Report to the Finance and Performance Management Cabinet Committee
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Epping Forest District Council

Portfolio: **Finance**

Subject: **Council Budgets 2015/16**

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Recommendations/Decisions Required:

(1) That the Committee considers the Council's 2015/16 General Fund budgets and makes recommendations to the Cabinet meeting on 2 February 2015 on adopting the following:

(a) the revised revenue estimates for 2014/15, which are anticipated to increase the General Fund balance by £112,000;

(b) confirmation of an increase in the target for the 2015/16 CSB budget from £13.15m to £13.29m (including growth items);

(c) an increase in the target for the 2015/16 DDF net spend from £0.204m to £0.976m;

(d) no change in the District Council Tax for a Band 'D' property to keep the charge at £148.77;

(e) the estimated increase in General Fund balances in 2015/16 of £30,000;

(f) the four year capital programme 2015/16 – 18/19;

(g) the Medium Term Financial Strategy 2014/15 – 18/19;

(h) the Council's policy on General Fund Revenue Balances to remain that they are allowed to fall no lower than 25% of the Net Budget Requirement.

(2) That the Committee recommends to the Cabinet that the 2015/16 HRA budget including the revised revenue estimates for 2014/15 be agreed;

(3) That the Cabinet be requested to note that rent increases proposed for 2015/16 will give an average overall increase of 2.2%;

(4) That the Committee notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2015/16 budgets and the adequacy of the reserves.

Executive Summary:

This report sets out the detailed recommendations for the Council's budget for 2015/16. The budget adds £30,000 to reserves and the Council's policy on the level of reserves can be maintained throughout the period of the Medium Term Financial Strategy (MTFS). Over the course of the MTFS the use of reserves to support spending peaks at £304,000 in 2016/17 and reduces to £127,000 in 2018/19.

The budget is based on the assumption that Council Tax will be frozen and that average Housing Revenue Account rents will increase by 2.2% in 2015/16.

Reasons for Proposed Decisions:

The decisions are necessary to assist Cabinet in determining the budget that will be placed before Council on 17 February 2015.

Other Options for Action:

Members could decide not to approve the recommended figures and instead specify which growth items they would like removed from the lists, or Members could ask for further items to be added.

Report:

1. On 2 February 2015 the Cabinet will receive the minutes and recommendations contained therein of this meeting and will then make recommendations to Council for the setting of the Council Tax and budget on 17 February 2015.

2. The annual budget process commenced with the Financial Issues Paper (FIP) being presented to this Committee on 28 July 2014. The paper was prepared two months earlier than usual because of concern over the cumulative effect of reductions in public expenditure and highlighted the uncertainties associated with:

   a) Central Government Funding
   b) Business Rates Retention
   c) Welfare Reform
   d) New Homes Bonus
   e) Development Opportunities
   f) Income Streams
   g) Waste and Leisure Contract Renewals
   h) Organisational Review

3. There is now greater clarity on some of these issues, but several of them will not be resolved for some time. The key areas are revisited in subsequent paragraphs.

4. In setting the budget for the current year Members had anticipated using £243,000 from the General Fund reserves. This was possible as the MTFS approved in February 2014 showed a combination of net savings targets and limited use of reserves which still adhered to the policy on reserves over the medium term. The limited use of reserves in 2014/15 was not significant as the MTFS at that time was predicting the use of just over £1.7 million of reserves to support spending in the following three years.

5. The revised MTFS presented with the FIP took into account all the changes known at that point and highlighted the additional reductions in support grant. This projection showed a need to achieve net savings of £500,000 on both the 2015/16 and 2016/17 estimates, followed by £300,000 in 2017/18 and £200,000 in 2018/19 to keep revenue balances comfortably above the target level at the end of 2018/19.

6. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. The budget guidelines for 2015/16 were therefore established

as:

- i. The ceiling for CSB net expenditure be no more than £13.15m including net growth/savings.
- ii. The ceiling for DDF net expenditure be no more than £0.204m.
- iii. The District Council Tax to be frozen.

