

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Final 2016/17 Revenue Budget and Medium Term Financial Strategy (2017/18 to 2020/21)
Meeting/Date:	Cabinet 11 February 2016 Overview & Scrutiny Panel (Finance and Performance) 4 February 2016
Executive Portfolio:	Resources: Councillor J A Gray
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

The Council is required to set an annual budget for the forthcoming year, in order to set the Council Tax for the area, and approve its Medium Term Financial Strategy (MTFS) covering the following four years. This report sets out the final budget for 2016/17, detail of the draft service budgets and the MTFS for the period 2017/18 to 2020/21 for Cabinet approval.

The draft budget and MTFS was approved by Cabinet in January 2016 and this report outlines any changes that have occurred since then, as well as discussing any significant risks associated with the budget, asking Cabinet to approve fees and charges for 2016/17 and confirm the freezing of Council Tax.

Since the draft budget and MTFS were approved there have been two significant changes:

- Following a review of One Leisure draft income budgets these have been re-profiled and reduced over the period of the MTFS in order to better reflect the demands on the service. The impact of this across the MTFS is a reduction in income of £0.9m. The revenue projections, the cost base and capital investment levels beyond 2016/17 are estimates at this stage pending the publication of the 2016-2021 Strategic Plan in February 2016.
- Following a detailed analysis of the draft Local Government Settlement, increased Revenue Support Grant (RSG) has been used in the MTFS of an additional £0.4m over the MTFS period.
- The January Cabinet, the Voluntary Sector Grant budget has been reduced by £0.2m by 2019/20.

The net impact of both these changes is that by 2020/21 additional contributions from General Reserves of £0.4m are required.

When the Council set its MTFS for 2016/17 to 2019/20 it adopted a strategy referred to as the 'plan on a page' to reflect the various approaches being taken to find the required savings. A new plan on a page is detailed that shows revised savings, over the period of the new MTFS (2017/18 to 2020/21) of £3.6m (21%).

Recommendations:

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

1. overall budget 2016/17 and MTFS 2017/18 to 2020/21 (**Appendix 1**; this includes Revenue at Section 2 and the Capital Programme at Section 3).
2. fees and charges for 2016/17 (**Appendix 1**, Section 7 and Annex A).
3. freezing of the Council Tax for 2016/17 at £133.18.
4. new "Plan-on-a-Page" financial savings targets.

1. WHAT IS THIS REPORT ABOUT?

1.1 To provide Cabinet with an update on the 2016/17 Budget and Medium Term Financial Strategy 2017/18 to 2020/21. The draft budget was approved by Cabinet in January and this report sets out:

- any changes that have occurred subsequently.
- impacts on reserves.
- level of Council Tax.
- consideration of the Resolution that will be presented to Full Council on the 24 February 2016.
- risks associated with the budget and relevant sensitivity analysis.

2. BACKGROUND

2.1 At the January 2016 Cabinet meeting, Cabinet approved a:

- Budget Requirement of £19.9m for 2016/17 and an MTFs that has a profiled reduction to £13.9m by 2020/21.
- Capital Programme of £10.5m for 2016/17, that reduces to £2.8m by 2020/21.

2.2 The Budget and MTFs were based on the following assumptions:

- Inclusion of the Zero Based Budgeting (ZBB) savings from Tranche 2 and 3.
- No growth except of items which are unavoidable (e.g. statutory changes in respect of pension and technical adjustments).
- No inflation except for Pay and Business Rates or where there are known programme changes in income from fees and charges.
- Revenue implications of the capital programme.
- 2016/17 Government provisional settlement amounts in respect of Revenue Support Grant (RSG) and New Homes Bonus (NHB).
- RSG being phased out by 2019/20 and NHB being phased out by 2020/21.
- Non-Domestic Rates based on current estimates of collection, reflecting a semi-pessimistic view on future growth.
- The application of General Fund Reserves to meet any modelled gap between spending and income.
- Council Tax Base growth of 1.8% per annum.
- Freezing of Council Tax until 2020/21.

