Cabinet

St Edmundsbury
BOROUGH COUNCIL

Title of Report:	**Budget and Council Tax Setting: 2016/17 and Medium Term Financial Strategy**	
Report No:	**CAB/SE/16/005 (AMENDED)**	
Report to and date/s:	**Cabinet**	9 February 2016
	Council	23 February 2016
Portfolio holder:	Ian Houlder Portfolio Holder for Resources and Performance Tel: 01284 810074 Email: ian.houlder@stedsbc.gov.uk	
Lead officer:	Joanne Howlett Acting Head of Resources and Performance Tel: 01284 757264 Email: joanne.howlett@westsuffolk.gov.uk	
Purpose of report:	This report sets out details of the Council's proposed revenue and capital budgets for 2016/2017 for Cabinet's consideration and recommendation to full Council.	
Recommendations:	**It is <u>RECOMMENDED</u> that, subject to the approval of full Council:** **(1) the revenue and capital budget for 2016/2017 attached at Attachment A and as detailed in Attachment D, Appendices 1-5 and Attachment E of Report No: CAB/SE/16/005, as amended, be approved;** **(2) having taken into account the conclusions of the Head of Resources and Performance's report on the adequacy of reserves and the robustness of budget estimates (Attachment C) and the Medium Term Financial Strategy (MTFS) (Attachment D, as amended), particularly**	

	the Scenario Planning and Sensitivity Analysis (Attachment D, Appendix 5) and all other information contained in this report, Cabinet establish the level of council tax for 2016/2017; **(3) the Head of Resources and Performance, in consultation with the Portfolio Holder for Resources and Performance, be authorised to transfer any surplus from the 2015/2016 revenue budget to the Invest to Save Reserve as detailed in paragraph 1.9.4, and to vire funds between existing Earmarked Reserves (as set out at Attachment D, Appendix 3, as amended) as deemed appropriate throughout the year;** **(4) the revised Minimum Revenue Provision (MRP) policy, as set out in section 1.8 and Attachment D Appendix 4, be adopted; and** **(5) where the Council has usable capital receipts that are not needed for other purposes, delegated authority be given for the Section 151 Officer to apply, where prudent to do so, some or all of it to meet capital expenditure incurred in the current year or previous years under paragraph 23 of the 2003 Regulations to reduce or eliminate any MRP that might need to be set aside, as detailed in Attachment D, Appendix 4.**
Key Decision:	*Is this a Key Decision and, if so, under which definition?* Yes, it is a Key Decision - ☐ No, it is not a Key Decision - ☒ As it is a decision of full Council
Consultation:	• As detailed in the body of this report
Alternative option(s):	• The Council is legally required to set a balanced budget.
Implications:	
*Are there any **financial** implications? If yes, please give details*	Yes ☒ No ☐ • As detailed in the body of this report
*Are there any **staffing** implications? If yes, please give details*	Yes ☒ No ☐ • Staffing implications are considered as part of any proposed structure changes.
*Are there any **ICT** implications? If yes, please give details*	Yes ☐ No ☒ •

*Are there any **legal and/or policy** implications? If yes, please give details*	Yes ☒ No ☐ • As detailed in the body of this report
*Are there any **equality** implications? If yes, please give details*	Yes ☒ No ☐ • To be considered as part of implementation of service changes
Risk/opportunity assessment:	A risk assessment is included at Attachment C as part of the report by the Head of Resources and Performance (Chief Finance Officer). The Head of Resources and Performance's conclusion is that overall the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2016/2017 budget plans. Cabinet and Council are advised to have regard to this report when making their decisions on the 2016/2017 budget.
Ward(s) affected:	All Wards
Background papers: *(all background papers are to be published on the website and a link included)*	Report No: **PAS/SE/15/026** Delivering a Sustainable Budget 2016/17 – 23 September 2015 Report No: **PAS/SE/15/035** Delivering a Sustainable Budget 2016/17 – 25 November 2015 Report No: **PAS/SE/16/005** Budget Monitoring 1 April 2015 – 31 December 2015 -28 January 2016 **West Suffolk Medium Term Financial Strategy** Included as Attachment D
Documents attached:	**Attachment A (AMENDED)** – Revenue Budget Summary **Attachment B (AMENDED)** – Summary of major budget changes **Attachment C** – Report by the Head of Resources and Performance **Attachment D (AMENDED)** – Medium Term Financial Strategy (MTFS) 2016-20 **Appendix 1 (AMENDED)** - 5 Year Revenue Budget (MTFS) **Appendix 2** – 5 Year Capital Budget **Appendix 3 (AMENDED)** – Earmarked Revenue Reserves **Appendix 4** – Prudential Code for Capital Finance **Appendix 5** – Scenario Planning and Sensitivity Analysis **Attachment E** – Strategic Priorities and Medium Term Financial Strategy (MTFS) Reserve

