 <b>Executive 10<sup>th</sup> February 2016</b> <b>Council 24th February 2016</b>		<b>Agenda Item No.</b> <div style="font-size: 2em; text-align: center;"><b>4</b></div>
<b>Title</b>	<b>BUDGET 2016/17 AND COUNCIL TAX –GENERAL FUND REVENUE AND CAPITAL</b>	
<b>For further information about this report please contact</b>	Mike Snow (Tel: 01926 456800) Jenny Clayton (Tel: 01926 456013)	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>		
<b>Background Papers</b>	Report to Executive 2nd December , 2015: Approval of General Fund Base Budgets 2016/17 Report to Executive 30 <sup>th</sup> September, 2015: Proposed Fees and Charges for 2016/17	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	
<b>Equality and Sustainability Impact Assessment Undertaken</b>	No N/A

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	25/1/16	Chris Elliot
Head of Service	25/1/16	Mike Snow
CMT	25/1/16	Chris Elliot, Andy Jones, Bill Hunt
Section 151 Officer	25/1/16	Mike Snow
Monitoring Officer	25/1/16	Andy Jones
Finance	25/1/16	Mike Snow
Portfolio Holder(s)	25/1/16	Cllr Peter Whiting
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

## 1. **SUMMARY**

- 1.1 This Report informs Members on the Council's financial position, bringing together the latest and original Budgets for 2015/16 and 2016/17, plus the Medium Term Forecasts until 2020/21. In doing so it advises upon the net deficit from 2017/18 and the savings required to balance future years' Budgets.
- 1.2 The report seeks Members approval of the following-
- Latest Budget 2015/16
  - Original 2016/17 Budget
  - This Council's Band D Council Tax charge for 2016/17
  - 5 Year Capital Programme
  - Prudential Indicators for 2016/17.
  - Noting the latest Reserves and Schedules, approving the relevant transfers.
- 1.3 This Report will be presented to Full Council alongside a separate Report recommending the overall Council Tax Charges 2016/17 for Warwick District Council.

## 2. **RECOMMENDATION**

The Executive recommend to Council to approve/note:

- 2.1 The proposed changes to 2015/16 Budgets detailed in paragraphs 3.2.2 and 3.2.3.
- 2.2 The Revised 2015/16 Budget of Net Expenditure of £14,609,500 (Appendix 1) after allocating a surplus of £151,700.
- 2.3 The 2015/16 surplus is allocated as follows:-
- £76,300 to the Equipment Renewals Reserve; and
  - £75,400 to the General Fund ringfenced towards the 2016/17 Contingency Budget (para 3.2.4).
- 2.4 The proposed changes to 2016/17 Base Budgets detailed in paragraphs 3.3.1 to 3.3.4.
- 2.5 That with effect from this financial year (2015/16) any money that remains within the cost code 2280 4650 (Chairman's Allowance) at the end of the financial year is declared as an underspend and not transferred to the Chairman's Charities accounts (para 3.3.2 ii).
- 2.6 To end the Council's Travel Token Scheme with effect from 1st June 2016 noting that there will be a six week public consultation about the proposal to determine whether there would be any adverse equality impact and should this appear to be the case the matter would be considered by the Leader and Deputy Leader to determine next steps (para 3.3.2.iii).
- 2.7 The proposed Budget for 2016/17 with Net Expenditure of £12,556,300 taking into account the changes detailed in section 3.3. Appendix 1 summarises.
- 2.8 Note the Grant Settlement for 2016/17 as discussed in paragraph 3.4.1. Should there be any changes between the indicative Revenue Support Grant and the final amount, the changes will be managed through the Service

Transformation Reserve (para 3.4.4), and any change in the Business Rate Retention figures is reflected in the use of the Business Rate Retention Volatility Reserve (para 3.5.4).

- 2.9 The Council Tax of a Band D property for Warwick District Council for 2016/17 before the addition of parish/town council, Warwickshire County Council and Warwickshire Police and Crime Commissioner precepts is agreed at £149.78 representing a 1.99% increase on 2015/16
- 2.10 Subject to approval of the above Budget 2016/17, the Council Tax charges for Warwick District Council for 2016/17 before the addition of parish/town council, Warwickshire County Council and Warwickshire Police and Crime Commissioner precepts, for each band is agreed by Council as follows:

<b>Band</b>	<b>£ Charge</b>
Band A	99.85
Band B	116.5
Band C	133.14
Band D	149.78
Band E	183.06
Band F	216.35
Band G	249.63
Band H	299.56

- 2.11 The 2016/17 proposed New Homes Bonus of £2,257,564. Members also approve the allocation of the 2016/17 monies as follows, as detailed in paragraph 3.7.6:

	<b>£</b>
Waterloo Housing Association	178,500
St Georges Playing Field, Barford	71,000
Corporate Assets Reserve	486,000
Leisure Options Reserve	625,000
Business Rate Retention Volatility Reserve	750,000
Early Retirement Reserve	147,064

- 2.12 That the Head of Finance and Head of Development Services respond to the consultation on New Homes Bonus, following consultation with the relevant portfolio holders (para 3.7.5).
- 2.13 That the Council should continue to pay the National Living Wage to its employees, with the rate increased to £8.25 from April 2016 (paragraph 3.8.1).
- 2.14 The General Fund budgeted surplus of £23,100 be allocated to the Service Transformation Reserve (para 3.8.2).
- 2.15 The Medium Terms financial projections as shown in the Strategy at Appendix 2. Members note the underlying deficit approaching some £600,000 unless this can be addressed by savings of the same magnitude delivered by 2020/21

(para 3.9.6). An update to the Fit For the Future programme to be brought forward which considers ways to deal with this underlying deficit.

- 2.16 Approve the creation of a new reserve entitled "Leisure Options" in order to cover the reduced income expected during the refurbishment of two leisure centres and the initial debt charges on the prudential borrowing taken out to finance the refurbishments (para 3.10.3.ix). The management and control of the reserve to be as stated in the Reserves schedule in Appendix 3.
- 2.17 Note the Reserves Schedule as at 1<sup>st</sup> April 2017 and projected balances at Appendix 3 (para 3.10.2).
- 2.18 Approve the Equipment Renewal Schedule (Appendix 4) and ICT Schedule (Appendix 5) be financed by the respective reserves and note with concern that neither reserve is fully funded in the long term unless further sources of finance in addition to the recurrent allocations as approved in the September Fit for the Future Report (para 3.10.3 vi, viii).
- 2.19 Approve the General Fund Capital Programme including the new schemes described in the table in paragraph 3.11.2 and the Housing Investment Programme (para 3.11.7) and the funding of both programmes as detailed in Appendices 6 and 7
- 2.20 Agree that the practice of slipping the unallocated RUCIS budget should cease from the end of 2015/16 (para 3.11.8).
- 2.21 Approve the Prudential indicators (para 3.12 and Appendix 8).
- 2.22 Approve the Financial Strategy (para 4.2 and Appendix 9).
- 2.23 Note the mitigations and controls in place to alleviate the financial risks as detailed in Section 6.

