

**HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title/Subject Matter:** 2016/17 Budget and Medium Term Financial Strategy  
(2017/18 to 2020/21)

**Meeting/Date:** Council – 24<sup>th</sup> February 2016

**Executive Portfolio:** Resources: Councillor J A Gray

**Report by:** Head of Resources

**Ward(s) affected:** All

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**Executive Summary:**

The Council is required to consider and approve:

- The 2016/17 Budget and the Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2020/21.
- The Fees and Charges schedule for 2016/17.
- The Treasury Management Policy, Strategy & Prudential, Treasury Management and Commercial Investment Strategy Indicators for 2016/17.
- The Annual Minimum Revenue Provision Policy 2016/17.
- The formal resolution to determine the Council Tax for 2016/17.

Consequently, this report presents the Council's plans in these respects.

**Recommendation(s):**

It is recommended that Council approves the:

1. Overall budget 2016/17 and MTFS 2017/18 to 2020/21 (**Appendix 1** includes the Revenue Budgets at Section 2, the Capital Programme at Section 3 and the 2016/17 Fees and Charges at Section 7, Annex A).
2. Freezing of Council Tax for 2016/17 i.e. the Band D charge will remain at £133.18 (**Appendix 1**, paragraph 1.3) and approves the formal resolution on the Council Tax (**Appendix 1**, Section 6, Item (a) to (e)).
3. Future savings target of £3.6m (21%) of Net Expenditure by 2020/21.
4. 2016/17 Treasury Management Policy, Strategy & Indicators and the Annual Minimum Revenue Policy be approved (**Appendix 2**).
5. That in future, the "Net Cost of Borrowing –v- Net Expenditure" indicator is reported as part of the Treasury Management Suite of Indicators.

## 1. WHAT IS THIS REPORT ABOUT

1.1 The purpose of this report is to allow Council to consider and decide upon the recommendations made by Cabinet in relation to the 2016/17 budget, the Medium Term Financial Strategy (MTFS), the Treasury Management Policy/Strategy and other associated matters.

1.2 It also seeks Council's formal determination of the Council Tax for 2016/17.

## 2. BACKGROUND

2.1 During December 2015 and January 2016, the Overview & Scrutiny Panel (Finance and Performance) and Cabinet received reports:

- detailing the Zero Based Budgeting (ZBB) process that had been undertaken over the past six months, and the
- Draft 2016/17 Budget and MTFS (2017/18 to 2020/21).

2.2 The net ZBB savings incorporated into the 2016/17 Budget totalled £1.4m.

2.3 In the light of continued public sector austerity; to assist the Council in capturing the transformation that was required so that it would meet its Corporate Vision & Strategic Priorities over the medium term, members will recall that during 2015/16 the Council introduced the Plan-on-a-Page. The Plan-on-a-Page identified that it needed to find £8.2m (38%) of its Net Expenditure by 2019/20. The compounded impact of the savings identified as a consequence of ZBB (Tranche 2 and 3), Shared Services and Income Generation has meant that it has saved £4.7m (58% of the aforementioned £8.2m).

## 3. 2016/17 Budget and MTFS (2017/18 to 2020/21)

3.1 The detailed 2016/17 Budget & MTFS (2017/18 to 2020/21) is shown in **Appendix 1**. The key elements that members should note are as follows:

- i. Paragraph 1.3.1, this shows that for 2016/17:
  - Net expenditure for the Council is £17.9m.
  - The Budget Requirement for the Council is £19.9m.
  - A budgeted contribution to reserves of £2.0m.
  - Council Tax Requirement for the Council is £7.905m.
  - Council Tax Base is 59,358
  - Council Tax per Band D property is £133.18.

### **This represents a Council Tax Freeze for 2016/17.**

80% of businesses who responded to the business consultation supported this proposal (**Appendix 4**).

- For the MTFS period, 2017/18 to 2020/21, Council Tax per Band D property remains frozen for the period of the MTFS.

60% of businesses who responded to the recent business consultation supported this proposal (**Appendix 4**).