1. Key issues and reasons for recommendations

1.1 Local government funding

1.1.1 The financial landscape for central government funding continues to remain one of uncertainty. The December Autumn Statement outlined further reductions in the Local Government Department spending, with steeper reductions in Revenue Support Grant and changes to Council Tax Freeze Grant proposed.

1.2 Local Government Finance Settlement 2016/2017

1.2.1 The Local Government Finance Settlement for 2016/17 was announced on 17 December 2015. In previous years the settlement figures only covered one year, with an indicative figure for the following year. In the provisional December settlement, the Secretary of State for Communities and Local Government proposed to offer a guaranteed four year budget settlement to cover the period up to 2019/20, to those councils which could demonstrate ongoing efficiency savings for 2016 to 2020. At this stage it is uncertain as to what the criteria for these savings and efficiencies will be.

1.2.2 The Council's total formula grant for 2016/17 (including Revenue Support Grant, Baseline Funding from retained business rates, Local Services Support Grant and prior years Council Tax Freeze grant) is £3.447m.

1.2.3 The Council has seen a 67% cumulative cut in revenue support grant funding over the three years from 2013/2014 to 2016/17. Further cuts to the Revenue Support Grant element (including Council Tax Freeze Grant) in subsequent years have been outlined in the December settlement, and it is expected that there will be no Revenue Support Grant available to the borough by 2019/20.

1.3 Council Tax freeze and referendum requirements 2016/2017

1.3.1 In previous years the Government awarded a Council Tax Freeze Grant to those councils that agreed to freeze their council tax levels, taking effect from 2011/12. This incentive has not been included in the settlement for 2016/17 onwards, and there is an assumption in the Local Government Finance Settlement that councils will raise their council tax levels in line with the referendum limits (2% or £5 for councils in the lower council tax quartile).

1.3.2 The prior years' Council Tax Freeze Grant has been factored into the 2016/17 Revenue Support Grant figures, and reduced in line with the overall savings requirements. As such it is also anticipated that the prior years' freeze grant will also not be available to the borough by 2019/20, in line with the main Revenue Support Grant.

1.3.3 The Government has maintained the 2% threshold for council tax increases for 2016/17, with a £5 threshold for lower cost councils, although St Edmundsbury Borough Council would not fall into this latter category. Any council tax rise above this would trigger a local referendum, thus giving the local electorate the opportunity to approve or veto the increase.

1.3.4 The current budget figures assume a 1.99% increase in council tax for 2016/17, which equates to an increase of £3.49 per year for a Band D taxpayer.

1.4 **Business rates retail relief 2016/2017**

1.4.1 The Government has continued, as announced in the Autumn Statement 2014, to offer support for business rate bills in 2016/17 by offering small business rate relief for an extra year.

1.5 **Setting the budget – 2016/2017**

1.5.1 The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. In this context, and like many other councils, difficult financial decisions have to be made. The Council has an excellent track record of achieving substantial year-on-year budget savings and generating new income.

