

Gloucester City Council

Meeting:	Cabinet Council	10 February 2016 25 February 2016
Subject:	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. Money Plan 2016 - 21 2. Budget Pressures & Savings 3. Savings Programme 4. 2016/17 – 2020/21 Capital Programme 5. Service Budget Summary Pages 6. Fees and Charges 2016-17 7. Budget Consultation	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Money Plan for recommendation to Council.

2.0 RECOMMENDATIONS

2.1 **Cabinet** is asked to **RECOMMEND** that:

- (1) That the proposals for the 2016/17 budget included in this report be approved.
- (2) That the implementation of the target budget reductions set in the Money plan 2016/2021 be approved.
- (3) That it be noted that consultation has been undertaken on budget savings proposals to achieve the level of savings required in 2016/17.

2.2 **Council** is asked to **RESOLVE** that:

- (1) That the proposals for the 2016/17 budget included in this report be approved.
- (2) That the implementation of the target budget reductions set in the Money plan 2016/2021 be approved.
- (3) That it be noted that consultation has been undertaken on budget savings proposals to achieve the level of savings required in 2016/17.

3.0 BUDGET ASSESSMENT OF THE SECTION 151 OFFICER

3.1 In accordance with Section 25 of the Local Government Act 2003 the Chief Finance Officer (Section 151 Officer) must report on the following matters;

- 1) the robustness of the estimates made for the purposes of the calculations, and
- 2) the adequacy of the proposed financial reserves.

3.2 The Head of Finance as Section 151 Officer confirms the robustness of the calculations and the adequacy of the proposed financial reserves.

4.0 Introduction

4.1 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.

4.2 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

5.0 The Local Government Finance Environment

5.1 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.

5.2 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

5.3 The provisional Local Government Finance Settlement 2016/17 was announced on December 17th 2015, with the final announcement on 8th February 2016. The

settlement provided allocations for 2016/17 and provided indicative figures up to 2019/20.

- 5.4 The settlement announced a new 'core spending power' measure. Core spending power is made up of the following elements;

Settlement Funding Assessments (SFA)

This is made up of;

- Revenue Support Grant
- Baseline Funding Level

The SFA also details level of Tariff on retained business rates and the Safety Net Threshold.

Instead of cutting all SFA by a set percent, government have taken into account the ability to raise council tax locally. There are now therefore four key variables;

- Funding reductions
- Split of reductions between tiers
- Council Tax Base
- Council Tax Rate

The settlement includes higher funding percent reductions for lower tier services (district councils), this is highlighted with the creation of the Improved Better Care Fund and the reduction in value to New Homes Bonus

Council Tax Requirement (CTR)

This figure excludes Parish precepts, but has been uplifted by average growth in council tax base between 2013/14 and 2015/16. This figure is also increased year by year based on Office Budget Responsibility forecast for CPI, an average of 1.75%. The core spending power assumes district councils will increase Band D council tax by whichever is the greater of £5 or 2%.

New Homes Bonus (NHB)

Actual allocations are used for 2016/17, and from 2017/18 future national amounts are allocated to authorities, these are at best indicative.

Consultation on the future of New Homes Bonus has also commenced with responses due in March 2016 to a series of questions regarding the future allocations. The consultation 'New Homes Bonus: Sharpening the Incentive' has a number of preferred outcomes and alternative outcomes. The revised plan is based upon prudent assumptions from this consultation.

- 5.5 The Autumn Statement confirmed that by the end of the current Parliament all government grant will be replaced by 100% retention of business rates. The settlement provided no further details on the proposed move to 100% Business Rates Retention. At this stage the money plan assumes no better or worse off as a result of 100% retention

5.6 Fixed Funding Offer

Government has stated that it will offer any council that wishes to take it up a four year funding settlement. We will need to request this and have an efficiency plan in place, though the government has not yet stated what such a plan should look like.

It is important to note that the government have qualified the offering by stating that final grant determinations (of the funding figures produced) in future years will still be subject to change as the business rates multiplier changes; for future changes such as transfer of functions, mergers etc. The government also says future years could change owing to unforeseen events but does not indicate if this includes unforeseen economic events such as failing to meet its fiscal targets for a budget surplus.

The government has not indicated what the formal process for this request is; who from the council should request the future years' settlement; what the timetable for the request is; what approval process is required in a council; whether a request can be rescinded if there is political change at a local authority.

When these details are announced a decision on whether to accept this offer will then be made. Details on the 4 year settlement have still not been released however it was announced that authorities will need to apply by 14th October 2016. Once details are announced of the offer this will be assessed and decision made if the Council is to apply.

6. Business Rates Retention

Business Rates and the Gloucestershire Business Rates Pool

- 6.1 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.
- 6.2 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.
- 6.3 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.
- 6.4 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.
- 6.5 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.

6.6 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 2016/17 onwards, as part of its priority to safeguard the delivery of Council services.

6.7 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.

7. General Fund Revenue Budget - Principles and Key Assumptions

7.1 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.

7.2 **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	£5	£5	£5	£5	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%

8. Revenue Budget Increases

Pay and Prices Increases

8.1 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.

