tax at £133.18 from 2016/17 through to 2019/20.

Considering the estimates for the Provisional Settlement and assumptions relating to Retained Business Rates, Table 2 below shows that the Council will not be required to make contributions from the General Fund Balance to meet the Council's stated Council Tax commitment for 2015/16. However, over the period of the MTFS, General Fund Reserves will be fully depleted having reduced to below zero by 2019/20. This clearly shows that the Council will be required to make substantially more savings than have already been achieved as the current spend profile is "financially unsustainable".

Table 2	Achievement of Freeze of Council Tax for 2015/16 and the period of the Medium Term Financial Strategy				
	2015/16	2016/17	2017/18	2018/19	2019/20
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
2015/16 Budget Cycle					
Net Service Expenditure	19,925	21,178	21,891	22,497	22,985
Technical Adjustments	(510)	(510)	(510)	(510)	(510)
Net Expenditure	19,415	20,668	21,381	21,987	22,475
Reserves required	181	(1,096)	(2,247)	(2,801)	(3,109)
Net Budget	19,596	19,572	19,134	19,186	19,366
Government Funding	(7,668)	(7,026)	(6,263)	(5,979)	(5,814)
Retained Business Rates	(4,160)	(4,661)	(4,868)	(5,084)	(5,308)
Council Tax Requirement	7,768	7,885	8,003	8,123	8,244
Council Tax Base (*)	58,329	59,204	60,092	60,993	61,908
Council Tax Level (**)	£133.18	£133.18	£133.18	£133.18	£133.18

It is recommended that Overview and Scrutiny provides comments to Cabinet in respect of the:

- savings that have been achieved (as shown on Table A in Appendix 1).
- further savings that should be considered.
- the detailed service budget pages (as shown on pages 9 to 17 in Appendix 1).
- the level of reserves currently modelled.
- its considerations in respect of freezing Council Tax for:
 - 2015/16, and
 - over the period covered by the Medium Term Financial Strategy (2016/17 to 2019/20).

1. PURPOSE

- 1.1 To update members on the Draft 2015/16 Revenue Budget and Medium Term Financial Strategy (MTFS) for the period 2016/17 to 2019/20 and how the budget has moved in comparison to the 2014/15 Updated Budget and the 2014/15 Forecast Outturn.

2. PREPARATION OF THE DRAFT BUDGET 2015/16, AND MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20

- 2.1 In November 2014, members were updated by both the Portfolio Holder for Resources and the Head of Resources on the Zero Based Budgeting (ZBB) process that has been followed in preparing the 2015/16 Budget. This update sought to reassure members of the:

- governance around the ZBB process itself,
- overall budget setting process, and the
- Star Chamber review that took place in late November.

- 2.2 Following the Star Chamber Heads of Services have been updating their budget submissions in respect of the ZBB Heavy services. In addition, the draft budget has also taken into account the following:

- conclusions of ZBB Light reviews
- changes to the Facing the Future programme, and the
- Grant Settlement relating to New Homes Bonus and Council Tax Freeze Grant and Funding Estimates for Revenue Support Grant and New Homes Bonus.

- 2.3 The detailed analysis of the draft 2015/16 Budget and MTFS (2016/17 to 2019/20) is attached at Appendix 1. At this stage the budget analysis does not include the Capital Programme, as this is currently subject to corporate project appraisal and will be reported to members in February 2015.

3. Savings and Growth

- 3.1 As well as being built around the principles of ZBB, the draft 2015/16 budget and MTFS has also taken into account the requirements of Facing the Future.

Zero Based Budgeting

- 3.2 Table A within Appendix 1 details the savings that have been accrued from the ZBB review across the Councils services, the net savings achieved are summarised below:

	£m
Expenditure	
• Employees	(0.964)
• Premised	(0.034)
• Supplies & Services	(1.449)
• Transport	(0.374)
• Benefit & Transfer Payments	(1.490)
	(4.311)
Income	
• Fees and Charges	2.438
Total change in Budget	(1.873)

Facing the Future

- 3.3 As per the 2014/15 Budget and Medium Term Plan 2016/17 to 2018/19 that was approved in February 2014, this included £0.497m in respect of Facing the Future projects, of which £0.388m has been removed from the 2014/15 base budget. The remaining £0.110m is allocated over the services as shown in Table 3 below (these savings are as reported to and approved by Full Council in February 2014).