### **3. REASONS FOR THE RECOMMENDATION**

#### **3.1**

- 3.1.1 By law, the Council must set a balanced budget before the beginning of the financial year. It must levy a council tax from its local tax payers to meet the gap between expenditure and resources available.
- 3.1.2 It is prudent to consider the medium term rather than just the next financial year, taking into account the longer term implications of decisions in respect of 2016/17. Hence, Members receive a 5 year financial strategy, Capital Programme and Reserves Schedule.
- 3.1.3 The Local Government Act 2004, Section 3, states that the Council must set an authorised borrowing limit. The CIPFA Code for Capital Finance in Local Authorities states the Council should annually approve Prudential Indicators.
- 3.1.4 The Chief Financial Officer is required to report on the robustness of the estimates made and the adequacy of the proposed financial reserves. (This statement is made at Appendix 10).
- 3.1.5 Within the report and the recommendations, the following funding allocations are proposed:-

	<b>2016/17 New Homes Bonus £</b>	<b>2015/16 Surplus £</b>	<b>2015/16 Contingencies £</b>	<b>2016/17 allocations £</b>	<b>Total £</b>
Waterloo Housing Association	178,500				178,500
St Georges Playing Field, Barford	71,000				71,000
Corporate Assets Reserve	486,000				486,000
Leisure Options Reserve	625,000				625,000
Business Rate Retention Volatility Reserve	750,000				750,000
Early Retirement Reserve	147,064				147,064
Equipment Renewals Reserve		76,300	123,700		200,000
Contingency		75,400		124,600	200,000
Service Transformation Reserve (from 2016/17 surplus)				23,100	23,100
<b>Total</b>	<b>2,257,564</b>	<b>151,700</b>	<b>123,700</b>	<b>147,700</b>	

3.1.6 In addition the Capital Programme includes the following new schemes and budget allocations:-

- Royal Spa Centre Operational Works – Motors and Stage Lighting Dimmers £350,000
- St Johns Warwick Flood Alleviation Scheme £100,000
- Rural and Urban Initiatives Grants – extension from 2018/19 £150,000 per annum
- Recycling and Refuse Containers - £165,000 per annum

### **3.2 2015/16 Revenue Budget**

3.2.1 Appendix 1 summarises the latest 2015/16 Budgets. These were reported to the Executive in December 2015 showing net expenditure of £14.42m and a surplus of £189,800.

3.2.2 The following changes are now proposed to the 2015/16 Budget:

Increased expenditure:

- Increased Leisure Centre salary costs +£50,000;
- Business Rates consultant's fees +£25,000;
- Digital Transformation setup costs (net of reserve funding) +£9,500;

Reduced expenditure:

- Environmental Health & Community Protection staff vacancies -£28,100;
- Earmarked Reserves no longer required -£18,300.

3.2.3 Within the 2015/16 budgets there are still various unallocated contingencies totalling £123,700:

- Office Cleaning Contract £51,000;
- General Contingency Budget £38,800;
- Price Inflation £17,000;
- National Living Wage £16,900.

These budgets are not likely to be used within 2015/16 and so £123,700 is proposed to be appropriated to the Equipment Renewals Reserve.

- 3.2.4 Taking into account the above budget changes, the 2015/16 Budgets show a projected surplus of £151,700. It is proposed that this surplus is allocated £76,300 to the Equipment Renewals Reserve (so giving a total contribution to this reserve of £200,000) and £75,400 ring-fenced for the 2016/17 Contingency Budget.

### **3.3 2016/17 Revenue Budget**

- 3.3.1 Since Members agreed the 2016/17 Base Budgets in December, further recurrent changes have been identified. Inclusion in next year's Budgets at this point ensures both the 2016/17 Budget and Financial Projections will contain the most realistic figures as at the beginning of April 2016. These changes are:

- Customer Service Centre Review/Digital by Default;
- Announcement of the Government Settlement;
- Updated Business Rates income based upon the January NNDR1 return;
- Latest Investment Interest Income forecasts;

- 3.3.2 The following specific changes to 2016/17 budgets have been allowed for within service expenditure estimates that were agreed by members in December:-

i. Energy

Within the Fit For the Future savings agreed by members in September 2015 is £320,000 phased in over 2017/18 and 2018/19 from the re-procurement of gas and electricity. The gas contract has now been re-procured to come into force April 2016, generating savings of 28.62%, this being ahead of the dates previously reported. Similar savings are expected for electricity from October 2016. Together, these will present savings of £136,000 for 2016/17, with the full year effect of the electricity contract giving another £83,000 savings in 2017/18, so giving future annual savings of £219,000.

Whilst these savings are being generated earlier (so benefiting the 2016/17 Budget), the level of these savings is estimated to be lower than earlier anticipated so presenting an additional £100,000 to be included in the Council's Medium Term Financial Strategy. Members will appreciate that the fuel market can be volatile, with oil prices currently being very low. When the contracts are re-procured in two years, the market may be very different with the Council having to fund additional costs for fuel above that currently being budgeted.

ii. Civic support

The Fit For the Future report included £20,000 savings related to changes to the Civic support in respect of the Chairman. CMT have given this further consideration and have concluded that these savings will not be achievable without significantly altering the role of the Chairman, which is not considered appropriate at this time.

It has been custom and practice for the last 15 years that any remaining money on the "Chairman's allowance" budget (cost code 2280 4650) is transferred to the Chairman's account for them to donate to their charities. This has varied from £500 to over £10,000 in recent years. It is recommended that this should not continue due to the financial pressures on the Council. Members will be mindful that this makes up a significant proportion of the Chairman's Charity donations each year and therefore any future donations, by the Chairman, to

charities are likely to be significantly lower. This budget is also used to pay for the Chairman to attend events and costs associated with events the Chairman hosts. Therefore revised budgeting arrangements will be put in place to clearly define what costs are being incurred by the Chairman of the Council. This will be achieved by reallocating this money across appropriate budget bins.

iii. Travel Tokens

The Council operates a transport scheme which enables qualifying individuals to use Council-issued travel tokens when travelling by train, taxi or (flexi) bus if the relevant transport operator agrees to accept the tokens in lieu of cash. Full details of the scheme can be found [here](#).

Following payment of a £5.00 administration charge, those eligible individuals will receive either £25.00 or £50.00 in tokens. The purpose behind the scheme is to enable elderly (in the rural areas) and disabled residents, who may not have easy access to bus services, to access transport, predominantly through the use of taxis. However, the allocations involved are so small that, as the table below demonstrates, a limited number of journeys can be made:

Using the calculator for Hackney Carriage Vehicles and deducting the £5 administration charge, residents are able to travel the follow distances:

	Tariff 1	Tariff 2	Tariff 3
	4 or less passengers (Day*)	4 or less passengers (evening**) 5+ passengers (day*)	5+ passengers (evening**)
£45	21 & 5/10th miles	13 miles	9 & 2/10th miles
£20	9 miles	5 & 7/10th miles	4 miles

The calculator is published on the council's website: [here](#).

Whilst it is the case that a resident may be able to achieve better value through private hire, the table gives Members a sense of the poor value the Council is receiving for its investment in the service. For example, using the calculator above, a resident travelling five miles into Leamington from a rural area would be able to make two return journeys over the course of 52 weeks.