The Current Position

7. The draft General Fund budget summaries are included elsewhere on the agenda. The main year on year resource movements are highlighted in the CSB and DDF lists, which are attached as Annexes 2 and 3. In terms of the guidelines, the position is set out below, after an update on each of the key areas highlighted in the FIP.

a) Central Government Funding

8. The 2013/14 financial year took us into the new world of locally retained business rates, vastly reduced Revenue Support Grant and Local Council Tax Support. Rather unhelpfully the DCLG did not provide a separate figure for Local Council Tax Support Grant for 2014/15 and this has been maintained with the draft figures supplied immediately before Christmas. This means it is necessary to provide two comparative tables below to illustrate the reductions in funding. The first table is based on Formula Grant but this is only possible up to 2013/14.

	2009/10 £m	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**
Formula Grant (adjusted)	9.368	9.415 (8.710)	7.590 (7.543)	6.656	6.050
Increase/(Decrease) £	0.046	0.047	(1.120)	(0.887)	(0.606)
Increase/(Decrease) %	0.5%	0.5%	(12.9%)	(11.8%)	(9.1%)

9. The figures shown above illustrate the substantial annual reductions that began in 2011/12. Even using the adjusted figure of £8.710m for 2010/11, Formula Grant reduced by £2.66m or 31% over three years. From 2014/15 Formula Grant has not been separately identified so a different comparison is needed.

	2013/14 £m	**2014/15 £m**	**2015/16 £m**
Formula Grant	6.050	Not known	Not known
Homelessness Grant	0.113	Not known	Not known
Local Council Tax Support Grant	1.119	Not known	Not known
Funding Assessment	**7.282**	**6.375**	**5.467**
Increase/(Decrease) £	n/a	(0.907)	(0.908)
Increase/(Decrease) %	n/a	(12.5%)	(14.2%)

10. By not providing a full analysis for 2014/15 and 2015/16 the DCLG has prevented a detailed comparison with earlier periods. The draft figure for 2015/16 of £5.467m is slightly higher than the figure of £5.393m provided this time last year. It can still be seen that in three years under this new system funding reduces by £1.815m or by 24.9%. Using the two tables to make a crude comparison it can be seen that over 5 years funding has fallen by nearly 60%. The funding position in 2015/16 is £74,000 better than had been anticipated in the February 2014 MTFS. In updating the MTFS the changes have been allowed for but the lack of figures beyond 2015/16 requires a larger element of educated guesswork than usual.

11. As part of abolishing Council Tax Benefit and introducing Local Council Tax Support the DCLG had to determine whether parish councils would be affected by the reduction in council tax base or left outside the calculations. Despite the consultation

responses on the scheme being massively in favour of tax base adjustments only at district level the DCLG decided that parish councils should also be affected. One of the problems with that decision was that DCLG does not have a legal power to make grant payments direct to parish councils. This meant the funding for these councils had to be included in the grants to districts and it was then for districts to determine how much of the grant was passed on. Members determined for 2013/14 that parish councils should be fully protected, a decision not shared by many authorities across the country. This meant that the figure notionally relating to parishes of £312,812 was topped up with an additional £7,460 to £320,272.

12. We do not have separate figures now for Local Council Tax Support, let alone a detailed split between the district and the parishes. In the absence of this information it is fair to assume the overall reductions of 12.5% and 14.2% are common to each element of the Funding Assessment. Funding to parish councils was reduced on that basis in 2014/15 and a consistent approach is proposed to reduce this by 14.2% for 2015/16 (£39,793). These amounts need to be seen in the light of the total parish precepts for 2014/15 being over £3m. There is a separate report elsewhere on the agenda setting out the amounts for individual parishes and this information was circulated to parish colleagues before Christmas.

b) Business Rates Retention

13. We have only had one full year of business rates retention and it is a complex system of funding. Given this complexity and the increasing importance of business rate retention relative to revenue support grant it is worth repeating a brief explanation of the system below.

14. For this district the predicted total amount of non-domestic rates for 2013/14 was set as £31,888,336, which is shared out as shown in the table below.