Table 3	How Facing the Future has impacted on the 2015/16 Budget	
	Change in Facing the Future Initiatives	Reason for Change
	£ 000's	
Resources	(23)	Shared Services Savings in respect of Legal Services
Customer Services	(228)	CallCentre and IMD Shared Services
Operations	15	Reduction in grant income.
Development	126	Additional salaries, reduction in supplies expenditure, correction to fees and charges and savings from Building Control Shared Services.
Total	(110)	

- 3.4 Included within Facing the Future are the Shared Services savings that will accrue from the Strategic Partnership with South Cambridgeshire District Council and Cambridge City Council. Currently the Council is progressing with shared service arrangements for the Information Management Division, Legal Services and Building Control; however at this time the business cases for each of these services are not finalised, so an estimated saving of £0.224m (equating to 12.5% of net service spend for each service) has been included in the 2015/16 budget.

Growth

- 3.5 There has not been any growth within the budget except for items where it is unavoidable e.g. additional pension costs and statutory technical adjustments. There has not been any general service inflation but Pay Inflation of 1% has been included. It should be noted that in 2016/17 employers National Insurance costs will increase due to all staff moving over to Band A from the lower Band D, this change is built into the MTFS.
- 3.6 The unavoidable growth or other statutory technical adjustments that have been included within Corporate Finance are shown in Table 4 below:

Table 4		Corporate Budget Items and the impact on the 2015/16 budget (value > £50,000)				
Item of Unavoidable Growth	Forecast 2014/15	Updated Budget 2014/15	Budget 2015/16	Amount of Growth in 2015/16		Reason for Growth
	£ 000's	£ 000's	£ 000's	Against Forecast £ 000's	Against Updated Budget £ 000's	
Minimum Revenue Provision	1,331	1,623	1,574	243	(49)	Additional capital spend due to the Council not funding capital expenditure from other sources (grants/capital receipts)
Pension Contribution	789	789	1,135	346	346	Actuarial revaluation
Insurance	366	335	394	28	59	Additional premium costs

4. SUMMARY DRAFT BUDGET 2015/16 and MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20

Council Tax Freeze

- 4.1 At the Full Council meeting held in July 2014, it was announced that the Council would commit to freezing Council Tax for 2015/16 and over the next 4 years subject to the outcome of the 2015 general election and reasonable economic forecasts.

Government Grant

- 4.2 New Homes Bonus

On the 16th December, the Secretary of State for Communities and Local Government announced that the 2015/16 New Homes Bonus allocation for the Council will be £4.403m, this is an increase of £0.390m (9.8%) over what was included in the 2015/16 to 2018/19 Medium Term Plan approved in February 2014. Future NHB is currently modelled based on the 2014/15 Housing Trajectory; this will be updated in January when the 2015/16 Housing Trajectory is published. It should be noted that NHB is a critical funding stream for the Council and is wholly reliant on the success of local housing growth.

- 4.3 Council Tax Freeze Grant

With regard to Council Tax Freeze Grant (CTFG), this was confirmed last year.

- 4.4 Revenue Support Grant, Non-Domestic Rates

On the 18th December, the Secretary of State for Communities and Local Government announced the 2015/16 Revenue Support Grant (RSG) and the Non-Domestic Rates (NDR) baseline of £3.183m and £4.160m respectively, this is a net marginal increase of £24,000 over what was included in the 2015/16 to 2018/19 Medium Term Plan. Over the period of the Medium Term

Financial Strategy, it is modelled that RSG will have gone and NDR increased to £5.308m for by 2019/20.

Grant Support for 2015/16		£'000
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		7,668
Retained Non-domestic Rates		4,160
		11,828

- 4.5 Over the MTFS period, there is a significant change in government funding, with NDR gradually increasing, NHB rising then falling and RSG falling away. Over the period there is a net reduction of £0.624m (5.3%). This represents a significant change in “funding philosophy” in that local government central funding will be primarily based on both the national and local growth agenda rather than other funding criteria i.e. deprivation, demography etc.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
NDR	4,160	4,661	4,868	5,084	5,308
RSG	3,183	1,900	921	442	0
NHB	4,403	5,126	5,342	5,537	5,814
	11,746	11,687	11,131	11,063	11,122
----- Loss of Grant -----					
Year-on-Year Reduction	(0.5%) (£59)		(0.6%) (£68)		
		(4.8%) (£556)		0.5% £59	
Cumulative Loss in Grant	(0.5%) (£59)				
		(5.2%) (£615)			
			(5.8%) (£683)		
				(5.3%) (£624)	

Impact on Reserves

- 4.6 The General Fund Balance at the start of 2014/15 was £8.684m; considering the forecast outturn (based on the November 2014 Dashboard) the General Fund Balance at the end 2014/15 is estimated to be £8.950m. Ensuring that the commitment to Council Tax is achieved for 2015/16, it is anticipated that the Council will be able to make a fair contribution to Reserves. However, as shown in Table 5 below over the period of the MTFS reserves will be fully depleted, which means that the Councils current budget is “financially unsustainable”.