- 8.2 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.
- 8.3 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 £255k increase has been included for 2016/17 with the same provision in each subsequent year.
- 8.4 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.
- 8.5 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. Fees and Charges for 2016/17 are detailed in **Appendix 6**

Cost Pressures and Savings

- 8.6 Cost pressures are included in **Appendix 2** and total £962k.
- 8.7 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 of boundary review
- 8.8 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. Efficiency Savings

- 9.1 The Draft Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan.
- 9.2 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.
- 9.3 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 £0.547m in 2016/17 which rises to £2.835m by 2020/21.
- 9.4 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	547	1,095	692	442	59
Cumulative efficiency Savings	547	1,642	2,334	2,776	2,835

Targeted Savings	607	1,500	1,000	500	50
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- 9.5 The Local Government Finance Settlement 2016/17 has highlighted that the Council will be required to make significant additional savings, particularly in the years 2017/18 and 2018/19. To enable delivery the plan assumes that savings will be front loaded in these years.
- 9.6 Due to the high levels of further savings required proposed details of potential savings will be reported to Cabinet in autumn 2016. This will enable detailed planning to be undertaken to ensure delivered in a timely manner.
- 9.7 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 for 2016/17.
- 9.8 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 year, the full-year impact of the changes will be fully achieved in 2016/17

10. Overall Costs

- 10.1 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 £17.056m in 2016/17 to £14.475m 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.
- 10.2 Draft summary budget pages for each service are detailed in **Appendix 5**.

11. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 11.1 Our current grant from Government for 2015/16 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 11.2 The current assumed settlement for 2016/17 is expected to have RSG at £1.860m and business rates at £4.000m providing a total of £5.860m.
- 11.3 The indicative figures for RSG see this reducing to £0.009m by 2019/20.

New Homes Bonus

- 11.4 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.
- 11.5 New Homes Bonus is a significant source of funding for Gloucester City Council. The Council will receive New Homes Bonus in 2016/17 of £3.823m.

11.6 The Council currently utilises 100% of New Homes Bonus received to fund the Net Budget Requirement and therefore support the general fund. As highlighted earlier in the plan, the level of New Homes Bonus will reduce significantly over the life of the plan. New Homes Bonus is expected to reduce to £2.250m by 2018/19.

Council Tax & Council Tax Freeze Grant

11.7 The Council has frozen Council Tax since 2011/12 and the Government has provided a Council Tax Freeze Grant at various percentage levels.

11.8 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. There is no freeze grant for 2016/17.

11.9 The Local Government Finance Settlement 2016/17 has included Council Tax Requirement (CTR) as part of the Councils 'Core Spending Power'. CTR is assumed to grow as part of the settlement as follows;

- based upon an average growth in council tax base, based upon the years 2013/14 to 2015/16,
- and also increase by an assumed growth based upon CPI at an average of 1.75%.
- assumed increase of £5 or 2% whichever the greater

Therefore to maintain CTR in line with government assumptions the minimum year on year increase should in line with bullet points above.

11.10 The Government has reaffirmed that if the level of Council Tax rise is greater than 2% or £5, whichever being the higher, a referendum would be required. The Money Plan assumes an increase in Council Tax of £5 for first four years of the plan.

12. General Fund Balance

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

12.2 It should also be noted, that although £1.600m 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.

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

13.0 Capital Programme and Capital Financing

13.1 The key financial details on capital expenditure and financing in the revised money plan for the 5 years from 2016/17, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £16.986m. Some key projects are, The Kings Quarter Development, City Centre Investment, ICT Projects and externally financed housing projects.
2. Capital financing comprises grants, Capital receipts and borrowing.

13.2 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.

13.3 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.

13.4 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.

13.5 **Appendix 4** shows the proposed capital budgets for 5 years from 2016/17 incorporating any carried forward capital budgets and new, approved schemes. The capital programme will be updated for any future additions, such as Kings Quarter further development, subject to the required level of approval being made.

14.0 Budget Consultation

14.1 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.

14.2 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.

14.3 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.

14.4 In addition to the financial appendices, this report also includes the results of the consultation summarised at **Appendix 7**.

15.0 Earmarked Reserves

15.1 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

15.2 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.

16.0 Alternative Options Considered

16.1 The Council must set a budget in time to start collecting Council tax by 1st April 2016. Alternative proposals put forward for budget savings will be considered as part of this process.

17.0 Conclusions

17.1 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.

18.0 Legal Implications

18.1 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.

19.0 Risk & Opportunity Management Implications

19.1 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.

19.2 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.

19.3 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 2016/17, 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		Risk Score	4
<ul style="list-style-type: none"> ▪ Pension fund contributions will be higher than expected. 	Risk Score	8	<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 ▪ Impact of Legislative changes on Councils ongoing costs 	Risk Score	12	<ul style="list-style-type: none"> ▪ Close monitoring of budgets will be carried out in each financial year. ▪ Continuous monitoring 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. 	Risk Score	6
		6			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

20.0 People Impact Assessment (PIA):

20.1 People Impact Assessments have been carried out for each line of the budget savings, to ensure that all relevant considerations are taken into account.

21.0 Other Corporate Implications

1. Community Safety
None
2. Environmental

- None
- 3. Staffing
The budget reductions and efficiency savings will result in a net reduction in staff, which could include possible redundancies.
- 4. Trade Union
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