Authority & Percentage Share	Amount £
Central Government (50%)	15,944,168
EFDC (40%)	12,755,334
Essex County Council (9%)	2,869,950
Essex Fire Authority (1%)	318,884

15. As the billing authority we are responsible for collecting the money and then paying it over as set out above. However, as our share (£12,755,334) exceeds the amount of our funding deemed to come from retained business rates (£2,909,311) the excess (£9,846,023) is also paid to Central Government as a “Tariff”. The tariffs are used to provide “Top Ups” to those authorities whose non-domestic rate income is lower than their deemed funding from business rates. Overall this means we will be collecting nearly £32m but retaining less than £3m, or just over 9%.

16. The basic amounts within the system are now fixed for an extended period, DCLG have stated that the system will not be re-set until 2020. Although this does not apply to the tariff payments that will be increased annually by inflation, we have been given indicative tariff figures of £10.038m and £10.230m for 2014/15 and 2015/16 respectively.

17. Overall the predicted total level of non-domestic rates was broadly in line with the current position and it was felt unlikely that the Council would have either a large initial shortfall or any windfall gain from the new system. There was a major concern here though due to the way appeals and refunds are treated within the system. Even though DCLG have already had the benefit of non-domestic rates paid in respect of periods prior to 1 April 2013, all appeals regardless of start date are accounted for within the new system. This means billing authorities will be refunding money that they have not benefited from in the first place. It also means that in getting to a predicted level of

non-domestic rates for 2013/14, allowance had to be made for the amount of money we anticipated having to pay out in appeals and refunds.

18. Calculating an appropriate provision for appeals was extremely difficult as there are several hundred appeals with the Valuation Office. Each appeal will have arisen from different circumstances and it is difficult to produce a uniform percentage to apply. This is a particular concern at the moment as there is one property in the south of the district which has a rateable value approaching £6 million and is currently being appealed. If a full provision was included in our calculations for the owners of this property being completely successful in their appeal there would be a significant shortfall. Based on previous experience and discussions with the Valuation Office a provision has been calculated that is felt to be prudent, but given the size of the financial risk here it is worth mentioning the potential problem.

19. Having had that reminder of the structure of the system we can reflect on how the first year went and what the future prospects are. The 2013/14 figures have been audited and the total amount of non-domestic rate income fell approximately £1m short of the £31.9m target. This translated to a shortfall of just under £400,000 in the Council's funding. However, part of the reason for the overall shortfall was the late changes made to the system to extend small business rate relief, cap increases in bills and introduce retail rate relief. These changes were not part of the original system design and as they were reducing business rate income for local authorities a compensation system of grants was constructed. The DCLG were very late confirming the amounts and dates of payments for the compensatory grants and this complicated the budgeting process. Ultimately though the compensatory grants meant the combined income from the various sources under business rates retention for 2013/14 was £56,852 higher than the baseline funding level. This meant in addition to the £9.85m of tariff already paid a levy of £28,426 also had to be paid on this excess income.

20. The other aspect of the system to reflect on is cash collection and thankfully we have far more control over that than we do over appeals. Cash collection is important as the Council is required to make payments to the Government and other authorities based on their share of the rating list. These payments are fixed and have to be made even if no money is collected. Therefore, effective collection is important as this can generate a cash flow advantage to the Council. If collection rates are low the Council is left to finance these payments from working capital and so has to reduce investment balances.

21. Members recognised the increasing importance of cash collection in the new system and increased the CSB budget by £25,000 to fund legal action in difficult, high value cases. This proved a sound investment as the collection rate was boosted from 96.85% to 98.09%. This exceeded the target of 97.5% and was the highest collection rate for several years. This meant that, even allowing for the appeal refunds, it was possible to fund all of the payments required by the system without reducing the Council's investment balances.

22. Having reflected on the mechanics of the system and the first year of operation we now need to consider the future. Firstly, is that excess funding likely to continue? This would seem likely as the 2013/14 figures suffered from old appeals being settled and a substantial provision based on external professional advice has been included at the year end. As the next updating of the rates list has been postponed to 2017 another fresh batch of appeals should not be received for some time. Historically we have seen growth in the rating list each year and with the sites covered in the section on development opportunities there are good prospects for future growth.

