

Gloucester City Council

Meeting:	Overview and Scrutiny Committee	7 December 2015
	Cabinet	9 December 2015
Subject:	Draft Money Plan 2016-21 & Budget Proposals 2016/17	
Report Of:	Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: No
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Appendices:	1. DRAFT Money Plan 2016 - 21	
	2. Budget Pressures & Savings	
	3. Savings Programme	
	4. DRAFT 2016/17 – 2018/19 Capital Programme	
	5. DRAFT Service Budget Summary Pages	
	6. Budget Consultation	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Draft Money Plan.

2.0 RECOMMENDATIONS

2.1 **Overview and Scrutiny Committee** is asked to consider the information contained in the report and to seek clarification on any further points, as appropriate.

2.2 **Cabinet** is asked to **RESOLVE:**

- (1) That the assumptions contained in the Council's Draft Money Plan from 2015/16 to 2020/21 and revisions to the revenue budget be approved.
- (2) That the uncertainties regarding future incomes, as shown in this report and Appendix 1, and the need to update the Draft Money Plan when there is more certainty regarding Central Government financing be noted.

3.0 INTRODUCTION

3.1 The Money Plan sets out the Council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Budget, the Capital Programme, and Earmarked Reserves. It also comments on the significant financial risks facing the

Council in the forthcoming years and explains what the Council is doing to reduce those risks.

3.2 The main objectives of the Money Plan are to:

- explain the financial context within which the Council is set to work over the medium term;
- provide a medium term forecast of resources and expenditure;
- identify the financial resources needed to deliver the Council's priority outcomes;
- achieve a stable and sustainable budget capable of withstanding financial pressures;
- achieve a balanced base budget, minimising the use of balances to meet recurring baseline spending, with the general fund balance being maintained at a minimum of £1.6m by the end of the plan period;
- where possible, additional investment and spending decisions will be made to reflect Council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas; and
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme.

4.0 The Local Government Finance Environment

4.1 The Council's Money plan provides the framework within which revenue spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to take into account any alterations that may be required as a result of changed circumstances. The Draft Money Plan covers a five year period up to 2020/21.

4.2 Local Government is facing the toughest financial outlook for many decades. The Local Government Finance Settlement in recent years has seen unprecedented reductions in formula grant.

Local Government Finance Settlement 2016/17

4.3 The Chancellor delivered his Autumn Statement on November 25th. There was no specific detail to be fed into the Money Plan. National figures for local government grant were given and the reductions in the Money Plan are broadly in line with the national reductions.

4.4 One of the key issues with regard to funding is the estimate of the level of revenue Support Grant (RSG) that the Council will receive. The level of future settlements may impact on longer term financial planning and sustainability.

4.5 The other key risk is New Homes Bonus (NHB). The spending review sets out the Government's plans to consult on changes to the scheme to deliver £800m of savings to fund social care. Any diversion of money to social care will have a detrimental impact on District Councils but again details are not known at this stage.

4.6 The current draft Money Plan assumes a reduction in government funding of 32%. At this stage this assumption appears to still be valid. The detailed Local Government funding settlement is expected in December 2015 and the final Money Plan will be updated with those details.

- 4.7 The Autumn Statement confirmed that by the end of the current Parliament all government grant will be replaced by 100% retention of business rates. This is already included within the Money Plan.

5.0 Business Rates Retention

Business Rates and the Gloucestershire Business Rates Pool

- 5.1 The localised regime on Business Rates took effect in April 2013. Gloucester City is part of a Gloucestershire Business Rates Pool, set up as a mechanism to retain more Business Rates growth funding within the Gloucestershire area and to support economic growth within the area of the Local Enterprise Partnership.
- 5.2 Members will be aware of the Virgin Media issue and the impact that backdated appeals have had on a number of Local Authorities who have Virgin Media on their rating list. Tewkesbury Borough Council is one of those affected and had to refund £10.7m to Virgin Media in 2014/15. This resulted in a safety net payment of £3.9m to Tewkesbury from the Pool leaving the Pool in deficit by £2.3m. All Pool members were required to make a contribution to cover the deficit.
- 5.3 Since then, Virgin Media submitted a request for a single listing. This is very likely to mean further significant losses for Tewkesbury BC and ultimately the Gloucestershire Pool. It is for this reason only that Tewkesbury has agreed to withdraw from the pool at the end of this financial year to mitigate the risk of further losses falling on the Pool and its members.
- 5.4 Cabinet resolved that the current Gloucestershire Business Rates Pool be dissolved and a new pool be established for the financial year 2016-17 excluding Tewkesbury Borough Council.
- 5.5 Stroud District Council as the lead authority notified DCLG on the 30th October 2015 as follows;
- i. The Gloucestershire Business Rates Pool in its current form will be dissolved on 31st March 2016.
 - ii. A new pool will be formed from 1st April 2016 of all current pool members with the exception of Tewkesbury Borough Council.