3. CHANGES TO THE BUDGET 2016/17 AND MEDIUM TERM FINANCIAL STRATEGY 2017/18 TO 2020/21

3.1 Since the January Cabinet there have been three significant changes to the budget, these were in respect of:

- a reduction in anticipated One Leisure income over the life of the MTFs.
- changes to future Government funding assumptions following more detailed analysis of the provisional financial settlement issued by the Department for Communities and Local Government in December 2015.
- Reductions in Voluntary Sector grants in each of the four years 2016/17 to 2019/20, following decisions made by Cabinet at the January Cabinet.

The net impact of these changes, on the contributions to/from the General Reserves, over the MTFS is shown in **Table 1** below.

Table 1	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Draft Budget - Contributions to/(from) general Reserves	2,251	303	(931)	(2,092)	(3,190)
Final Budget - Contributions to/(from) general Reserves	2,276	656	(830)	(2,358)	(3,604)
Change	(25)	(353)	(101)	266	414

One Leisure Income

- 3.2 The Leisure Income that was included in the Draft MTFS included annual inflation increases of 3%; upon reflection this was considered too optimistic. The income lines have now been adjusted to reflect known price increases and a phasing of income to reflect planned developments within the One Leisure estate and service developments. The revenue projections, the cost base and capital investment levels beyond 2016/17 are estimates at this stage pending the publication of the 2016-2021 Strategic Plan in February 2016. **Table 2** below shows the change between the draft and final budgets.

Table 2	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
One Leisure					
Draft Budget - Net Income	(581)	(800)	(1,007)	(1,226)	(1,409)
Final Budget - Net Income	(581)	(846)	(874)	(908)	(900)
Change	0	(46)	133	318	509

Government Funding

- 3.3 On the 17th December 2015 the Secretary of State for Communities and Local Government issued the provisional Local Government Settlement for 2016/17. In addition, the Secretary of State also made an offer to local government, subject to an approved efficiency plan, of a 4-year settlement. This was the actual grant for 2016/17 and provisional indications of grant for the 3-year period 2017/18 to 2019/20. The grants that were included in the 4-year settlement were in respect of Business Rates Base Line and Revenue Support Grant.
- 3.4 It should be noted that for the latter 3-year period, the provisional indications are based on estimates of both future government spending limits and the prevailing economic environment at the time. Consequently, the amounts indicated are not final but it is fair to conclude that they should not be too far from what is finally provided. With regard to:

i. Non-Domestic Rates Base Line

The Local Government Finance Settlement in respect of the Non-Domestic Rates (NDR) Base Line, indicated an increase of 2.1% in 2017/18 rising to 3.5% by 2019/20. This growth is considered overly

optimistic because, as a consequence of appeals, since NDR was localised in 2013/14 the Council has been in a safety-net position at the financial year-end. However the draft MTFS reported to Cabinet in January showed 1% growth each year on the basis that business rates are still proving to be volatile and therefore a more prudent view of NDR income is appropriate. Consequently, for the Final 2016/17 Budget and MTFS, it is recommended that NDR income remains as reported in the Draft budget.

ii. Revenue Support Grant

Table 3 below shows the 4-year settlement numbers in respect of RSG. The 4-year settlement confirms the decisions made by the Council when it set the 2015/16 Budget and MTFS in that RSG will be removed as core funding by 2019/20. However, the profile of decline in RSG, as indicated in the 4-year settlement is less than the Council had modelled in the Draft 2016/17 Budget and MTFS. It is, therefore, recommended that the amounts shown in the 4 year settlement are included in the Final 2016/17 Budget and MTFS.

Members should note a “technical issue” in respect of RSG in that, as a consequence of the government’s decision to end RSG as a “needs based” funding mechanism, the distribution formula has resulted in “negative RSG” for some Councils. For this Council, this redistribution anomaly does not occur until 2019/20 (the last year of RSG) but for others the anomaly starts in 2017/18. On the face of it this looks like the Council will be required to “pay” the government and for presentation purposes it is shown like this; in reality this funding will be recovered by the government adjusting tariffs and baselines through the NDR system.

Table 3	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Draft Budget - Revenue Support Grant	(2,110)	(921)	(442)	0	0
Final Budget - Revenue Support Grant	(2,110)	(1,180)	(604)	42	0
Change	0	(259)	(162)	42	0

Voluntary Sector Grants

- 3.5 The January Cabinet received a report on Voluntary Sector Grant (VSG) funding for the period 2016/17 to 2019/20. The MTFS incorporates the agreed savings and these are summarised in **Table 4** below. These savings include the ceasing of all funding for the Huntingdon Shop Mobility scheme from 2016/17 onwards and in addition a phased reduction of 38% in the VSG budget by 2019/20.