23. It is difficult to predict what the outcome of the general election will be and so the role of retained business rates within the system of local government funding may change. The current Secretary of State has indicated that he would like to see an increase in

the percentage retained. If this was to happen and the various development opportunities were to be taken forward it is possible to contemplate a position within 5 years when the Council could be self-sufficient and not rely at all on revenue support grant. As we cannot yet accurately predict completion dates or rateable values for the developments the MTFS has not assumed any growth in retained business rates from these projects. This is a prudent position as the Council seems likely to benefit from the change to local retention of business rates.

24. One other aspect of the new scheme worth mentioning is the ability to pool with other authorities to share risk and reduce levy payments. As we were not in a pool for 2013/14 half of the growth above the baseline funding level had to be paid over as levy. Thankfully this year's Autumn Statement contained less of the shocks that caused pooling to be abandoned for 2014/15. Although the work done in relation to 2014/15 has provided a useful basis and through the Essex Leaders Strategic Finance Group it should be possible to have a pool in place for 2015/16.

c) Welfare Reform

25. This phrase is used to capture a number of initiatives that are radically changing the way many benefits are paid and the amounts of those benefits. The single largest change from 1 April 2013 was the abolition of Council Tax Benefit and its replacement with Local Council Tax Support (LCTS). Much effort has gone in across the county to develop, consult on and implement schemes aimed at being self financing. Because of the requirement to protect people of pension age and the different demographics across the county it was not possible to agree a single uniform scheme but a number of common principles were agreed that all of the schemes were based on.

26. In constructing our own scheme we were always conscious that some of the assumptions being used by the DCLG and the Department for Work & Pensions (DWP) meant that talk of a 10% saving would in reality mean a funding gap closer to 15%. This meant many variables were modeled and considered before a draft scheme was agreed by Cabinet for consultation and finally adoption by Council in December 2012. The outturn shows that the 2013/14 scheme did its job and even returned a small surplus. As in-year monitoring had indicated that the scheme was working well no significant changes were made to the scheme for 2014/15.

27. In the section above on central government funding I explained that DCLG no longer tell us how much of the funding we get is for LCTS. On the basis that overall funding is reducing and without any other facts it is reasonable to assume that LCTS funding is reducing to the same extent as the overall funding. If caseload was constant, this would present us with a choice of either reducing the amount of money allocated for LCTS and consequently increase the size of the bills for those receiving support or we could subsidise LCTS by making reductions in other General Fund areas to pay for it. This would have been a difficult decision but thankfully the significant reduction in caseload means the existing scheme can continue largely unchanged into 2015/16 and this was confirmed at Council on 16 December 2014.

28. It is worth taking this opportunity to briefly update on some of the other welfare reforms. Both the Benefits Cap and the Spare Room Subsidy (also known as the "Bedroom Tax") have now been with us for a little while. Indications are that the impact of these changes has not caused major problems for many residents. There has been some demand amongst those deemed to be under-occupying to downsize but many have decided to stay where they are and pay a higher proportion of their rent themselves. Both the Conservatives and Labour have talked about further reductions in welfare after the election and so some residents may find their current situations are not sustainable in the long term.

29. A change that is currently being implemented is the Single Fraud Investigation Service (SFIS). This will see staff who investigate housing benefit fraud transfer to the DWP.

To prepare for this transfer in 2015/16 both the Internal Audit and Housing Benefit functions had restructures approved by Cabinet on 1 December 2014.

30. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit. Unfortunately this scheme has been subjected to delays, confusion and critical reports from the National Audit Office. There is still no clarity over the time period and process for the migration of our existing housing benefit claims to Universal Credit. The DWP is still to decide on the role it wants local authorities to perform under the new system. Whilst there seems general agreement about the need to bring the welfare bill for the country under control there remains room for improvement in the delivery mechanisms and it would not be a surprise if whoever wins the election drops Universal Credit.

d) New Homes Bonus

31. The amount of NHB payable for a year is determined by the annual change in the total number of properties on the council tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average council tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years.