Also stating, the decision to enter into a new pooling arrangement from April 2016 will depend upon the outcome of discussions currently taking place with the DCLG on a devolution deal for Gloucestershire. In the event that the devolution bid is unsuccessful, the formation of a new pool as set out above has been requested.

- 5.6 Cabinet's strategy is to continue as a pool member in the reformed pool and to include growth in Business Rates income as a funding source in the Money Plan from 2015/16 onwards, as part of its priority to safeguard the delivery of Council services.
- 5.7 Any additional growth arising as a result of pool membership is not guaranteed and is therefore not included in the base budget. Any growth from pooling will be allocated to a reserve at the end of the financial year once the loss incurred to the general fund at the end of 2014/15 has been recovered.

6.0 General Fund Revenue Budget - Principles and Key Assumptions

- 6.1 The principles underpinning the proposed revenue strategy are:

- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
- ii. No long term use of balances to meet recurring baseline expenditure;
- iii. Resources will be targeted to deliver Corporate Plan priorities and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
- iv. Maintaining the General Fund balance at a minimum level of £1.6m.
- v. Council Tax increases are kept to a minimum.
- vi. Year on year savings targets to be met by ongoing efficiency gains, income generation and service transformation.

6.2 **Table 1** below, lists the major **assumptions** that have been made over the five years of the strategy:

Table 1	2016/17	2017/18	2018/19	2019/20	2020/21
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	1.99%	1.99%	1.99%	1.99%	1.99%
Interest Rates (Earned)	0.5%	1.0%	1.50%	2.00%	2.00%
Inflation – Pay	1%	1%	1%	1%	2%
Inflation – contracts	2.5%	2.5%	2.5%	2.5%	2.5%
Inflation – other income	2.5%	2.5%	2.5%	2.5%	2.5%

7.0 Revenue Budget Increases

Pay and Prices Increases

- 7.1 A 1% pay award allowance has been included for the first four years of the plan (2016/17 to 2019/20) in line with the budget announced in July 2015. Thereafter a provision for a 2% award is included. It should be noted that pay awards in local government are covered by collective bargaining between employers and trade unions and is not subject to direct control from central government. However it is reasonable to assume that local government will mirror what happens in the rest of the public sector.
- 7.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet on going additional payments to the pension fund required from the employer to recover the deficit.
- 7.3 The pension fund is subject to a triennial actuarial valuation, the most recent of which has been undertaken by Hymans Robertson LLP during 2013, on behalf of Gloucestershire County Council, the pension fund administrator. A 2.5% increase has been included for 2016/17 with the same provision in each subsequent year.
- 7.4 Prices inflation has been included on selected non-pay items, namely contractual obligations. All other inflationary increases are expected to be absorbed within base budget which represents a real time reduction through efficiency gains.

7.5 Prices inflation is included on selected fees and charges at 2.5% p.a. The exceptions are car park income, which is frozen at existing levels.

Cost Pressures and Savings

7.6 Cost pressures are included in **Appendix 2** and total £932k.

7.7 Significant cost pressures that have been highlighted through budget monitoring are highlighted at Appendix 2. Some key pressures are highlighted below;

- Increased National Insurance contributions.
- Reduced Re-cyclate Income
- Reduction in Housing Benefit Administration Grant
- Increased Members Allowances as a result boundary review

7.8 The budget savings identified in Appendix 2 for 2016/17 relate to the agreed management fee reductions with the councils leisure Trust partner Aspire. These reductions are in the plan up to and including 2018/19.

8.0 Efficiency Savings

8.1 The Draft Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan.

8.2 In February 2015, Council approved the implementation of the target savings for the Money Plan 2015-20. In addition to savings in previous years further savings of £1.27m in 2015/16 were included.

8.3 With the inclusion of assumed settlement figures for 2016/17 and the assumption of further formula grant reductions over the life of the plan, further savings will be required. The financial gap is £0.620m in 2016/17 which rises to £2.775m by 2020/21.