1.5.2 The report 'Delivering a Sustainable Budget 2016/17', which was presented to the Performance and Audit Scrutiny Committee on 23 September 2015, identified several significant additional budget pressures that had arisen since the 2015/16 budget process which increased the original budget gap from £1.443 million to £1.903 million. These pressures were as follows:

1.5.3

St Edmundsbury Borough Council	**2016/17 £000s**	**2016/17 £000s**
Original Budget Gap from 2015/16 budget process		1,443
Reduction in organic waste recycling credits and increased tipping charges	336	
Increased Blue Bin tipping charges following changes in worldwide commodity prices	39	
Reduced Building Control income arising from loss of market share	85	
Additional Budget Pressure		460
Revised Budget Gap		**1,903**

1.5.4 The scale of financial changes that need to be made to ensure that St Edmundsbury's shared priorities can be delivered in 2016/17 is significant, especially as the projected £1.9 million budget gap for 2016/17 is on top of the savings delivered locally by the Borough over the years and the £4 million annual shared service savings already delivered across West Suffolk with Forest Heath District Council.

1.5.5 As a result, a considerable amount of work took place identifying potential

savings and income generation ideas in order to secure a balanced budget for 2016/17 and to prepare for the medium term up to 2019/20.

1.5.6 In previous years, St Edmundsbury has addressed the need for financial savings by sharing the burden across all services. As with the 2015/16 budget process, rather than allocating a proportion of the £1.9 million savings to all areas of the Council's business, the approach has been that the Council's resources for 2016/17 should be allocated according to its strategic priorities. In practice, this will mean prioritising the projects, actions and themes outlined in the West Suffolk Strategic Plan, as well as statutory functions.

1.5.7 The process of allocating resources according to priorities and essential services has helped to identify areas of the Council's work which could either be scaled back or where further opportunities for the generation of income could be pursued. The process then focused on non-priority areas, and challenged whether the Council should continue with the activities at all or in their current form, in order to ensure they provided value for money to council taxpayers.

1.5.8 A significant number of the proposals identified are relatively straightforward to implement with minimal impact on service delivery as these items fall mainly in the categories of contract, supplies and service efficiencies, further shared service savings and income generation opportunities from making better use of council assets. However, other proposals require more detailed analysis in order to develop options and to provide clarity as to the potential savings/income.

1.5.9 The lists of proposals were presented to members of the Performance and Audit Scrutiny Committee in September 2015 (Report No: PAS/SE/15/026, 'Delivering a Sustainable Budget 2016-17') with their recommended saving proposals through to Cabinet and full Council on 15 December 2015 (Report No: COU/SE/15/036). These savings proposals are included within the proposed budget for 2016/17 as contained at Attachment A, and have been summarised in Attachment B for ease of reference.

1.5.10 The Performance and Audit Scrutiny Committee has a key role in the scrutiny of the budget process and proposals for achieving a balanced budget. At the meeting on 25 November 2015, the Committee received Report No: PAS/SE/15/035, which detailed the remaining saving/income proposals required in order for a balanced budget to be achieved.

1.5.11 Attachment A is the revenue budget summary, which provides an overview of the proposed net service expenditure, (net revenue position after income, expenditure and recharges) for 2016/17. The total proposed net revenue expenditure in 2016/17 is £12.688 million.

1.6 **Capital programme**

1.6.1 The capital expenditure of the Council has an impact on the revenue budget and is part of the overall preparation of the revenue proposals for the coming year.

1.6.2 It is estimated that £14.596 million will be spent on capital programme schemes during 2016/17 which are to be funded by a combination of grants and contributions (£3.233 million), earmarked revenue reserves (£4.030 million) and the usable capital receipts reserve (£7.333 million).

1.6.3 Looking ahead, the total value of the capital programme over the next four years is approximately £19.923 million. Attachment D, Appendix 2 shows the planned capital expenditure in financial year 2016/17 and future years, together with information on the funding of that expenditure (that is, grants and contributions, use of earmarked revenue reserves and useable capital receipts reserve) and is summarised in Table 1 below.