Given the unprecedented financial position the Council is facing, officers do not consider that the scheme offers value for money, however, although this is a discretionary scheme it is recommended that a six week public consultation is undertaken to determine whether there would be any adverse equality impacts and if there are for these to be considered by the Leader and Deputy Leader.

iv. Waste Containers

As discussed in a separate report to this Executive, it is proposed to charge for waste containers. The anticipated net additional income of £78,000 per annum has been factored in to the proposed 2016/17 Budget. The Medium Term Financial Strategy and Capital Programme have also been altered to reflect this income and the additional on-going cost of the containers.

v. Local Enterprise Partnership (LEP)

As part of agreeing the 2015/16 Budget members agreed a contribution to the LEP of £20,000. Further discussions with the LEP have confirmed that funding is

required from the local authorities within the LEP on an on-going basis. Accordingly, £20,000 per annum has been included in the 2016/17 Budget and the Medium Term Financial Strategy.

vi. **Employment Initiatives**

£50,000 was agreed as part of the 2014/15 Budget a one off sum of £50,000 for Employment Initiatives, of which £26,900 remains. The balance of this funding is proposed to be used as matched funding over the three years (from 16/17 financial year onwards) to support the Coventry and Warwickshire SME Growth Programme of the European Skills Initiative Funding (ESIF). The Chief Executive, using his powers, had previously agreed this re-allocation, and this would ensure a consistent delivery of business support start up advice, business readiness assistance across Warwick District as matched funding in a £3.35m three year programme for Coventry and Warwickshire. There is a shortfall in funding for the third and final year and this will be filled utilising additional monies raised through the Local Labour Agreements over that three year period.

3.3.3 The 2016/17 Budget proposed also allows for the creation of a Contingency Budget to the total of £200,000, including the £75,400 ring-fenced from 2015/16. In recent years the use of a Contingency Budget has been invaluable to allow the Council to deal with un-budgeted demands. These demands are agreed by the Executive or delegations as allowed for within the Code of Financial Practice. Full details of the use of the Contingency are reported to members.

3.3.4 The projected Collection Fund Balance, 2015/16, was calculated to be in surplus by £501,574 on 31<sup>st</sup> March 2016. Warwickshire County Council and the Warwickshire Police and Crime Commissioner were duly notified of their shares on the 15<sup>th</sup> January 2016. This Council's share is £55,000. This has been factored into the 2016/17 Budgets presented in this Report.

### **3.4 Government Grant**

3.4.1 When the 2015/16 Settlement was announced in December 2014 and January of last year, the Government did not provide indicative settlement figures for future years. Hence the Medium Term Financial Strategy was prudently based upon the latest intelligence (Chancellor's Budget Statements, LGFutures, the Economy). The Government has now provided the proposed Settlement Funding Assessment (SFA) for 2016/17 alongside indicative amounts for the subsequent 3 years. Whilst the Financial Strategy had been based upon Revenue Support Grant for 2016/17 estimated at £1.835 million, the actual amount announced by Government is £1.586 million, a reduction of some £0.25m (and a reduction of over £900k from the 2015/16 £2.5m RSG) . This reduced funding clearly has implications for the future years discussed at Section 3.9 below, the Medium Term Financial Strategy.

3.4.2 The SFA for 2016/17 introduces the concept of Core Spending Power. This comprises of Revenue Support Grant, New Homes Bonus and projected council tax and business rates income. In coming to the projection of council tax income, the Government is assuming increases in the council tax base and also that local authorities increase their council tax up to the referendum limits (see paragraph 3.6.3 below). Based on these assumptions, the Government figures show that the Council's Spending Power decreases by 0.4% for 2016/17.



- 3.4.3 A response has been issued to the Grant Consultation from the Council. This has stressed the inequity of the council tax increase limitation facing the Council as discussed in paragraphs 3.6.3 and 3.6.4.
- 3.4.4 The final Grant Settlement is expected in early February. Updated figures will be provided to Members when available. Any change in the Revenue Support Grant is proposed to be compensated by the use of the Service Transformation Reserve.

### **3.5 Business Rates**

- 3.5.1 The Council is required to agree its Business Rates estimates by the end of January (the form "NNDR1"). The Head of Finance has delegated authority to agree this. In estimating the business rates, account needs to be taken of prior year adjustments in respect of the net amounts estimated to be received.
- 3.5.2 As reported previously, there are still many business rates appeals outstanding for which a provision is required. This has the impact of dampening the Retained Business Rates for 2016/17. Funds have previously been set aside for this in the Business Rates Volatility Reserve, the use of which has been factored into the proposed 2016/7 Budget. For 2016/17, it is currently estimated that the Council will retain business rates of £3.6m, but this is reduced by a prior year adjustment of £2.7m, of which £2.5m is being met using the balance on the Business Rate Volatility Reserve.
- 3.5.3 In recent weeks, case law has agreed that NHS Foundation Trusts have acceptable charitable status to enable them to qualify for mandatory business rate relief. Whilst the Council has not had any applications for this relief, any applications received may be able to be backdated to 2010. The Council's share of this backdated relief could be approaching £1m, with £150,000 recurrent cost. This has not been factored into the proposed Budget. This is a risk facing the Council, although due to the significance of the implications facing many local authorities, this is something that will need to be addressed at a national level.
- 3.5.4 Whilst the potential cost of mandatory business rate relief for foundation trusts has not been factored into the budget, the Council should seek to ensure it has some provision to meet this potential cost. Hence within the allocation of the 2016/17 New Homes Bonus, £750,000 is proposed to be allocated to the Business Rate Retention Volatility Reserve.
- 3.5.5 If there is any variance between the business rates retention included within the proposed Budget and the figures within the NNDR1 for 2016/17, it is proposed that the difference should be accommodated with appropriate transfers to/from the Business Rate Retention Volatility Reserve.

### **3.6 Council Tax**

- 3.6.1 In setting these Budgets, Members need to be aware of the impact on their local Council Tax Payers. 2016/17 is the first time in five years that this Council has increased its share of the Council Tax. The recent zero tax increases have been partially compensated by a council tax freeze grant from central government.
- 3.6.2 The Council Tax referendum limit remains at 2%. Whilst a referendum would have one-off costs relating to its administration, if the electorate agree to an

increase above 2%, this would help to protect the Council's funding and services into the future.

- 3.6.3 Within the Grant Settlement, referendum principles are proposed. These are:-
- A 2% limit on all council tax increases, as discussed in 3.6.2.
  - Authorities with responsibility for social care may increase their council tax by an additional 2% for adult social.
  - District councils whose' current band D council tax in in the bottom quartile may increase their council tax by up to £5.
  - No referendum principles have been proposed for parish or town councils.
- 3.6.4 Warwick District Council is just outside the bottom quartile for its level of council tax (57 out of 201 district councils). Accordingly it is limited to the 2% council tax increase, with the proposed increase being 1.99% so as to be sure of not being within the referendum parameters. The 1.99% proposed increase is the equivalent of an extra £2.92 at Band D and will generate an additional £151,000. This is well below the £5 that authorities in the bottom quartile may raise their tax. A £5 increase in tax would generate a further £108,000 in council tax income. By being just outside the bottom quartile, Warwick District Council is limited to one of the lowest increases in council tax, in cash and real terms, nationally.
- 3.6.5 The Council Tax Base was calculated in November of last year, with the Council's preceptors being notified accordingly. The Tax Base for 2016/17 is 51,879.20 Band D Equivalents, an increase of 534 above that previously projected in the Strategy and built into the 2016/17 Base Budget reported to Members in December.
- 3.6.6 The Council's element of the Council Tax is calculated by taking its total budget requirement, subtracting the total funding from Central Government in respect of Revenue Support Grant (RSG) and Retained Business Rates (Section 3.4 and 3.5 above) and the collection fund balance of £55,000. This figure is divided by the 2016/17 tax base to derive the District Council Band D Council Tax Charge.
- 3.6.7 The recommendations within this report produce a Band D Council Tax for Warwick District (excluding parish/town council precepts) for 2016/17 of £149.78, this being a 1.99% increase on that of 2015/16. Based on this increase the Council Tax levels for each of the respective bands will be:

<b>Band</b>	<b>£</b>
A	99.85
B	116.50
C	133.14
D	149.78
E	183.06
F	216.35
G	249.63
H	299.56

- 3.6.8 Parish and town councils throughout the district were asked to submit their precepts for 2016/17 when informed of their Tax Bases. At the time of writing this report, not all precepts have been confirmed. It is estimated that the precepts will total around £1,300,000 based on prior years. This figure does

not take into account the Grants that this Council will award in respect of the Council Tax Support adjustments to the Tax Base (as detailed within the December 2013 Base Budget report).

3.6.9 At the time of writing this report, neither the County Council nor the Police and Crime Commissioner have set their 2016/17 budgets and element of the Council Tax. The meeting of the County Council is scheduled for the 23<sup>rd</sup> February 2016 and the Police & Crime Commissioner is due to seek approval from their Panel on the morning of 3<sup>rd</sup> February. Should the Commissioner's proposal be rejected, there will be a subsequent submission on the 17<sup>th</sup> February.

3.6.10 The Council Tax is set by aggregating the council tax levels calculated by the major precepting authorities (the County Council and the Police and Crime Commissioner) and the parish/town councils for their purposes with those for this Council. The report to the Council Meeting on the 24<sup>th</sup> February, 2016 will provide all the required details. This will be e-mailed to all Members as soon as possible following the County Council Meeting on the 23<sup>rd</sup> February. The Council will then be in a position to:

- (a) consider the recommendations from the Executive as to the council tax for district purposes; and
- (b) formally to set the amount of the council tax for each parish/town, and within those areas for each tax band, under Section 30 of the 1992 Local Government Finance Act

3.6.11 Members must bear in mind their fiduciary duty to the Council Taxpayers of Warwick District Council. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision that no reasonable authority could come to, balancing the nature, quality and level of services that they consider should be provided, against the costs of providing such services.

3.6.12 Should Members wish to propose additions or reductions to the budget, on which no information is given in the report before Members, they must present sufficient information on the justification for and consequences of their proposals to enable the Executive (or the Council) to arrive at a reasonable decision. This report sets out relevant considerations for Members to consider during their deliberations, including the statement at Appendix 10 from the Chief Financial Officer

3.6.13 Section 106 of the Local Government Finance Act 1992, states that any member who has not paid their Council Tax or any instalment for at least two months after it becomes due and which remains unpaid at the time of the meeting, must declare that at the meeting and not vote on any matter relating to setting the budget or making of the Council Tax and related calculations.

### **3.7 New Homes Bonus**

3.7.1 This Council's provisional New Homes Bonus allocation for 2016/17 is £2,257,564. This represents £576,000 for its overall increase in new properties over the last 12 months, a further £350 per new affordable home (£59,000), plus the previous 5 year's allocations (£1.623m).

3.7.2 At present, the funding is based upon a 6 year rolling programme whereby each

year's allocation is funded for 6 years. However, in December 2015 the Government issued a Consultation paper alongside announcing the 2016/17 provisional allocations. This suggests that from 2017/18 the allocations may reduce to a 4 year period.

- 3.7.3 This paper also seeks views on the existing method of calculating the award on Band D equivalents and also restricting the award to authorities with a local plan in place.
- 3.7.4 It invites a response on proposals to exclude houses allowed under appeal and those that may be built irrespective of any incentive from New Homes Bonus.
- 3.7.5 Responses are due by the 10<sup>th</sup> March 2016. It is proposed that the Head of Finance and Head of Development Services send a suitable response, following consultation with the relevant portfolio holders.
- 3.7.6 Of the £2,257,564 allocation for 2016/17 it is proposed this is allocated as follows:
- The Waterloo Housing joint venture, £178,500; in line with the amount of affordable housing delivered from the partnership with the Council, as previously agreed by the Members;
  - Corporate Assets Reserve £486,000;
  - Business Rate Retention Volatility Reserve £750,000;
  - King George Playing Fields in Barford (capital) £71,000 as agreed by Executive in July 2015;
  - Creation of a new Leisure Options Reserve with £625,000 transferring to it. This provision is to manage the net reduction in income during the Leisure Centre refurbishment project and initial debt repayments, as detailed in the report to November 2015 Executive;
  - Early Retirement Reserve £147,064. Further demands upon this reserve are expected in future years.
- 3.7.7 Whilst the Government has stated that New Homes Bonus will remain for future years, it is clear that the allocations are likely to reduce. Knowing the uncertain nature of NHB, the Council has sought not to rely on this funding to sustain mainstream service provision, unlike many authorities. This has enabled the Council to use this funding towards other projects. Potential projects expected to come forward for 2017/18 include the Whitnash Community Hub. However, any commitment to this or any other project should not be agreed until there is more certainty over the future levels of NHB, and other potential demands for the use of this funding.

### **3.8 Other 2016/17 Budget Matters**

#### **3.8.1 National Living Wage**

In 2014 the Council agreed all of its employees should receive at least the National Living Wage. Each year the Council needs to review its commitment to paying the National Living Wage from the subsequent April of each year as part of the Budget process.

For 2015/16 this is being paid at the rate of £7.85 per hour. The rate determined by the National Living Wage Foundation for the new year is £8.25.

In July 2015 the Chancellor of the Exchequer announced that the UK Government will introduce a compulsory minimum wage premium for all staff

over 25 years of age, and referred to it as the 'national living wage'. The government rate is separate to the Living Wage rate calculated by the Living Wage Foundation. The government rate is based on median earnings while the Living Wage Foundation rate is calculated according to the cost of living. The government Living Wage is to be introduced from April 2016 at the rate of £7.20 per hour. This is due to increase to £9 by 2020.

The government's Living Wage increases will in due course impact not only on more of the Council's employees, but also on the wage bill of contractors. It is expected that as contracts are re-tendered in future year, the cost of the Living Wage will be reflected in higher contract prices. £50,000 has been factored into the Medium Term Financial Strategy for the additional cost of the NLW falling on the Council for its own employees from 2019/20. However no allowance has been factored in for the costs falling on contractors; these are not expected to be a cost for the Council until the major contracts are retendered until after 2021.

From April 2016 it is proposed that the Council will continue to pay the National Living Wage Foundations rate of £8.25.

- 3.8.2 Taking into account all the budget changes and proposals detailed above, the 2016/17 budget would present a surplus of £23,100. It is proposed that this surplus is transferred to the Service Transformation Reserve.