- ii. Paragraph 1.4.1, this shows that:
  - for 2016/17, it is estimated that reserves at the end of the year are estimated to be £5.298m.
  - over the MTFS period (2017/18 to 2020/21) Reserves would fall to a deficit of £0.837m. *This will give the Council an unbalanced budget and is therefore unacceptable.*

iii. Paragraph 2.1 shows the overall spend and income by subjective analysis (i.e. employees, buildings etc.) for all Council services; with Paragraph 2.2 showing, for each service, the spend and income by subjective analysis along with a breakdown by team (objective analysis).

iv. Paragraph 3.1 details the proposed capital programme.

On the 11<sup>th</sup> February 2016, the Council was notified of its Better Care Fund allocation from Cambridgeshire County Council in respect of its 2016/17 grant allocation for Disabled Facility Grants (DFG's). The original capital programme included grant support of £0.5m; however, the actual allocation was £1.0m, an unanticipated increase of £0.5m. Consequently, following discussion at Cabinet this grant will be applied to reduce the Councils net cost of DFG's from £0.9m to £0.4m.

v. Paragraph 4.0 and 5.0 indicate the main budgetary issues relating to Treasury Management and the Capital Financing Requirement.

vi. Paragraph 6.1 is the Formal 2016/17 Council Tax Resolution, with Paragraph 6.2 illustrating the Council Tax Base. Paragraph 6.3 and 6.4 will show the:

- 2016/17 Council Tax by Property Band for each Precepting Authority, and the Billing Authority, and the
- Total 2016/17 Council Tax by Property Band for each Precepting Authority and the Billing Authority.

However, at the time of drafting this report not all Precepting Authorities had issued their Precepts, these papers will be distributed on the evening of the meeting (if all Precepting Authorities have by then determined their precept).

The Resolution and accompanying tables are based on the assumption that the Council will support the proposals in the budget report for Huntingdonshire District Councils' Council Tax for 2016/17.

vii. Paragraph 7.0 and Annex A details the Fees and Charges Schedule for 2016/17. Where the Council has discretion to increase fees and charges, and it has been considered appropriate to do so, relevant fees and charges have been increased. The service areas that have increased fees and charges include Resources (Commercial Property), One Leisure, Operations (Car Parks and Green Spaces) and Customer Services (Document Centre).

- viii. Paragraph 8.0 is the statutory Robustness Report required by the Responsible Financial Officer (Section 151 officer). In summary, the budget proposed for 2016/17 should not give Members any significant concerns over the Council's financial position. However, over the MTFS period Members should continue to review services, especially as at this time the Council is forecast to be in an unbalanced budget position by 2020/21. A new "plan-on-a-page" savings target of £3.6m (21%) is required to "balance" the budget by 2020/21.

#### 4. Treasury Management Policy & Strategy and the Annual Minimum Revenue Provision for 2016/17

4.1 The Treasury Management Policy & Strategy and the Annual Minimum Revenue Provision for 2016/17 are detailed in **Appendix 2**. The key elements that members should note are as follows:

- i. An increase in net borrowing costs (additional £53,000) resulting from a combination of increases in the cost to borrow, as external borrowing replaces cheaper internal borrowing (i.e. use of the Council's cash balances), and low rates of return on non-CIS investments.
- ii. The continued general investment strategy of keeping investments highly liquid and lower risk, by investing in mainly money market funds (highly diversified) and call accounts (overnight deposit accounts).
- iii. The treasury function and the MTFS is operating in an economic environment where:
  - Inflation is extremely low and likely to remain so in the short-term.
  - The credit outlook is improving but still remains uncertain.
  - Interest rates are very low, and despite forecast increases, have remained so. The latest forecast suggests a possible rise in the third quarter of 2016 (and potentially into 2017).
- iv. The addition the CIS performance indicators against which the CIS investments will be monitored.
- v. The addition of a new Minimum Revenue Provision policy (the charge to revenue for the repayment of debt) to cover CIS investments.

4.2 Council agreed in February 2013 that specific consideration should be given where, in any particular year over the MTFS period, the net cost of borrowing or lending activity exceeded 15%. **Table 1** below shows that the 15% limit is marginally exceeded in 2017/18 and by 3.3% by 2020/21.