Table 4	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Community Services					
Draft Budget - Net Expenditure	1,936	1,922	1,940	1,954	1,979
Final Budget - Net Expenditure	1,911	1,874	1,868	1,859	1,884
Change	(25)	(48)	(72)	(95)	(95)

4. SUMMARY BUDGET 2016/17 and MEDIUM TERM FINANCIAL STRATEGY 2017/18 TO 2020/21

4.1 Reflecting the assumptions and changes noted in Section 2 and 3 respectively, the Final 2016/17 Budget and Medium Term Financial Strategy is shown in **Table 5**.

Table 5	Forecast	Original Budget	Budget	Medium Term Financial Strategy			
	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Services provided:							
Directors and Corporate Resources	2,348	2,377	2,300	2,212	2,178	2,185	2,197
Customer Services	(392)	(445)	(308)	(566)	(871)	(918)	(971)
Operations	4,425	4,488	2,355	2,167	2,062	1,939	1,970
Development	4,727	4,593	3,968	3,753	3,608	3,383	3,428
Community	1,427	1,691	1,370	1,224	1,221	1,242	1,265
Leisure & Health	1,987	2,130	1,911	1,874	1,868	1,859	1,884
Shared Service	(53)	58	(280)	(562)	(587)	(617)	(606)
Corporate Finance	0	0	1,796	1,832	1,869	1,906	1,944
Net Expenditure	4,336	3,988	4,799	5,611	6,053	6,252	6,360
Contribution to/(from) Earmarked Reserves			(257)	0	0	0	0
General Reserves	875	797	2,276	656	(830)	(2,358)	(3,604)
Budget Requirement	19,678	19,678	19,931	18,201	16,571	14,874	13,868
Non-Domestic Rates	(4,160)	(4,160)	(4,190)	(4,232)	(4,274)	(4,317)	(4,360)
Revenue Support Grant (RSG)	(3,183)	(3,183)	(2,110)	(1,180)	(604)	42	0
New Homes Bonus (***)	(4,403)	(4,403)	(4,965)	(3,724)	(2,483)	(1,241)	0
S31 Grant	0		(1,018)	(1,018)	(1,018)	(1,018)	(1,018)
Council Tax Freeze Grant (**)	(82)	(82)	0	0	0	0	0
Collection Fund Deficit	(82)	(82)	257	0	0	0	0
Council Tax Requirement	7,768	7,768	7,905	8,048	8,193	8,340	8,490
- Base (*)	58,329	58,329	59,358	60,426	61,514	62,621	63,749
- 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 1.8%.						
** Council Tax Freeze Grant	Assumed that this does not continue as a separate grant (could be "rolled-up" within RSG).						
*** New Homes Bonus	Assumes a 25% reduction per year on the 2016/17 base.						

Impact on Reserves

- 4.2 Surpluses (or deficits) in funding are adjusted via contributions to/from reserves; in the Council's Funding Statement (**Table 5**) this is shown against the line entitled "General Reserves". For the 2016/17 budget there is a budgeted surplus of £2.3m; however by 2018/19 there is a funding gap £0.8m and this increases to a gap of £3.6m by 2020/21.
- 4.3 As shown in **Table 6** below, the funding gap for 2018/19 and 2019/20 can be met from the estimated General Fund Reserve. However, by 2020/21 the Council is forecasting a negative balance on the General Fund which obviously clearly shows that the current budget is unsustainable over the medium-term.