8.4 The savings details are summarised on a cumulative basis in **table 3** below:

Table 3	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Savings required in year	622	553	638	757	215
Cumulative efficiency savings	622	1,175	1,813	2,570	2,785
Targeted Savings	627	560	650	770	220

8.5 Specific actions to achieve the targeted savings will need to be approved as part of the Council's annual budget setting process in each financial year. **Appendix 3** highlights targeted savings

8.6 The efficiencies and budget savings target for 2015/16 was £1.27m. Whilst there has been some slippage in implementation of the savings during, the full-year impact of the changes will be fully achieved in 2016/17

9.0 Overall Costs

- 9.1 With the targeted savings included from Table 3, the total costs of the Council, (the “Net Budget Requirement”), falls over the five year period of the Draft Money Plan. The total costs fall from £17,143m in 2016/17 to £15,762 in 2020/21. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five year period of the Draft Money Plan, will need to be funded by additional savings.
- 9.2 Draft summary budget pages for each service are detailed in **Appendix 5**.

10.0 Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2015/16 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 10.2 The current assumed settlement for 2016/17 is expected to have RSG at £2.400m and business rates at £3.912m providing a total of £6.312m.

New Homes Bonus

- 10.3 New Homes Bonus is a grant that commenced in the 2011/12 financial year and is effectively a reward for increasing the number of properties within an area. Whereas previously an increase in the Council Tax base is essentially offset by a reduction in formula grant, central government intends to match-fund the additional Council Tax for each new home for a period of six years.
- 10.4 New Homes Bonus is a significant source of funding for Gloucester City Council. The Council will receive New Homes Bonus in 2015/16 of £3.085m. The current allocation for 2016/17 is not known. However, using the model from previous years the allocation for 2016/17 is expected to be £3.500m. This allocation is expected to be confirmed before the end of January 2015.
- 10.5 The Council currently utilises 100% of New Homes Bonus received to fund the Net Budget Requirement and therefore support the general fund. Over the life of the Money plan it is proposed to reduce this in each financial year, with a 25% reduction achieved by 2019/20.

Council Tax & Council Tax Freeze Grant

- 10.6 The Council has frozen Council Tax since 2011/12 and the Government has provided a Council Tax Freeze Grant at various percentage levels.
- 10.7 In 2012/13 freeze grant was again provided at 2.5%, but this was for one year only. As part of the 2013/14 settlement freeze grant was provided at 1% for two years - 2013/14 and 2014/15. A further freeze grant of 1% was awarded for 2015/16.

10.8 There has been no announcement regarding a Council Tax Freeze grant for 2016/17 and the plan assumes that if the Council does freeze council tax no grant will be received.

10.9 The Government has reaffirmed that if the level of Council Tax rise is 2% or above a referendum would be required. The Money Plan assumes an increase in Council Tax of 1.99% for each year of the plan.

11.0 General Fund Balance

11.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**.

11.2 It should also be noted, that although £1.6m is considered an appropriate level of general fund balances to retain each year, the position should be reviewed if the Council delivers a budget surplus at year end. The level of savings required over the next few years, is likely to be so significant, that an opportunity to phase the transition by increasing and then utilising general fund balances, could be considered.

11.3 In the financial year 2016/17 there is no proposed draw from the general fund to provide a balanced budget.

12.0 Capital Programme and Capital Financing

12.1 The key financial details on capital expenditure and financing in the revised money plan for the 3 years from 2015/16, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £16.031m. Some key projects are, The Kings Quarter Development, City Centre Investment, ICT Projects and externally financed housing projects.
2. Capital financing comprises grants, Section 106 receipts, Capital receipts and borrowing.

12.2 The majority of capital financing will be funded through external grants and borrowing. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of the borrowing. The main exceptions to this policy will be essential works on the Council's buildings, which will result in a reduced maintenance liability or potential increase in asset value.

12.3 Wherever possible and desirable, additional one-off capital investments on a business case basis will be made, providing corporate objectives are delivered, and financing is available and affordable within existing budgets, or preferably with the provision of a "spend to save" revenue saving on existing budgets.

12.4 The strategy on borrowing is to ensure that any borrowing is only undertaken on a business case basis, and is affordable and paid off over the life of the asset.

12.5 **Appendix 4** shows the proposed capital budgets for 5 years from 2016/17 incorporating any carried forward capital budgets and new, approved schemes.

