

Gloucester City Council

Meeting:	Cabinet	7 December 2016
	Overview & Scrutiny	19 December 2016
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 2017/18 – 2021/22	
	2. Budget Pressures & Savings	
	3. Savings Programme	
	4. 2017/18 – 2021/22 Capital Programme	
	5. Draft Budget Book	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Draft Money Plan.

2.0 RECOMMENDATIONS

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

- (1) That the assumptions contained in the Council's draft Money Plan from 2017/18 to 2021/22 and revisions to the draft 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.

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

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, in line with the Council's plan;
- 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 2021/22.

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 2017/18

4.3 On the 8th February 2016, the secretary of State for Communities and Local Government announced the final Local Government settlement for 2016/17. The announcement included the following proposals to be delivered over the spending review period that will potentially affect the Council:

- Movement to 100% business rates retention
- Flexibility for District Councils to increase Council Tax by £5 a year.
- The offer of 4 year settlement for Councils that apply through demonstrating an efficiency plan.
- The ability to use 100% of Capital receipts from 1 April 2016 to assist in funding efficiency reforms
- Retention of New Homes Bonus, subject to consultation.

4.4 In addition to the detailed proposal for 2016/17, the settlement provided indicative figures for each financial year up to 2019/20, however these figures must be treated with caution as they do not take in to account proposed changes to New Homes Bonus.

4.5 The Chancellor delivered his Autumn Statement on November 23th 2016. Following this announcement presently there is no requirement to change the assumptions in the Draft Money Plan.

4.6 The Council took up the Government's offer of a 4 year settlement and submitted an efficiency plan prior to the deadline of 14th October 2016. We have been notified by Government that this application has been successful.

4.7 The other key risk is New Homes Bonus (NHB). The spending review set 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.

4.8 The current draft Money Plan assumes a reduction in Government funding of 14.3%. At this stage this assumption appears to still be valid. The detailed Local Government funding settlement is expected in December 2016 and the final Money Plan will be updated with those details.

- 4.9 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 of 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.

The Council responded to consultation on the future of New Homes Bonus in March 2016 to a series of questions regarding the future allocations. The consultation 'New Homes Bonus: Sharpening the Incentive' had a number of preferred outcomes and alternative outcomes. The revised plan is based upon prudent assumptions from this consultation. We still await any direction on the future levels of New Homes Bonus and as such are still a significant risk to the plan.

5. 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 In 2015/16 the pool was back in surplus and generated £878k, of which £173k was returned to Gloucester City Council. The pool is also expected to deliver a surplus in 2017/18.
- 5.4 Cabinet resolved that the current Gloucestershire Business Rates Pool be dissolved and a new pool be established excluding Tewkesbury Borough Council.
- 5.5 Stroud District Council as the lead authority notified DCLG on the 31st October 2016 as follows;
- i. The Gloucestershire Business Rates Pool in its current form will continue in 2017/18.
 - ii. Each pool member reserves the right to dissolve the pool within 28 days of Local Government Finance report should there be a need to do so.
- 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, as part of its priority to safeguard the delivery of Council services. Based upon the information above is the opinion of the Head of Finance that the Council will benefit from remaining in the pool for 2017/18. This will result in a reduction of levy payment to Government
- 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. 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 by the end of the plan.
 - 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	2017/18	2018/19	2019/20	2020/21	2021/22
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	£5	£5	£5	1.99%	1.99%
Interest Rates (Earned)	0.5%	0.5%	1.00%	1.50%	2.00%
Inflation – Pay	1%	1%	1%	2%	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. Revenue Budget Increases

Pay and Prices Increases

- 7.1 A 1% pay award allowance has been included for the first three years of the plan (2017/18 to 2019/20) in line with previous announcements by Government. The award for 2017/18 is part of the 2 year settlement agreed for 2015/16. 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 2016, on behalf of Gloucestershire County Council, the pension fund administrator. A £255k increase has been included for 2017/18 with the same provision in each subsequent year. Results of the current valuation are expected during November 2016
- 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. Fees and Charges for 2017/18 are currently being reviewed and will be reported to Council for approval in February

Cost Pressures and Savings

- 7.6 Cost pressures and saving are included in **Appendix 2** and total a net saving of £536k.
- 7.7 Significant cost pressures that have been highlighted through budget monitoring are highlighted at Appendix 2. Some key pressures are highlighted below;
- Non delivery of Shopmobility saving.
 - Non delivery of Markets saving.
 - Reduction in Housing Benefit Administration Grant.
- 7.8 The budget savings identified in Appendix 2 for 2017/18 relate to a number of areas where actions undertaken by the Council have led to savings. Some of the key areas are highlighted below;
- Business Improvement Team realignment.
 - Crematorium and Planning Income budget.
 - Financial services savings, External Audit Fee, Minimum Revenue provision and Financial instrument Adjustment Account.
- 7.9 It is also proposed that a vacancy factor will put in place for each service area. This assumes that between a post becoming vacant and subsequently filled there will be a period of vacancy, that will deliver a saving on salary costs.
- 7.10 The plan also includes 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