32. The update to the MTFS in July had included an additional £130,000 for NHB. Now the full amount of new properties and empty properties brought back in to use is known this amount has nearly doubled to £252,000. This Council has done relatively well from NHB and the amount the Council will receive for the first 5 years of NHB in 2015/16 is nearly £2.1 million.

33. The DCLG has published a review of NHB that concluded the scheme was working well and largely achieving it's objectives. This view is not shared universally as many areas of the country are unhappy with the re-distributional effect of NHB and the future shape and possibly existence of NHB may depend on who wins the general election. It should be remembered though that the funding for NHB was top sliced from the overall local government funding pot. If a worst case scenario happens and the scheme is entirely scrapped it will take at least a year for an alternative allocation system to be devised. An alternative allocation system may not be as generous to this Council but the funding would not be completely lost as any new allocation system normally has floors and ceilings to prevent large fluctuations in funding in any one year.

34. NHB for future years is not anticipated in the MTFS and given the uncertainty beyond the general election this is still a prudent assumption. The inclusion of the additional £252,000 in 2015/16 takes the NHB income in the CSB to just over £2m.

e) Development Opportunities

35. Significant progress has been made since July on some of the Council's development sites. It is worth touching briefly on some of the opportunities that currently exist in the district and their likely benefits. This is particularly important given the potential changes mentioned above to retained business rates.

36. The Heads of Terms for the re-development of the Winston Churchill public house site has been re-negotiated. Originally the Council was entitled to a capital receipt which could have increased depending on the sale values achieved for the flats. Under the revised agreement the Council takes less risk and changes the income from one-off capital to ongoing revenue.

37. Agreement has been reached to buy Essex County Council's land in the St Johns area of Epping. This should make it easier to take forward the exciting mixed use re-

development of that area. This is a substantial scheme and it is likely to bring considerable benefits to the district. The largest single scheme is the Langston Road shopping park development. On 16 December Cabinet agreed an appropriate legal structure and associated documents to progress the scheme. To assist in freeing up this site approval has been provided for a new depot at Oakwood Hill. Other possibilities for Waltham Abbey and North Weald are further off but should not be forgotten.

38. Even though there has been good progress there remains a lack of certainty at this time about the completion dates and composition of the schemes. In 2015/16 the management of these schemes will revert from a temporary home in the Governance Directorate to the Neighbourhoods Directorate. If the Council is to achieve the stated objective of reducing reliance on revenue support grant it is crucial that the momentum that has been achieved in 2014/15 is continued by those taking charge of the schemes in 2015/16. The revenue benefits of the schemes have not been anticipated in the MTFS but some development budgets have been approved by Members and these are included in the capital and DDF programmes as appropriate.

f) Income Streams

39. As you would expect, several of the Council's income streams reflect the position in the wider economy. Having suffered reductions during the downturn many of these areas are doing better now as the economy is improving The FIP reported on the income position as at the end of June, which showed a combined potential surplus of £60,000. In every area the income position has improved in the subsequent six months. This is particularly evident for Development Control which is likely to see £80,000 of CSB growth and an additional £40,000 coming from pre-application charges.

40. Last year saw the first change to parking fees for many years and a detailed study is underway to consider how the charging scheme might be amended in future to ensure short term spaces are available for shoppers. Detailed recommendations from this work are likely to be presented to Cabinet in February. As part of the consideration of various business cases earlier in the budget cycle, Members agreed that a modest increase in income of £100,000 should be targeted for this area for 2015/16.

41. The other key income stream worth commenting on is the market at North Weald. As the operator was experiencing financial difficulties the Council agreed to move away from a fixed rent to an income share. This should place the market on a more sustainable basis going forward but has meant that the estimate for CSB income from the market has been reduced by £310,000.

g) Waste and Leisure Contract Renewals

42. Two of the Council's high profile and high cost services are provided by external contractors, Biffa for waste and SLM for leisure. The new waste contract commenced in November 2014 following a competitive dialogue procedure to achieve innovation and efficiency in the provision of this service. It was possible to procure the service at a lower cost than the previous contract and Biffa have made an encouraging start. Effective monitoring of the contract will be necessary to ensure it delivers the service improvements and cost savings that were included in the winning tender.