### **3.9 Medium Term Financial Strategy**

- 3.9.1 The Strategy presented to Members in February 2015, when the 2015/16 Budgets were approved, forecast that there would be a £980,000 deficit by 2019/20 unless ongoing savings were identified and delivered within the same period.
- 3.9.2 The July Budget Review Report indicated that this had now gone up to £1.087 million. This increase was primarily due to the Strategy being updated to incorporate a further 5<sup>th</sup> financial year.
- 3.9.3 In September 2015 the latest Fit For the Future Programme Report to the Executive, identified various savings, which if achieved would enable the Council to meet the shortfall of £1.087m. These savings totalled a recurrent £1.735 million net of appropriations to Reserves. In addition, the savings would be sufficient to enable annual contributions in respect of:-
- Rural and Urban Capital Initiatives Scheme £150,000 from 2018/19.
  - Historic Building Grants £50,000 from 2017/18. However, following the agreement of the Executive in January, this scheme and budget will cease from April 2017, with the funding retuning to the General Fund.
  - ICT Reserve £250,000 from 2019/20.
  - Equipment Renewals Reserve £100,000 from 2019/20. Recent consideration of forthcoming demands upon this reserve has highlighted a need for a further one-off contribution to this reserve to ensure the commitments over the next five years can be met. Accordingly, within paragraphs 3.2.3 and 3.2.4, additional one off contributions totalling £200,000 have been proposed.
- 3.9.4 Other significant changes to the Financial Strategy are detailed below:-

- Additional Income above that previously factored into the Financial Strategy, £67,000, as reported in the Fees and Charges Report of September 2015.
- Investment Income has been updated to reflect latest interest rate forecasts informed by Capita, the Council's Treasury Management consultants and changes in the levels of Reserves. Investment Interest is forecast to increase to £1,760,000, of which £760,000 will benefit the General Fund. Whilst the General Fund Balances have diminished over this 5 year Period, interest returns themselves are forecast to increase from 0.7% to 2.02%.
- Reductions in projected Revenue Support Grant (RSG). As discussed in section 3.4.above, the lower level of Government Support continues into future years, falling to just below £800,000 in 2017/18, £300,000 the following year, after which, from 2019/20 there will not be any Revenue Support Grant at all. The Council's main sources of income will be Business Rates, Council Tax and any monies the Council can raise from its own Fees and Charges. It should also be noted that from 2019/20, this Authority's Business Rates Baseline has been deflated by a "Tariff adjustment" of some £240,000. This effectively represents negative RSG in that as the Council is no longer receiving any RSG, it cannot be reduced further.
- Revisions to Business Rates forecasts, £431,000 decrease, as discussed in section 3.5.
- When the Council Tax Base was calculated in November of last year, there was an increase in the numbers of 600 Band D Equivalents above that previously forecast. The additional Band D's will see some £100,000 per annum in income by 2020/21.
- The Government announced that Public Sector Pay Awards are to be frozen at 1% for the next four years. This will save £555,000 on the previously assumed 2% per annum for that period.
- The National Living Wage will increase to a minimum payment of £9.00 per hour by 2020. Provision has been made for this of £50,000 from 2019/20 onwards. The NLW is discussed in more detail in section 3.8.1.
- It was expected that a further £50,000 needed to be added to the Inflation Contingency Budget for 2016/17. However, at present, this Budget is not being fully utilised and in light of low inflation factors, (RPI 1.10% and CPI 0.1% in November 2015), which is only expected to rise to averages of 2.6% and 1.6% respectively during 2016/17, the additional budget requirement has been removed. The general inflation provision remaining within the 2016/17 Budget is £24,500.
- 2014/15 was the first year of a deflation factor to be applied to Discretionary Expenditure Budgets (10% over a 4 year period, 2.5% per annum) Members subsequently agreed that year 4 (2017/18) of the reduction be brought forward to 2016/17 i.e. a total of 5% being factored into 2016/17. However, during the last 2 years, Managers have found it increasingly difficult to identify and then deliver these savings, alongside other changes being made during the same period. In finalising these budget reductions for 2016/17 the actual savings have proven £69,000 less than originally forecast within the strategy.
- In the Base Budget Report (December 2015), Members were informed that the new state pension arrangements remove the "opt-out" reduction in respect of employers' National Insurance contributions from April 2016. This is now estimated to cost £214,000 per annum, slightly more than the £200,000 that had previously been allowed for within the projections in respect of this.
- Responsibility for Benefits Fraud has transferred to the Department of Work and Pensions. This has resulted in a recurrent saving on the demand for

Legal Services from Warwickshire County Council, which has now been factored into the 2015/16 and 2016/17 Budgets. (£58,000 per annum).

- Income at the Council's Leisure Centres has seen an increase (£61,000) as memberships have increased. It is believed this may have been in part due to some extra promotions, however, officers believe there is an underlying uptake anyway.
- The Apprenticeship Levy becomes payable from 2017/18 of 0.5% of the pay bill over £3m, costing an estimated £42,000.
- A £20,000 recurrent payment to the Local Enterprise Partnership, following on from the one-off sum agreed for 2015/16 as part of the February 2015 Budget report (see paragraph 3.3.2 v).
- Staffing Review – CMT. The Fit For the Future report included £70,000 savings from 2019 related to a future review of CMT. In discussion with the Executive, it is believed that with the significant challenges facing the Council over the forthcoming years, it would be imprudent to assume that these savings will be achievable. Accordingly, this saving has been removed from the updated Medium Term Financial Strategy, although it is still expected that a future senior management review will be necessary.
- A net recurrent transfer, £87,000 (after allowing for the anticipated income as discussed in section 3.3.2 iv) to Capital to fund the costs of Waste Containers. These are currently provided free of charge, with the exception of additional green bins. The original budget for the supply and delivery of waste containers was set at £120,000 pa for 5 years (April 2013 – March 2018). Due to an increase in demand, there is a budget shortfall of £93k for 2016/17. Levying a modest charge of £25.00 per bin will partly offset these costs.