4.3 The revenue consequences of past capital investment decisions, along with the consequences of new decisions, would be expected to represent a higher proportion of a reducing budget over the medium-term. However, debt as a singular issue should not be a concern providing it is recognised, managed and budgeted for; which is clearly demonstrated by the fact that the Council:

- has in place good processes to approve and monitor capital investment decisions, both at the officer level via the Finance Governance Board and at member level via the Treasury and Capital Management Group.
- recognises the impact of Capital decisions on the Council's budget, as these costs are embedded within the Corporate Finance sub-sections of

the budget as well as the overall impact of the MTFS on Reserves (section 1.4, Appendix 1).

	Analysis of Net Cost of Borrowing or Lending Activity .V. Net Expenditure				
	Budget	Medium Term Financial Strategy			
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<b>Net Expenditure</b>	<b>17,913</b>	<b>17,545</b>	<b>17,401</b>	<b>17,232</b>	<b>17,471</b>
Net Interest and Borrowing Costs					
- total	1,994	2,737	3,102	3,178	3,205
- as % of total net spending	11.1%	15.6%	17.8%	18.4%	18.3%
- <b>net cost of borrowing 15%</b>	<b>2,687</b>	<b>2,632</b>	<b>2,610</b>	<b>2,585</b>	<b>2,621</b>
<b>Is 15% exceeded, if yes:</b>	<b>No</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
- by how much?	N/a	105	492	593	584
- % of Net Expenditure		0.6%	2.8%	3.4%	3.3%
Note: 1. Net cost of borrowing = Investment Interest Received + Investment Interest Paid + Minimum Revenue Provision. 2. This analysis does not take into account the borrowing costs relating to the Commercial Investment Strategy. The reason for this is because borrowing will only take place when a specific investment decision is going to be made and such costs will be met by the prospective income streams.					

4.4 In future this indicator should be reported within the suite of indicators within the Treasury Management Strategy.

## 5. OPTIONS CONSIDERED/ANALYSIS

5.1 In preparing the budget due consideration has been given to a range of options and these have been reported to Cabinet as part of the Zero Based Budgeting process and again through the budget setting process.

## 6. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

6.1 The delivery of the 2016/17 budget will be managed via the Council's budget monitoring processes throughout the year.

6.2 However, by 2020/21, there are a number of key savings initiatives or additional income generation schemes that must be delivered in a timely fashion to secure the £3.6m (21%) savings required (3.1 viii) to ensure that the Council has a balanced budget.

## 7. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

7.1 The 2016/17 budget forms an integral part of the service planning process 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.

## 8. LINK TO THE CORPORATE PLAN

8.1 The budget is the financial interpretation of the Council's strategic and operational priorities that are included within the Corporate Plan.

## **9. CONSULTATION**

### **Internally**

- 9.1 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 both Overview and Scrutiny Panel (Finance and Performance) and Cabinet.

### **Externally – Non Business**

- 9.2 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**.

### **Externally – Business**

- 9.3 Between the Draft Budget being approved by Cabinet in January 2016 and the Final Budget being presented to Cabinet in February 2016, a consultation with the Business Community has taken place. The results of this consultation are shown in **Appendix 4**.

## **10. LEGAL IMPLICATIONS**

- 10.1 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.
- 10.2 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.

## **11. RESOURCE IMPLICATIONS**

- 11.1 The Council is required to set a balanced budget for 2016/17. **Appendix 1** includes a report from the Head of Resources (as the Responsible Financial Officer) confirming that he considers the budget is sufficiently robust and that there are adequate reserves.

## **12. REASONS FOR THE RECOMMENDED DECISIONS**

- 12.1 To enable members of the Council to consider the:
- 2016/17 Budget and Council Tax to be set.
  - implications for the Council in respect of the Medium Term Financial Strategy for the period 2017/18 to 2020/21.

## **13. LIST OF APPENDICES INCLUDED**

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

**Appendix 2:** Treasury Management Policy & Strategy and the Annual Minimum Revenue Provision for 2015/16

**Appendix 3:** Budget consultation results - Non-business


**Appendix 4:** Budget consultation results - Business

## **BACKGROUND PAPERS**


None.

## **CONTACT OFFICERS**

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