1.6.4 **Table 1: Planned capital expenditure over four years to 2019/20**

	2016/17 millions	**2017/18 millions**	**2018/19 millions**	**2019/20 millions**	**Total millions**
Gross capital expenditure	**£14.596**	**£2.041**	**£1.596**	**£1.690**	**£19.923**
Funded by:					
Grants and contributions	£3.233	£0.350	£0.350	£0.350	£4.283
Earmarked revenue reserves	£4.030	£1.241	£0.796	£0.890	£6.957
Capital receipts reserve	£7.333	£0.450	£0.450	£0.450	£8.683
Total	**£14.596**	**£2.041**	**£1.596**	**£1.690**	**£19.923**

1.7 **Disposal of assets**

1.7.1 Part of the funding arrangements for the capital programme is the disposal of surplus assets. The Council has an agreed programme of asset disposals, which has already been affected by the national economic situation. Table 2 below is a summary estimate of the likely level of income from asset disposals over the period 2016/17 to 2019/20.

1.7.2 **Table 2: Estimated income from asset disposals 2016/17 to 2019/20**

	2016/17	**2017/18**	**2018/19**	**2019/20**
Estimated income from asset disposals –Council share of Right to Buy receipts	£500,000	£500,000	£500,000	£500,000

1.7.3 The above capital programme and asset disposals programme will, in the short to medium term, reduce the Borough Council's useable capital receipts reserves from £13.58 million to £6.90 million. However, this

approach still does not address the funding of longer term requirements for major capital repairs to key Borough Council assets including, for example, the £11 million for major repairs and refurbishment of the Borough Council's two leisure centres. Consideration of the affordability of these major capital expenditure proposals, including options for funding, will need to be included in the options and investment appraisals for these projects.

1.7.4 The Council has a number of projects on the horizon that have the potential to require significant capital investment. Consideration of the affordability of these major capital expenditure proposals, including options for funding, will need to be included in the options and investment appraisals for these projects and will be subject to full Council decisions.

1.7.5 The calculation of interest income used in the Medium Term Financial Strategy (MTFS) is based on the use of existing and anticipated capital expenditure and receipts. Changes in the level and timing of these cashflows have a direct impact on investment returns and revenue funding requirements. However, the Interest Equalisation Reserve does allow for some change in the budgeted levels of income from interest to be accommodated. The Prudential Code for Capital Finance and matters relating to the affordability of the Capital Programme are addressed in Attachment D, Appendix 4. The revenue cost of the capital programme is achievable without significant council tax rises provided the savings indicated in the MTFS and set out in Attachment D, Appendix 1 are implemented.

1.8 **Minimum Revenue Provision (MRP)**

1.8.1 The Treasury Management and Annual Investment Strategy included elsewhere on this agenda (Report No: CAB/SE/16/004) and the Prudential Indicators (Attachment D Appendix 4), provide a framework within which borrowing limits for the Council are established and will confirm our MRP policy for 2016/17.

1.8.2 It is proposed that the following sections of the MRP policy for 2016/17 are updated. The justification for the proposed changes are included below.

1. *Loans*

Taking into account only the underlying statutory duty to determine a prudent MRP, it would be reasonable to conclude that a loan made to another party with security that guarantees the principal is not at risk, would not require a MRP. This is because there is no prospect that the authority would make any loss and therefore there is no need for resourcing.

The Council's justification for taking this approach is as follows:

> The Council may make loans to other parties to fund their capital expenditure. Government guidance is that MRP should be charged on the outstanding amount of any loan, based on amortising the loan principal over the estimated life of the assets in relation to which the

other parties' expenditure is incurred. This is because lending to other parties has the same impact on the underlying need for an authority to borrow as expenditure on acquiring property. However, in circumstances where a loan is secured and there is no risk of default, the Council will not charge MRP because the principal sum of such a loan will have no consequences for the Council's revenue expenditure and it would be over-prudent to provide for the loan.

Where the loan is unsecured the Council will consider the requirement for an MRP on a case by case basis.