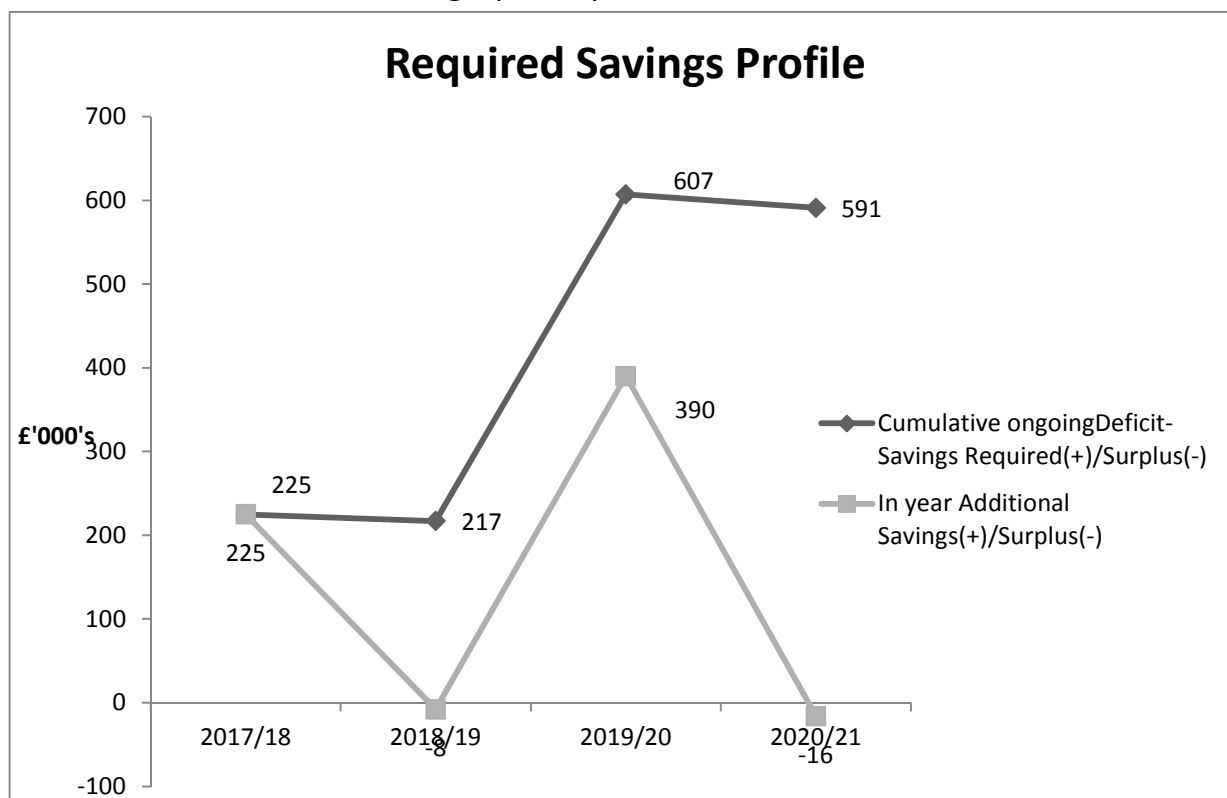
3.9.5 Taking all of these changes, plus many minor ones into account, the Medium Term Financial Strategy now indicates that £591,000 of recurrent savings still need to be found outside of those built into the Strategy. This is replicated in the table below-

	<b>£'000's</b>
<b>Ongoing 5 year Deficit February 2015 Executive</b>	<b>980</b>
Addition of an extra Year	99
Fees and Charges	-67
Investment Interest	-273
Council Tax Base	-97
Allocations/Savings (September Fit for the Future Report)	-1,145
Adjusted Energy Savings from New Contracts	100
Pay Award	-555
National Living Wage	50
Inflation Provision	-50
Discretionary Savings Target Reduced to actual	69
Additional costs of one state pension (NI contributions)	214
Fraud Legal savings now under DWP	-58
Leisure Centre membership	-61
Apprenticeship Levy	51
Recycling Cannisters (net)	87
net other smaller adjustments	-15
Business Rates Updated	431
Government Grant reductions	833
<b>Ongoing 5 year Deficit February 2016 Executive</b>	<b>593</b>

3.9.6 The Table below breaks down these savings into financial years;-

	<b>2017/18</b> <b>£'000</b>	<b>2018/19</b> <b>£'000</b>	<b>2019/20</b> <b>£'000</b>	<b>2020/21</b> <b>£'000</b>
Cumulative ongoing Deficit/Savings Required(+)/Surplus(-)	225	217	607	591
In year Additional Savings(+)/Surplus(-)	225	-8	390	-16

This can also be shown graphically as follows:-



3.9.7 Appendix 2 shows the Medium Term Financial Strategy in more detail. It will be noted, that despite the significant potential savings considered and included within the Medium Term Financial Strategy, further savings are needed to enable the Council to continue to set a balanced budget within the projected level of financial resources.

3.9.8 Members are reminded that within the Medium Term Financial Strategy savings from several significant projects have been included. If these savings are not made, the Council will need to agree how further savings may be made. It should be noted, that in seeking to identify further savings, there is the possibility of further savings having to impact upon the level of service provided and service delivery. The saving from projects currently included in the Medium Term Financial Strategy are:-

- Office relocation - £300,000 from 2018/19.
- Staff Terms and Conditions - £145,000 from 2016/17
- Leisure Options - £500,000 from October 2018
- Town Hall Transfer - £85,000 from 2018/19



- Members Allowances - £80,000 from 2019/20.

3.9.9 Officers will continue to monitor and update the 5 year forecast during 2016/17, with Members regularly updated as part of the Budget Review process.

### **3.10 Reserves and Balances**

3.10.1 Members agreed that £1.5m should be the minimum level for the core General Fund Balance. This Reserve supports the Council for future unforeseen demands upon its resources. In order to consider a reasonable level of general reserves, a risk assessment has been done and is contained at Appendix 11. This shows the requirement for the General Fund balance of over £1.5 million against the risks identified above. It has been agreed that £1.5m should be the minimum level for the core General Fund Balance.

3.10.2 The General Fund has many specific Earmarked Reserves. These are attached at Appendix 3 showing the actual and projected balances from April 2015, along with the purposes for which each reserve is held. Finance and Audit Scrutiny Committee is especially asked to scrutinise this element and pass comment to Executive.

3.10.3 Those reserves which show a significant change in the overall balance in the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2020 are detailed below and also shown in Appendix 3

- i. Business Rates Retention Volatility Reserve – reduction of £2,652k , after allowing for a contribution of £750k from the New Homes Bonus. This reserve is used to smooth the retained income from the Business Rates retained income scheme (see paragraph 3.5.2), with some allowance towards the cost of future appeals.
- ii. Capital Investment Reserve – a decrease of £2,196k in the balance mainly due to the use of the reserve in financing projected General Fund capital expenditure, offset by contributions from the General Fund in respect of previous capital expenditure financed by this reserve. The reserve will receive top ups of £150k per annum from 2018/19 in order to ensure the on-going funding of the RUCIS scheme. In the past the Council has had a policy of maintaining a minimum balance of £2m in this reserve for unforeseen demands. However, it has proven to be unrealistic to maintain this level of minimum balance. Also, with the reduced number of capital schemes within the Capital Programme, and the other reserves that the Council holds, it is believed to be acceptable for this nominal balance to be reduced to £1m. This is reflected within the Financial Strategy (Appendix 9).
- iii. Car Parking Repairs and Maintenance Reserve – an increase of £122k as a result of £40k per annum contributions being made from the General Fund arising from increased parking fees.
- iv. Community Forums Reserve – the reserve will make contributions of £136k to the General Fund in respect of financing Community Forum grants and will effectively be extinguished at the end of 2017/18, with the cost of these grants then needing to be funded from core General Fund funding.