Table 5	Forecast 2014/15 £ 000's	Budget 2015/16 £ 000's	Medium Term Financial Strategy			
			2016/17 £ 000's	2017/18 £ 000's	2018/19 £ 000's	2019/20 £ 000's
General Fund						
Brought forward	8,684	8,950	9,131	8,035	5,788	2,987
Contribution (to)/from	266	181	(1,096)	(2,247)	(2,801)	(3,109)
Carried forward	8,950	9,131	8,035	5,788	2,987	(122)

Summary Draft Budget 2015/16 and Medium Term Financial Strategy 2016/17 to 2019/20

4.7 Incorporating the:

- Savings and Growth budget changes noted in para 3,
- Council Tax freeze commitment,
- assumptions relating to Government Grant, and
- the contributions to and from the General Fund Balance,

the Draft 2015/16 Budget and Medium Term Financial Strategy delivers a budget as shown in Table 6 below:

Table 6	Forecast	Updated Budget	Budget	Medium Term Financial Strategy			
	2014/15 £ 000's	2014/15 £ 000's	2015/16 £ 000's	2016/17 £ 000's	2017/18 £ 000's	2018/19 £ 000's	2019/20 £ 000's
What services are provided							
Directors and Corporate Resources	2,769	2,894	2,662	2,662	2,675	2,692	2,701
Customer Services	1,875	2,177	1,621	1,650	1,662	1,673	1,685
Operations	44,310	44,735	42,559	42,684	42,740	42,797	42,850
Development	9,334	9,512	8,863	8,991	9,043	9,095	9,148
Community	3,703	3,992	3,805	3,932	3,787	3,791	3,820
Leisure & Health	2,947	3,138	3,067	3,058	3,078	3,098	3,118
Corporate Finance	7,427	7,961	7,196	7,283	7,296	7,404	7,450
Gross Expenditure	3,744	4,285	4,481	5,207	5,866	6,265	6,536
	76,109	78,694	74,254	75,467	76,147	76,815	77,308
Where the money comes from to provide services							
Income & Fees	(55,899)	(56,986)	(54,329)	(54,289)	(54,256)	(54,318)	(54,323)
Technical Adjustments & Charges outside of revenue	(611)	(611)	(510)	(510)	(510)	(510)	(510)
Net Expenditure	19,599	21,097	19,415	20,668	21,381	21,987	22,475
• Reserves	266	(1,232)	181	(1,096)	(2,247)	(2,801)	(3,109)
Budget Requirement	19,865	19,865	19,596	19,572	19,134	19,186	19,366
• Non-Domestic Rates	(4,218)	(4,218)	(4,160)	(4,661)	(4,868)	(5,084)	(5,308)
• Revenue Support Grant (RSG)	(4,562)	(4,562)	(3,183)	(1,900)	(921)	(442)	0
• New Homes Bonus (****)	(3,344)	(3,344)	(4,403)	(5,126)	(5,342)	(5,537)	(5,814)
• Council Tax Freeze Grant (**)	(82)	(82)	(82)	0	0	0	0
• Collection Fund Deficit (***)	(21)	(21)	0	0	0	0	0
Council Tax Requirement	7,638	7,638	7,768	7,885	8,003	8,123	8,244
- Base (*)	57,357	57,357	58,329	59,204	60,092	60,993	61,908
- Per Band D	133.18	133.18	133.18	133.18	133.18	133.18	133.18
Assumptions * Increase in Council Tax Base Assumed there is an annual increase in the base of 1.5%. ** Council Tax Freeze Grant Assumed that this does not continue as a separate grant (could be "rolled-up" within RSG). *** Collection Fund Deficit For 2015/16 and the MTFS period this has not yet been calculated. **** New Homes Bonus Based on 2014/15 housing trajectory adjusted for CLG notified reduced new build. 2015/16 housing trajectory will be used post Christmas.							

5. LEGAL IMPLICATIONS

There are no direct legal implications arising from this report.

6. RESOURCE IMPLICATIONS

The resource implications have been shown within the main body of this report.

7. REASONS FOR THE RECOMMENDED DECISIONS

7.1 To enable members of the Panel to comment on the:

- financial results of ZBB and other service changes and their impact on service budgets.
- the implications on reserves in supporting a freeze in Council Tax.

8. LIST OF APPENDICES INCLUDED

Appendix 1 – DRAFT 2015/16 Budget & Medium Term Financial Strategy
2016/17 to 2019/20

BACKGROUND PAPERS

Working papers in Resources; Accountancy Services

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