- 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 2016, Council approved the implementation of the target savings for the Money Plan 2016-21. In addition to savings in previous years further savings of £514m in 2016/17 were included.
- 8.3 With the inclusion of assumed settlement figures for 2017/18 and the assumption of further formula grant reductions over the life of the plan, further savings will be required. The financial gap is £1.332m in 2017/18 which rises to £2.258m by 2021/22.
- 8.4 The savings details are summarised on a cumulative basis in **table 3** below:

Table 3	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Savings required in year	1,373	421	454	318	105
Cumulative efficiency Savings	1,373	1,794	2,248	2,566	2,671
Targeted Savings	1,655	750	500	200	0

- 8.5 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.
- 8.6 Due to the high levels of further savings required the Council put in place a transformation programme called 'Together Gloucester' to deliver required efficiencies in line with the Councils Money Plan. Together Gloucester has been tasked to design organisational transformation while delivering the efficiencies the Council needs to deliver. Together Gloucester has been targeted to deliver £1m of savings in 2017/18 as highlighted in Appendix 3.
- 8.7 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 2017/18 and early proposals for 2018/19. By delivering savings early in the 2017/18 and 2018/19 reduces the total savings required over the life of the plan.
- 8.8 The efficiencies and budget savings target for 2016/17 was £0.607m. 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 2017/18.

9. Overall Costs

- 9.1 With the targeted savings included from Table 3, the total costs of the Council (the "Net Budget Requirement"), reduce over the five year period of the Draft Money Plan. The total costs fall from £16.354 in 2017/18 to £14.915m in 2021/22. 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. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2016/17 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.

10.2 The current assumed settlement for 2017/18 is expected to have RSG at £1.092m and retained business rates at £3.795m providing a total of £4.887m. Total funding excluding Council Tax in 2016/17 was £9.693m the plan expects this to reduce to £7.938m in 2017/18.

10.3 The indicative figures for RSG see this reducing to £0.090m by 2019/20.

New Homes Bonus

10.4 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.

10.5 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, this is forecast to reduce to £3.041m in 2017/18. Until the outcome of the consultation completed in March 2016 is known this figure is still not known and is a potential significant risk to the plan.

10.6 New Homes Bonus is currently paid on a basis of 6 years allocation. The plan assumes that New Homes Bonus will reduce to a 4 year allocation from 208/19 with a transition year in 2017/18 of 5 year allocation.

10.7 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

10.8 The Council had frozen Council Tax from 2011/12 to 2015/16. This freeze in Council Tax had taken into account the difficult economic and financial climate many residents were facing. However during this period of freeze the Council financial position has been put under increasing pressure as core funding has been cut with further to come whilst still having to meet inflationary cost pressures.

10.9 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.

10.10 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 next three years of the plan.

11. General Fund Balance

11.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**. The Money Plan assumes an increase in the General Fund balance in the first 3 years, this is a prudent approach based upon level savings required and potential reductions in funding.

11.2 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.

11.3 In the financial year 2017/18 it is proposed contribute £0.353m to the General Fund.

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 5 years from 2017/18, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £13.414 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.

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 2017/18 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.

13.0 Budget Consultation

13.1 The Council's budget consultation for 2017/18 will use an on-line interactive budget survey developed with Govmetric, a link to which is been available on the Council's website. Leaflets are 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.

14.0 Earmarked Reserves

14.1 The Council has limited earmarked reserves with the balance at 31 March 2016 being £3.577m an increase £1.456m on the position at 31 March 2015, consisting of;

• Insurance reserve	£0.010m
• Historic buildings reserve	£0.053m
• Portfolio reserve	£0.035m
• Shopmobility reserve	£0.029m
• Members Allocation reserve	£0.009m
• 3 Choirs reserve	£0.005m
• Pension contingency	£0.275m
• Repairs reserve	£0.400m
• Environmental reserve	£1.000m
• Regeneration reserve	£0.510m
• VAT Shelter reserve	£0.291m
• Business Rates reserve	£0.200m
• Trading Development reserve	£0.050m
• Land adoption reserve	£0.710m

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 2016. 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 2017/18 budget setting process.

17.0 ABCD Implications

17.1 There are no ABCD implications as a result of this report.

18.0 Financial Implications

18.1 Contained in the body of the report.

19.0 Legal Implications

19.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2017/18. The Council also has a statutory requirement to set a balanced budget.

20.0 Risk & Opportunity Management Implications

20.1 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.

20.2 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 2017/18 onwards.

20.3 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 2017/18, 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

21.0 People Impact Assessment (PIA):

21.1 People Impact Assessments will be 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 2016-21, February 2016