43. The leisure management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. A Leisure Strategy was approved by Cabinet in December 2014 to provide a vision for a new contract. The Director of Neighbourhoods is confident that a new contract based on this vision will achieve significant efficiencies and CSB reductions of £250,000 have been included in the later years of the MTFS.

h) Organisational Review

44. The 2014/15 budget included the effects of the first stage of the organisational restructure. This involved a reduction in the numbers of Directors and Assistant Directors and saw services consolidated into four new directorates. As phase two of the restructure, each directorate has now evaluated both opportunities to improve efficiency and areas that have been historically under resourced. This process has yielded some savings but also highlighted some additional funding requirements, such as economic development. The MTFS has been adjusted for the changes to the organisation from this second phase. Although it is likely that the further amendments will continue during 2015/16.

45. A budget of £150,000 was included in the DDF for 2014/15 to allow the Chief Executive to take forward Transformational Projects. None of this money has been spent to date, although the Chief Executive is taking forward a flexible working and accommodation review. Early in the budget cycle he presented a business case and the projected saving of £100,000 has been included in the MTFS in 2016/17.

The ceiling for CSB net expenditure be no more than £13.15m including net growth

46. Annex 2 lists all the CSB changes for next year. The MTFS in July included CSB savings of £785,000 for 2015/16 and the revised 2014/15 budget had an additional £75,000 of savings. The most significant item not already covered above is a change in the allocation of work done in relation to anti-social behaviour. These costs have previously been borne entirely by the General Fund but now the Housing Revenue Account will pay for the work done on its behalf. It is anticipated that this will move over £100,000 of costs out of the General Fund.

47. Given the earlier start to the budget process this year and the large net cost increases from the loss of income from the market at North Weald and the investment in economic development, the November meeting of this committee considered whether the CSB target set in July should be amended. The Committee decided not to increase the savings targets by the full £430,000 necessary to maintain the July CSB target but to limit the increase to £250,000, thus allowing an increase in the CSB target of £180,000 to £13.33m.

48. The greater savings in 2014/15 and inflation being less than had been allowed for mean that the opening CSB in 2015/16 is £58,000 lower than anticipated in the previous MTFS. This means that although CSB savings are lower than the July target, the closing CSB is still £40,000 lower than adjusted November target.

49. The General Fund summary at Annex 1 shows that the CSB total is £140,000 above the July CSB target of £13.15m and it is therefore proposed to increase the CSB target to £13.29m.

The ceiling for DDF net expenditure be no more than £0.204m

50. The DDF net movement for 2015/16 is £0.976m, Annex 3 lists all the DDF items in detail. The largest cost item is £250,000 for work on the Local Plan. The Local Plan is a substantial and unavoidable project and in 2014/15 and the subsequent two years DDF funding of £0.76m is allocated to it. The Director of Neighbourhoods has been asked to provide regular updates to Cabinet to monitor this project and the expenditure incurred on it. Other significant items of expenditure include £129,000 for the planned building maintenance programme and £188,000 for the work on asset rationalisation.

51. The DDF lists include £150,000 (£75,000 in 2014/15 and £75,000 in 2015/16) for the Chief Executive's Transformation Programme. As mentioned above, the full amount was originally included in the budget for 2014/15 but none of the money has yet been

spent. As the flexible working and accommodation review is taken forward external assistance will be necessary to transform the Council's operations. Whether all of this funding is needed will depend on the scale and nature of the projects pursued but it is prudent to leave the original budget intact at this time.