Table 6	Forecast 2015/16 £'000	Budget 2016/17 £'000	Medium Term Financial Strategy			
			2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
General Fund						
Brought forward	9,287	3,022	5,298	5,954	5,124	2,767
Contribution (to) Reserve	535	2,276	656			
Contribution from Reserve	(6,800)			(830)	(2,358)	(3,604)
Carried forward	3,022	5,298	5,954	5,124	2,767	(837)
<i>Minimum Level of Reserves</i>	2,687	2,687	2,632	2,610	2,585	2,621

- 4.4 Considering both the Council's Funding Statement (**Table 5**) and the Forecast Reserve Statement (**Table 6**) it is acceptable for the Council to set a Council Tax for 2016/17 based on the current budget; however, over the medium-term the budget position will need to be addressed.
- 4.5 In practice, the Council has a number of options to address the funding gap. This will inevitably be a mix of the service transformational themes shown in the Plan on a Page (see paragraph 5) i.e. cutting services, generating income or doing services differently, using reserves or indeed raising Council Tax.
- 4.6 At the January Cabinet meeting it was agreed that the Council will continue:
- its investment in the Commercial Investment Strategy, including the £6.8m transfer from the General Fund Reserve. The reason being that this will provide financial benefits to the Council that will over the medium to long term support service delivery and assist in meeting the forecast funding gap.
 - the use of the Zero Based Budgeting principles and commits to continue to develop the actions and programmes as set out in the 'Plan on a Page' to find further savings and efficiencies in order to maintain a prudent level of reserves throughout the MTFS.

5.0 PLAN ON A PAGE 2016/17 TO 2019/20

- 5.1 Section 4 has shown that the Council continues to face significant challenges over the medium term in its obligations to provide cost-effective services to its electorate.

5.2 When the Council set its budget for 2015/16 and the associated MTFs, it adopted a strategy, known as 'Plan on a Page'. The aim of this strategy was to move the Council to a position of being financially independent by the end of 2019/20; **Appendix 2** shows the 2015/16 "Plan-on-a-Page" and the strategic pillars that were being followed in order to achieve the Council's financial aims.

5.3 The planned savings based on the 2015/16 budget were £3.8m for 2016/17, rising to £8.2m by 2019/20. As shown in **Table 7** below, the Council has made good progress against the 2015/16 "Plan-on-a-Page" savings target by reducing the 2019/20 budget gap by £4.7m (22%); however this does leave £3.5m still unfunded.

Table 7	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Plan-on-a-Page Savings Targets - 2015/16	(3,800)	(5,900)	(7,500)	(8,200)
% of MTFs - 2015/16	19%	29%	35%	38%
ZBB T2 and T3 savings	(2,297)	(3,048)	(3,531)	(4,061)
Shared Services	(234)	(240)	(247)	(253)
Income Generation	41	(186)	(432)	(432)
(Under)/Over Achievement of savings target	(1,310)	(2,426)	(3,290)	(3,454)
% of Savings Target Achieved	66%	59%	56%	58%

5.4 However, as a consequence of the:

- continuation of government austerity, as demonstrated by the recent financial settlement, and
- continued Council aspirations of freezing Council Tax and the removal of NHB as core funding for Council services,

a new "Plan-on-a-Page" is required that illustrates new service savings targets reflecting the new 2016/17 Budget and MTFs. The new "Plan-on-a-Page" budget targets are shown in **Table 8** below.

Table 8	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Plan on a Page - Approved MTFs 2017/18 - 2020/21				
Approved MTFs Net Expenditure	17,545	17,401	17,232	17,471
Plan on a Page - savings required from MTFs	(901)	(1,802)	(2,703)	(3,604)
Plan on a Page - % savings required from MTFs	-5.2%	-10.6%	-16.0%	-21.0%
Budget Requirement (adjusted for savings required)	16,644	15,599	14,529	13,868

6. FEES AND CHARGES

6.1 Fees and Charges are a key income stream for all of local government and for 2016/17 for this Council it will represent 27% of total income (including government grants). In the main, it is only "discretionary" services that can be subject to a Council levied fee or charge and for some services there are some statutory controls on the amount that can be charged.

6.2 It is important that these fees and charges are reviewed each year to ensure that they are at the correct level to both maximise income generation and achieve the policy objectives required. The charges are shown in section 7

within **Appendix 1** and these charges are the basis upon which service income lines for the 2016/17 budget are based.

7. ROBUSTNESS OF THE 2016/17 BUDGET AND MEDIUM TERM FINANCIAL STRATEGY

7.1 The Council's Responsible Financial Officer (S.151) has to make a statutory statement in respect of the budget and reserves. As shown at paragraph 4.8, currently the:

- 2016/17 estimated reserves provision is satisfactory, but
- by the end of the MTFs period reserves will drop to a negative balance of (£1.2m), £3.8m below the minimum level of reserves.