2. *Capital Investment with a Defined Life*

It is proposed to have a number of different bases for calculating MRP within our policy, provided that the overall charge is prudent and none of the bases contradict each other. A common approach, which we are looking to adopt, is to focus a policy on making a charge linked to equal instalments or on an annuity basis, where a 4% reducing balance amount would under-recover the expenditure over its useful life.

3. *MRP, Capital Receipts and Borrowing*

The Department of Communities and Local Government (DCLG) Guidance is clear throughout its contents that it only applies to expenditure that has not been financed from other sources, primarily capital receipts and grant funding. Where an authority has a balance of usable capital receipts, it can at any time apply some or all of it to meet capital expenditure under paragraph 23 of the 2003 Regulations (see Attachment D Appendix 4 Prudential indicators section 1.1 for full title). The capital expenditure does not need to have been incurred in the current financial year.

Authorities therefore have the ability to revise their MRP policies at any time that alternative resources might be available. Capital receipts can be set aside to either:

- generally reduce the Capital Financing Requirement (CFR), reducing the annual charge resulting from applying the 4% formula under Option 2 (or removing it altogether if the CFR is reduced to zero);
- finance the outstanding balance on an Option 3 scheme.

Where an authority has taken out external borrowing, there is no requirement to pay off any loans in excess of the CFR. The capital financing system operates with a concept of debt, the underlying need to borrow. MRP is designed to reduce this underlying need. If the underlying need is reduced, then conditions may be conducive to reducing actual borrowings. However, the statutory arrangements leave it to authorities to manage this position, taking into account their overall cash management position. For instance, there would be no suggestion that an authority with a zero CFR should repay an outstanding Public Works Loan Board (PWLB) loan, as the repayment would incur a penalty charge.

1.8.3 It is proposed that the following is added to the Borough Council's MRP policy:

The DCLG Guidance only applies to expenditure that has not been financed from other sources, primarily capital receipts and grant funding. Where the Council has usable capital receipts that are not needed for other purposes, it can at the discretion of the section151 officer to apply where prudent to do so some or all of it to meet capital expenditure incurred in the current year or previous years under paragraph 23 of the 2003 Regulations to reduce or eliminate any MRP that might need to be set aside.

1.9 **Revenue reserves and balances**

General Fund

1.9.1 The revenue budget, Attachment A, based on current budget projections, shows a balanced budget position for 2016/17. However, many of the assumptions supporting the budget projections for 2016/17 (and future years) are subject to significant uncertainty. This includes assumptions regarding:

(a) sustainability of income stream estimates (including commercial property rental income and planning income);
(b) impact of Business Rates Retention scheme and Suffolk pooling arrangements; and
(c) pay inflation and employer's pension liabilities.

1.9.2 The Borough Council holds General Fund balances as a contingency to cover the cost of unexpected expenditure during the year. The Borough Council agreed as part of the 2014/15 budget process and development of the MTFS to hold a General Fund balance at the level of £3 million, which is around 23% of the 2016/17 net expenditure. As in previous years, the Borough Council can use balances above this minimum to support revenue expenditure and to reduce the level of council tax. As part of the 2016/17 budget process, it is proposed to utilise £224,000 of the General Fund balance in order to maintain the balance at the policy level.

1.9.3 The recommended level of general fund balance has been established by taking into account the following:

(a) allowance for a working balance to cushion the impact of any unexpected events or emergencies;
(b) the new risks placed at a local level under the new business rates retention scheme, such as appeals;
(c) the addition of greater income targets linked to being more commercial and the selling of councils' services; and
(d) other risks detailed in the Scenario Planning and Sensitivity Analysis provided at Attachment D, Appendix 5.

1.9.4 The budget monitoring report to the Performance and Audit Scrutiny Committee on 28 January 2016 (Report No: PAS/SE/16/005 refers) included an estimate of the year end budget underspend of £60,500. It is

proposed to transfer the final year-end surplus in its entirety to the Council's Invest to Save reserve in order to fund future efficiencies and initiatives which will help to mitigate any further risks or budget pressures going forward.