52. At £0.976m the DDF programme is £0.772m above the target for 2015/16. However, this needs to be balanced with the reduction in 2014/15 as the predicted spend in the previous MTFS of £2.269m has been reduced by £1.116m to £1.153m. Taking the two years together there is a net decrease in DDF spending of £0.344m. Therefore, it is proposed to increase the DDF ceiling for 2015/16 from £0.204m to £0.976m. The DDF is predicted to continue to have funds available through to the end of the period covered by the MTFS.

<u>The District Council Tax be frozen</u>

53. Members have indicated that they want to benefit from the Council Tax freeze grant for 2015/16 and so the Council Tax will not be increased for 2015/16.

<u>That longer term guidelines covering the period to March 2018 provide for</u>

The level of General Fund revenue balances to be maintained within a range of approximately £4.0m to £4.5m but at no lower level than 25% of net budget requirement whichever is the higher;

54. Current projections show this rule will not be breached by 2018/19, by which time reserves will have reduced to £9.332m and 25% of net budget requirement will be £3.139m.

Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.

55. The outturn for 2013/14 added £214,000 to reserves and the revised estimates for 2014/15 anticipate a further increase of £112,000. This would leave the opening revenue reserve for 2015/16 at £9.99m and with the estimates for 2015/16 showing an increase of £30,000, reserves at the end of 2015/16 would be just over £10m. The Medium Term Financial Strategy at Annex 4 shows deficit budgets for the period from 2016/17 to 2018/19. The level of deficit peaks at £304,000 in 2016/17 and reduces to £127,000 in 2018/19, although this is achieved through additional CSB savings of £250,000 in 2016/17, £400,000 in 2017/18 and a further saving of £250,000 in 2018/19.

<u>The Local Government Finance Settlement</u>

56. This has already been covered in some detail above and whilst the figures are currently subject to consultation it is not anticipated that they will change significantly. Beyond 2015/16 the figures may fluctuate following the General Election and the next Comprehensive Spending Review and cannot be predicted with any certainty, further reductions of 10% each year have been allowed for in both 2016/17 and 2017/18 with a 5% reduction in 2018/19.

<u>The 2014/15 General Fund Budget</u>

57. Whilst the position on some issues is clearer now than it was when the FIP was written there are still significant risks and uncertainties. There has been an improvement in the economy but a lot of the jobs that have been created are part time or low paid. This has created an unusual situation whereby unemployment is low but tax revenues have not increased and so the deficit is still with us and there is no end in sight to the age of austerity. In the paragraphs above I have highlighted several key policy areas that

could be affected by the General Election. There is increasing political uncertainty and with the impact of the Scottish National Party and the UK Independence Party another coalition government is a realistic possibility. Whatever the make up is of the new government they will have to urgently conduct a Comprehensive Spending Review as there are no spending plans beyond 2015/16. It is hard to imagine any incoming government allocating additional funds to local government, although there are a range of possibilities in terms of the size of future spending reductions and where they will hit hardest.

58. Retention of non-domestic rates was already a complex system that another layer of complexity was added to with the very late changes in the 2013 Autumn Statement. The first full year has now washed through and the combined income from non-domestic rates and the compensatory grants was nearly £60,000 more than the formulae said we should receive. A levy of 50% has to be paid on income above the baseline funding level so we had to give half of it back. This is disappointing but under the previous system we would have not been able to retain any benefit at all.

59. An area of concern highlighted in the section on Business Rates Retention is the transfer of financial risk to billing authorities. The key risk here is the large number of appeals that are still outstanding against previous rating assessments and the difficulty in calculating an appropriate provision. The backlog of appeals with the Valuation Office is reducing but the single largest appeal against us, on the property with the £6m rateable value, is still to be settled and so remains a significant financial risk.

60. The Government has incentivised authorities to pursue residential development and economic development and so far this authority has done relatively well from the New Homes Bonus and the local retention of non-domestic rates. That we would continue to benefit in the future is more certain than whether the policies themselves will still be in place this time next year.

61. The other area worth touching on again is welfare reform. All we can really be certain of is that any incoming government will seek to reduce the overall welfare bill and that the current payment mechanisms will change. The extent, and effectiveness, of any targeted reductions and the future of Universal Credit can only be speculated about at the moment as can the role of local authorities.

62. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 4. Annexes 4a and 4b are based on the current draft budget, no Council Tax increase (£148.77 Band D) for 2015/16 and subsequent increases of 2.5% per annum for the following years.

63. Members are reminded that this strategy is based on a number of important assumptions, including the following:

- Future Government funding will reduce by 10% for both 2016/17 and 2017/18, with a smaller reduction of 5% for 2018/19.
- CSB growth has been restricted and the adjusted CSB target for 2015/16 of £13.33m has been achieved. Known changes beyond 2015/16 have been included but if the new leisure contract and the accommodation review do not yield the predicted savings other efficiencies will be necessary.
- All known DDF items are budgeted for, and because of the size of the Local Plan programme the closing balance at the end of 2018/19 is anticipated to reduce to £1.5m.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets during the period will reduce the closing balances at the end of 2018/19 to £9.3m or 74% of NBR for 2018/19, although this can only be done with further savings in 2016/17 and subsequent years.

The Housing Revenue Account

64. The balance on the HRA at 31 March 2016 is expected to be £2.01m, after a deficit of £1.01m in 2014/15 and a surplus of £0.05m in 2015/16. The estimates for 2015/16 have been compiled on the self-financing basis and so the negative subsidy payments have been replaced with borrowing costs.

65. The process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other is no longer with us. This process may return in the future but for the moment it is possible to set a lower increase than the Council has been forced to do in recent years. The average rent increase is 2.2% for Council dwellings, substantially lower than the 4.91% in 2014/15, the 4.36% in 2013/14 and the 6% in 2012/13.

66. Both the Housing Repairs Fund and the Major Repairs Reserve are expected to have positive balances throughout the medium term. Members are recommended to agree the budgets for 2015/16 and 2014/15 revised and to note that although there is a deficit in 2014/15 the HRA has substantial ongoing balances.

The Capital Programme

67. The Capital Programme at Annex 5 shows the expenditure previously agreed by Cabinet. Members have stated that priority will be given to capital schemes that will generate revenue in subsequent periods. This position has been stated in previous Capital Strategies and has been reinforced by the increasing awareness that capital spending reduces investment balances and thus impacts on the general fund revenue balance through lower interest earnings.

68. Annex 5d sets out the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, which exceeds £113m over five years, it is anticipated that the Authority will still have nearly £2m of usable capital receipt balances at the end of the period. However, it should be noted that a number of sites are currently under review and that this could involve either receipts through disposals or additional expenditure to fund developments.

Risk Assessment and the Level of Balances

69. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2015/16. <u>Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting.</u> The Council at its meeting on the 17 February will consider the recommendations of the Cabinet on the budget for 2015/16 and will determine the planned level of the Council's balances. Members will consider the report of the CFO at that meeting.

The Prudential Indicators and Treasury Management Strategy 2015/16

70. Since 2004/05 it has been necessary to set affordable borrowing limits, limits for the prudential indicators and a Treasury Management Strategy. These elements of the budget requirements will be set out in a separate report to Cabinet on 2 February.

71. Due to the £190m of debt for the HRA self-financing the Council is no longer debt free and the Prudential Indicators and Treasury Management Strategy have been amended for this. Ongoing difficulties persist in financial markets but higher capital requirements have eased concerns about some banks, Arlingclose still advise a very restricted counter party list but have allowed some increase in suggested investment periods.

Resource Implications:
The report details proposed growth items and potential savings, the implications are set out above and will vary depending on the course of action decided by Members.

Legal and Governance Implications:
None.

Safer, Cleaner, Greener Implications:
Items related to the Safer, Cleaner, Greener initiative are included in the report.

Consultation Undertaken:
This Committee previously considered the business cases for various net saving suggestions.

Background Papers:
Financial Issues Paper – see agenda of 28 July 2014
Draft Growth List – see agenda of 13 November 2014

Impact Assessments:
The Directorate proposing the growth or savings will have considered the equalities impacts for each budget proposal.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although if the necessary savings highlighted are not actively pursued problems could arise in the medium term.