7.2 Section 8 of **Appendix 1** provides considerable discussion in respect of Risks that both the Council and the wider local government community face at this time of continued public sector austerity. In addition, sensitivity analysis is applied against these risks and their impact on General Fund reserves is assessed. In summary, the key findings are:

- 2016/17 through to 2018/19, reserves remain positive and above the minimum level.
- 2019/20, reserves remain positive but fall well below the minimum level.
- 2020/21, reserves are negative and are significantly below the minimum level.

7.3 The Council has over the past 24 months followed some significant approaches to service transformation that has reduced the Council's net budget by £4.4m. However, the reducing General Fund Balance over the medium-term, in fact going negative by 2020/21, does pose a significant risk to the financial sustainability of the Council; the freezing of Council Tax and the removal of NHB are significant contributors to this scenario.

7.4 The Council does have in place a number of strategies that should help the Council to transform further, some of these being tried-and-tested approaches and others being more innovative solutions to service transformation. The Council has to continue the process of change and be prepared to undertake more radical approaches to service delivery to achieve the savings required that will balance the budget and set the Council free from government funding.

8. WHY IS THIS REPORT NECESSARY/BACKGROUND

8.1 It is a requirement of the Council to set an annual budget and to have a Medium Term Financial Strategy.

9. OPTIONS CONSIDERED/ANALYSIS

9.1 In preparing the budget the Council has prepared a range of options and these options are analysed within the main section of the report.

10. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

10.1 There are a number of key savings initiatives that must be delivered in a timely fashion to secure the required savings. The delivery of the 2016/17 budget, when approved will be managed via the Council's budget monitoring processes throughout the year.

11. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 11.1 The 2016/17 budget forms an integral part of service plans for 2016/17 and, therefore, actions and timescales required to ensure savings are achieved and service spending is in line with the approved budget, will be contained within the final service plans.

12. LINK TO THE CORPORATE PLAN

- 12.1 The budget is the financial interpretation of the Council's strategic and operational priorities that are included within the entire Corporate Plan. However, the budget process (i.e. ZBB, monitoring etc) itself meets the following specific aims and objectives of the Corporate Plan:

- Ensuring we are a customer focused and service led council, delivering value for money services.

- 12.2 This will assist the Council in:

- "becoming more business-like and efficient in the way we deliver services".

13. CONSULTATION

- 13.1 The ZBB process has required extensive consultations within each of the teams where ZBB reviews have been undertaken, as well as with the relevant Portfolio Holder. The results of each review have also been reported to this Panel and Cabinet.

- 13.2 In respect of the 2016/17 budget a full budget consultation with the public has taken place. The results of this consultation are shown in **Appendix 3**.

- 13.3 The Council is currently consulting with the Business Community and the results of this consultation will be available for the February Cabinet meeting.

14. LEGAL IMPLICATIONS

- 14.1 As per the Sections 31A and 42A of the Local Government Finance Act 1992, the Council is required to set a balanced budget. This is achieved for 2016/17 so the setting of the Council Tax at the level mentioned within the report is appropriate.

- 14.2 However, by 2020/21 the MTFS is forecasting a negative general fund which means that there will be an unbalanced budget because there will be insufficient funds within reserves to meet the difference between Net Expenditure and Funding. If such a scenario was faced by the Council, the Local Government Finance Act 1988 would require the Council's Responsible Financial Officer to issue a S.114 report.

15. RESOURCE IMPLICATIONS

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

16. OTHER IMPLICATIONS

16.1 All implications are contained within the body of the report.

17 REASONS FOR THE RECOMMENDED DECISIONS

17.1 To enable Cabinet to approve and understand:

- the changes to the draft budget and MTFS as approved by Cabinet in January 2016.
- The risks and impacts of these, on the 2016/17 budget and MTFS.

18. LIST OF APPENDICES INCLUDED

Appendix 1: 2016/17 Budget & Medium Term Financial Strategy 2017/18 to 2020/21

Appendix 2: Plan on a Page


Appendix 3: Budget consultation results

BACKGROUND PAPERS


Working papers in Resources; Accountancy Services

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