- v. Corporate Assets Reserve – an increase of £312k in the balance due to top ups of £570k and £486k from the 2015/16 and 2016/17 New Home Bonuses respectively. The reserve will also make a contribution to the General Fund of £744k in 2015/16. The contribution to fund works in 2016/17 will be subject to a report to March Executive. However, it is anticipated that this reserve should now be sufficiently funded for the next three years, although this will be considered in more detail in the March report.
- vi. Equipment Renewal Reserve. Managers and Service Area Managers have been tasked with regularly reviewing their forecast future requirements from the Reserve and looking to see whether they can reduce their demands on this Reserve by providing services by an alternative method in a more cost effective manner. This is paramount, as if all the future demands on this Reserve are needed, the Reserve is scheduled to run out during 2018/19 even after allowing for a £174k top up from the 2015/16 New Homes Bonus. Additional annual top ups of £100,000 per annum from 2019/20 are scheduled, in addition to the £200,000 contribution to this reserve detailed elsewhere in this report (Sections 3.2.3 and 3.2.4). Members will receive further information later in the year as part of the budget review as to how the anticipated shortfall can be financed. The latest Schedule is attached at Appendix 4
- vii. General Fund Early Retirements Reserve – an increase of £189k arising as a result of top ups of £100k and £147k from the 2015/16 and 2016/17 New Homes Bonuses respectively offset by contributions from the reserve to the General fund in 2015/16 to fund various redundancies and early retirement costs.
- viii. ICT Reserve – a decrease of £899k arising from the funding of ICT capital expenditure 2015/16 to 2019/20. The reserve will receive annual top ups of £250k from 2019/20. (Appendix 5)
- ix. Leisure Options Reserve – This is to be a new reserve initially funded from £625k New Homes Bonus in 2016/17. This reserve has been created to manage the loss of income arising during the Leisure Centre refurbishment project and also pay for the first year and a half's debt charges.
- x. Public Amenity Reserve – a decrease of £491k arising from the funding of play equipment capital expenditure in the 2015/16 to 2019/20 capital programme.
- xi. Public Open Spaces Planning Gain Reserve – an increase of £398k arising from S106 contributions received in 2015/16 for which there is, as yet, no planned expenditure.
- xii. Services Transformation Reserve – a decrease of £1,549k mainly due to various approvals for Fit For the Future projects. Excluding those approved in previous years which were slipped to 2015/16, those approved since 1<sup>st</sup> April 2015 include
  - a. £89k to fund additional hours for Senior HR and Learning & Development Officer Posts
  - b. £70k was approved in September 2015 for the Asset Management Section Re-design, with a further £34k maximum for temporary posts emanating from the Re-design
  - c. Consultant Fees for the St Mary's Land Strategy £20k.
  - d. £350k funding for the Leisure Options project
  - e. £158k in respect of the Digital Transformation of the Council's Services project.

- f. Other approvals from this reserve which have not yet been reflected in the Council's budgets mean that the unallocated balance on this reserve is £318k.

The reserve will receive a top up of £23k from the 2016/17 budget surplus.

- 3.10.4 For some years now, officers have undertaken Options Appraisal when procuring items from the Equipment Renewal Reserve. It is recommended this practice continues and is used for any purchase from a Reserve where this exercise might be appropriate and offer an alternative cost effective means of purchase, e.g. ICT Reserve and Capital Investment Reserve.

### **3.11 General Fund and Housing Capital Programmes.**

- 3.11.1 The Latest Programme for both the General Fund and the HRA are shown at Appendix 6 along with the proposed financing of.

- 3.11.2 The General Fund Capital Programme shown in Appendix 6 includes the additional projects listed below and detailed within the capital variations in Appendix 7. This appendix also contains details of other movements in the capital programme e.g. slippage from 2015/16 to 2016/17 and savings.

<b><u>Project</u></b>	<b><u>Amount</u></b>	<b><u>Comments</u></b>
<b><u>SCHEMES ALREADY APPROVED</u></b>		
Voice Over IP Telephony System	£75,000	Approved November 2015 by Head of Finance in conjunction with ICT Services Manager under delegated authority and funded from ICT Reserve
King George's Playing Fields, Barford	£166,000	Approved July 2015 Executive and funded from S106 contributions and New Homes Bonus (see paragraph 3.7.6)
Racing Club Warwick – match funding towards ground improvements	£50,000	Approved December 2015 Executive and funded from Capital Investment Reserve
Leisure Options – works to progress to RIBA Stage 4	£550,000	Approved December 2015 Executive and funded by internal borrowing
<b><u>NEW SCHEMES REQUIRING APPROVAL</u></b>		
Royal Spa Centre Operational Works – Motors and Stage Lighting Dimmers	£350,000	Schemes originally included in Equipment Reserve Renewal Schedule but now removed and to be funded from Capital Investment Reserve in 2016/17
St Johns Warwick Flood Alleviation Scheme	£100,000	New scheme identified and to be funded from Capital Investment Reserve in 2017/18
Rural and Urban Initiatives Grants – extension from 2018/19 (as agreed by Executive September 2015)	£150,000 per annum	Additional allocations re existing schemes to enable them to continue. Will be funded from Capital Investment Reserve using planned revenue savings
Recycling and Refuse Containers, subject to separate report to this	£165,000 per annum	Additional allocations re existing schemes to enable them to continue from 2017/18 onwards. Will be

<b><u>Project</u></b>	<b><u>Amount</u></b>	<b><u>Comments</u></b>
Executive meeting		funded from Revenue Contributions

3.11.3 In accordance with the Council's Code of Financial Practice, all new and future capital schemes, must be in line with the Council's corporate priorities and a full business cases will be required as part of the Report to the Executive for approval. This case will identify the means of funding and, where appropriate, an options appraisal exercise will be carried out. Should there be any additional revenue costs arising from the project, the proposed means of financing such must also be included in the Report and Business Plan.

3.11.4 In addition to the new projects incorporated above the following capital projects are expected to come forward over the next year:-

- Leisure Centre Investment
- Investment in replacement multi storey car parks
- Office relocation

3.11.5 Slippage items to 2016/17 in the Programme since last reported to Members are-

- St Mary's Lands Business Strategy £50,000
- Bishops Tachbrook Community Centre £200,000
- 2<sup>nd</sup> Warwick Sea Scouts' Headquarters £49,825
- Conservation Action Programme £40,409
- Play Area Improvement Programme £223,125

3.11.6 The latest Housing Investment Programme (HIP) is shown at Appendix 6

3.11.7 Changes to the Programme since last reported to Members are-

- Virement of £20,000 from the 2015/16 Kitchen Fittings and Sanitaryware Replacements programme to Structural improvements.
- An examination of the salary costs relating to staff carrying out the Council's programme of Disabled Facilities Grants has revealed a case for charging capital salaries to the Mandatory Disabled Facilities Grants capital budget thus alleviating pressure on revenue resources. Accordingly, £35,000 has been added to the Mandatory Disabled Facilities Grants budget within the 2016/17 Housing Investment Programme which will be financed by usable capital receipts. 2017/18 onwards will be reviewed once the outcome of the South Housing Assessment Team joint project pilot is known.

3.11.8 The RUCIS scheme is now funded on an on-going basis at £150,000 per annum, financed from planned revenue savings (which are passed through the Capital investment Reserve). It will be noted from the regular RUCIS reports that in addition to the annual £150,000 budget, the scheme still carries forward significant unspent balances. It is proposed that from the end of 2015/16, the practice of slipping the unallocated budget should cease.

## **3.12 Prudential Indicators**

3.12.1 The Council is required to determine an authorised borrowing limit in accordance with The Local Government Act 2004, Section 3, and to agree prudential indicators in accordance with the CIPFA Code for Capital Finance in Local Authorities.