13.0 Budget Consultation

13.1 The Council's budget consultation for 2016/17 has used an on-line interactive budget survey developed with Govmetric, a link to which has been available on the Council's website. Leaflets were also available from the reception at the City Council offices at the Docks, GL1, Oxstalls Sports Park, the Guildhall, and at the City and Folk museums.

13.2 Any callers to the Council by telephone during the consultation period were also given the opportunity to take part in the survey by customer services staff.

13.3 Throughout this process, views of the public and other partners/stakeholders have been sought on the Council's financial plans including levels of spending, potential efficiencies and budget savings, as well as opinions on the level of Council tax increases and other fees and charges.

13.4 In addition to the financial appendices, this report also includes the results of the consultation summarised at **Appendix 6**.

14.0 Earmarked Reserves

14.1 The Council has limited earmarked reserves with the balance at 31 March 2015 being £2.121m consisting of;

• Insurance reserve	£0.010m
• Historic buildings reserve	£0.053m
• Portfolio reserve	£0.022m
• Shopmobility reserve	£0.029m
• Members Allocation reserve	£0.014m
• 3 Choirs reserve	£0.005m
• Pension contingency	£0.275m
• Repairs reserve	£0.400m
• Environmental reserve	£1.000m
• Regeneration reserve	£0.313m

14.2 Where earmarked reserves are not ring fenced for a specific use such as the regeneration reserve, then if necessary, these reserves may potentially be used to support the general fund.

15.0 Alternative Options Considered

15.1 The Council must set a budget in time to start collecting Council tax by 1st April 2015. Alternative proposals put forward for budget savings will be considered as part of this process.

16.0 Conclusions

16.1 This report has outlined the proposed approach to further build on the Council's budget consultation arrangements to inform the 2016/17 budget setting process.

17.0 Legal Implications

17.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2016/17. The Council also has a statutory requirement to set a balanced budget.

18.0 Risk & Opportunity Management Implications

18.1 Covered in the report. The budget is prepared based on the information available at the time of writing. The budget pressures facing the Council have, as far as possible, been built into the budget.

18.2 The risks are set out more fully in the report but in summary centre around the continuing economic situation and the possible impact this is likely to have on the public sector, changes to Government funding in future years and the level of the Council's spend from 2016/17 onwards.

18.3 In addition to the risks identified in the report, a list of additional identified risks for both the Draft Money Plan and the Budget for 2015/16, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation		Proposed measures	Residual Risk Evaluation	
	Risk Score			Risk Score	
<ul style="list-style-type: none"> ▪ Employee related costs will be more than assumed ▪ Other costs will be more than assumed 	Risk Score	6	<ul style="list-style-type: none"> ▪ Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings. 	Risk Score	4
		8			
<ul style="list-style-type: none"> ▪ Pension fund contributions will be higher than expected. 	Risk Score	6	<ul style="list-style-type: none"> ▪ The financial plan will continue to be reviewed and updated annually for a three year period, based on known changes and informed by the most recent actuarial triennial valuation. 	Risk Score	4
<ul style="list-style-type: none"> ▪ Planned budget reductions will not be achieved 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of budgets will be carried out in each financial year. ▪ Continuous monitoring 	Risk Score	6

<ul style="list-style-type: none"> ▪ Impact of Legislative changes (eg Welfare reform) on Councils ongoing costs 		6	<ul style="list-style-type: none"> of service pressures and ongoing focus on preventative support. ▪ Previously agreed changes to Council, tax exemptions and discounts, to help fund the shortfall in financing for local support of Council tax. 		4
<ul style="list-style-type: none"> ▪ Income from fees, charges and other sources will not be as high as planned 	Risk Score	12	<ul style="list-style-type: none"> ▪ Close monitoring of income budgets will be carried out in each financial year. 	Risk Score	8
<ul style="list-style-type: none"> ▪ Timing of Capital Receipts will be later than anticipated or lower than estimated ▪ Timing of Capital payments may be earlier than estimated 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of the timing and payments of capital expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed 	Risk Score	4

19.0 People Impact Assessment (PIA):

19.1 People Impact Assessments will be carried out for each line of the budget savings to be proposed to Council in February, to ensure that all relevant considerations are taken into account.

20.0 Other Corporate Implications

Community Safety

20.1 None

Sustainability

20.2 None

Staffing & Trade Union

20.3 The budget reductions and efficiency savings will result in a net reduction in staff, which could include possible redundancies. Ongoing discussions with the Trade Union on both the money plan and budget represent a key element of the overall consultation process.

Background Documents:

Money Plan 2015-20, February 2015