Earmarked reserves

1.9.5 At the end of the 2016/17 financial year the Council will have an estimated £12.134 million in earmarked reserves. The current level of earmarked reserves and contributions during 2016/17 has been reviewed and where appropriate annual contributions have been adjusted. Attachment D, Appendix 3, provides details of the proposed contributions to, and projected expenditure from, earmarked reserves during 2016/17.

Strategic Priorities and MTFS Reserve

1.9.6 This reserve will act as a one-off fund to provide the financial capacity, either through direct investment (revenue and/or capital) or through servicing external borrowing, for the West Suffolk authorities to drive forward the delivery of a sustainable Medium Term Financial Strategy (MTFS) and the West Suffolk Strategic Plan priorities.

1.9.7 The Council received a total New Homes Bonus (NHB) grant of £0.268 million in 2011/12, £0.559 million in 2012/13, £0.757 million in 2013/14, £0.886 million in 2014/15, £1.219m in 2015/16 and expects to receive £1.754 million in 2016/17. These NHB allocations have all been put into this Strategic Priorities and MTFS reserve.

1.9.8 No assumptions have been made with regard to NHB allocations beyond 2016/17 as there is a likelihood that future payments of the NHB will be funded at a national level by cutting our funding elsewhere, such as top-slicing revenue support grant or by retaining a proportion of business rate monies that otherwise would be retained locally. Consultation on reforms to the New Homes Bonus, including means of 'sharpening the incentive to reward communities' for additional homes and reducing the length of payments from 6 years to 4, will commence in 2016.

1.9.9 The 2016/17 budget and MTFS includes a number of proposed draws on this reserve, some of which are still to be quantified and will require further reports to full Council. Attachment E summarises the proposed draws on this reserve as part of the 2016/17 budget.

Adequacy of reserves

1.9.10 Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Head of Resources and Performance) to report to Council, as part of the tax setting report, her view of the robustness of estimates and the adequacy of reserves. The Council is required to take these views into account when setting the council tax at its meeting on 23 February 2016. The full statement is set out in Attachment C.

1.9.11 In summary, the Section 151 Officer's overall assessment is that the estimates are robust (taking into account known risks and mitigating

strategies) and reserves are adequate for the 2016/17 budget plans.

1.10 **Medium Term Financial Strategy (MTFS)**

1.10.1 It should be noted that by 2019/20 the projected budget gap amounts to £1.545 million for St Edmundsbury (that is, £1.127 million 2017/18, £0.392 million 2018/19, and £0.026 million 2019/20). Should any of the assumptions within the MTFS change significantly, the gap would also change.

1.10.2 The six themes within our agreed MTFS (as detailed in Attachment D) relate to areas of the West Suffolk councils' business which will support sustainability in a more financially constrained environment.

1.10.3 The themes are:

- aligning resources to the councils' strategic plan and essential services;
- continuation of the shared services agenda and transformation of service delivery;
- behaving more commercially;
- encouraging more use of digital forms of customer access;
- taking advantage of new forms of local government finance (for example, business rate retention); and
- considering new funding models (for example, becoming an investing authority).

2. Legal implications

2.1 The Local Government Act 2003 imposed duties on local authorities in relation to financial management which covers the following areas:

(a) A power for the Secretary of State to determine a minimum reserve level for local authorities by regulations. The Government has indicated that their preference is to keep this power in reserve.

(b) Section 25 of the Act places a requirement on the S151 Officer to report on the adequacy of reserves and robustness of budget estimates as part of the authority's annual budget setting process. The Council is required to take these views into account when setting the Council Tax at its meeting on 23 February 2016. This is included as Attachment C of the report.

(c) Sections 28 and 29 of the Act place a statutory duty on local authorities to monitor their budgets and take such action as considered necessary in the case of overspends and shortfalls of income.

(d) Section 30 of the Act relates to the provisions preventing local authorities entering into agreements following a Section 114 Report which a S151 Officer must produce when it appears that expenditure of the authority in a financial year is likely to exceed the resources available to meet the expenditure. No such report has been produced for St Edmundsbury this year.