3.12.2 The Indicators are shown at Appendix 8

#### **4. POLICY FRAMEWORK**

- 4.1 The Council's priorities have been reaffirmed within its Fit For the Future Programme. Savings from the Programme have been built into the Budgets now presented to members for Approval. The Budgets have also been set to support this Council's delivery of the projects within the Fit for the Future Programme.
- 4.2 The budget is a major milestone in the life of the Council. It is a financial expression of the Council's policies, having regard to resource availability and taxation consequences. The Council has formulated a number of strategies setting the framework to ensure that its overall aims and objectives are achieved. The Financial Strategy is one of its Resource Strategies; the 2016/17 Budget has been set in line with this Strategy. The updated Financial Strategy is included as Appendix 9. Should there be any mismatch between these subsidiary strategies and action plans, officers will bring forward proposals for managing these within the agreed budgets.

#### **5. BUDGETARY FRAMEWORK**

- 5.1 The Council's budget and Council tax setting is a major component in reflecting and expressing the Council's priorities and policies. The budgets proposed for both capital and revenue are in accordance with Fit for the Future. The financial strategy and capital strategy are revised in the light of the proposed revenue and capital budgets, and the issues that these budgets address.
- 5.2 Officers monitor the current year's budgets by way of the monthly Budget Review process which is duly reported to the Council's Senior Management Team. The same process is applied when reporting quarterly to Members. Members are also kept informed on progress with Earmarked Reserves and the Contingency Budget, alongside the latest predictions in the Medium Term Financial Strategy.

#### **6. RISKS**

- 6.1 As reported in previous years, lack of available finance presents a risk to all of the services that the Council provides. Its Financial Stability is dependent upon known sources of specific funding amounts. Recent years have seen increasing uncertainty surrounding the amount of Government Support, notably through Revenue Support Grant (RSG). The Government has now announced a 4 year provisional settlement, but whilst this provides some certainty, the RSG proved less than previously forecast, reducing to zero in 2019/20. This leaves the Council to rely solely on Business Rates and Council Tax Income. Business Rate Retention income is proving to be highly volatile, especially due to the level of appeals continuing to remain high (see section 3.5). This volatility presents a significant risk to the Council both during each current financial year whereby actual income received may not be that budgeted for and also for future planning and forecasting. The Business Rates Volatility Reserve provides some mitigation, but there is an underlying risk that this might not be adequate in the longer term.
- 6.2 Many of the Risks in the Significant Business Risk Register are Finance related and the Finance Service Area has its own Risk Register. Both are reviewed regularly.
- 6.3 Whilst the country is now seeing an upturn in the economy with interest rates expected to increase, it is still susceptible to the outside environment which can

reverse the trend. Some European countries are still unstable and there is unrest in the East with many migrants fleeing their home countries into Europe. A return to recession would see the projected rise in interest rates delay further and increased unemployment would in turn increase the level of Council Tax Reduction claimants and reduce customers' discretionary spending in the Council's income generating areas. Inflation rates are influenced by the economy. High inflation rates restrict the Council's own purchasing powers and also impact on its Contractors whose annual contract uplifts may have been based on a lower RPI period.

- 6.4 The Medium Term Financial Strategy has a significant amount of savings built in from the Fit for the Future Programme. Failure to deliver these projects, all or in part, will increase the deficit and savings yet to be identified. Delays may drive up the costs of the enabling works and mean savings do not materialise as early as expected. There may also be revenue implications should the projects not have been assessed.
- 6.5 Unforeseen events, such as planning appeals, uninsured damage, legal challenges, can expose the Council to incur expenditure not previously budgeted for. Whilst the Council endeavours to cover these from its Contingency Budgets and Reserves, they may not prove adequate.
- 6.6 Changes in Legislation may influence assumptions built into Budgets and the 5 year Strategy as well as increasing the costs of implementing these changes.
- 6.7 The introduction of new investment vehicles such as Corporate Equity Funds and their use introduces a risk that any negative changes in valuations of such funds at 31<sup>st</sup> March each year will adversely impact on the General Fund. These are discussed in more detail in the Treasury Management Strategy Report which is a separate report on this agenda.
- 6.8 Many controls and mitigations are in place to help manage these risks. These include:-
  - The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team.
  - Financial Planning with the Medium Term Financial Strategy/financial projections, bringing together all issues that will impact on the Council's finances in the medium term.
  - Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
  - Project Management and associated controls.
  - Trained staff and access to appropriate professional advice (eg WCC Legal).

- Risk Management process across the Council, including the on-going review and maintenance of risk registers.
- Scrutiny by members of the Council's finances, including Budget Reports, and the financial implications of all proposals.
- Within the proposed 2016/17 there is a Contingency Budget of £200,000 for any unplanned unavoidable expenditure.
- Reserves – The Council holds reserves as discussed within section 3.10. Whilst much of these reserves have already been earmarked for specific projects, it is important that reserves are held for any unforeseen demands.
- The General Fund Balance is £1.5m as discussed in paragraph 3.10.1. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing the risks within each Service Risk Register. Each Service Area's Risk Register is presented to Finance and Audit Committee bi-annually on a rolling basis for scrutiny.

## **7. ALTERNATIVE OPTION(S) CONSIDERED**

- 7.1 The Council does not have an alternative to setting a Budget for the forthcoming year. Members could however decide to amend the way in which the budget is broken down or not to revise the current year's Budget. However, the proposed latest 2015/16 and 2016/17 are based upon the most up to date information.
- 7.2 With the limited financial resources available, there is limited capacity to invest in any new initiatives. Any new proposals will need to be accommodated with compensating reductions to other budgets with the consequential impact upon services.

## **8. BACKGROUND**

- 8.1 This is a complex report which brings together the information which has been set out in a number of background reports over the last few months, notably the December 2015 2016/17 Base Budget Report, Budgets Reviews August and November 2015, Fees and Charges (September 2015). The appendices to the report are:-

1. Proposed Budget 2016/17 & Revised Budget 2015/16
2. Medium Term Financial Strategy
3. Reserves Schedule
4. Equipment Renewal Reserve Schedule
5. ICT Reserve Schedule
6. General Fund and HIP Capital Programmes
7. Capital Variations
8. Prudential Indicators
9. Financial Strategy

10. Statement by Chief Finance Officer
11. Risk Assessment against General Fund balances

## 8.2 Key Assumptions

- 8.2.1 The Council's Treasury consultants currently forecast the Bank Rate on which short term investment rates are based to be 0.5% at the start of 2016/17 and it is expected that Bank Rate will begin to rise from the December quarter of 2016 and end the year at 0.75%. The target return for the Council's cash flow derived investments in 2016/17 reflects this forecast and has been set at 0.66%. When the expected returns from the Council's core investments are added in, the overall investment rate for 2016/17 is expected to be 0.85%. It has also been assumed that the Council's investment interest return will increase by an additional £50,000 from 2016/17 onwards.
- 8.2.2 Pay Awards for the period 2016/17 to 2019/10 are 1% as discussed in Section 3.9.4. All pay increases in subsequent years are based upon 2016/17 pay budgets.
- 8.2.3 Inflation of zero% has been applied to Discretionary Budgets until 2019/20, with inflation at 2% thereafter. The Council continues to increase its Fees and Charges by 2% with its customer base remaining static.
- 8.2.4 Government Support from RSG is as indicated in the Provisional Settlement notice issued in December 2015. Business Rates are based upon the 2016/17 forecast (NNDR1) January 2016.