

 <b>Executive 2 December 2015</b>		<b>Agenda Item No.</b>
<b>Title</b>	General Fund base budgets latest 2015/16 and original 2016/17	
<b>For further information about this report please contact</b>	Marcus Miskinis <a href="mailto:Marcus.miskinis@warwickdc.gov.uk">Marcus.miskinis@warwickdc.gov.uk</a> 01926 456804	
<b>Wards of the District directly affected</b>	None	
<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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006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>	Executive 29 July 2015 – Budget Review to 30 June 2015; Executive 3 September 2015 – Sustainable Community Strategy & FFF Updates and Service Area Plans 2015/16; Executive 30 September 2015 – Fees and Charges 2016/17; Executive 4 November 2015 – Budget Monitoring to 30 September 2015	

<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>	Yes Ref 699
<b>Equality Impact Assessment Undertaken</b>	No

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	12 Nov 2015	Andrew Jones
Head of Service	11 Nov 2015	Mike Snow
CMT		
Section 151 Officer	12 Nov 2015	Finance Report
Monitoring Officer	12 Nov 2015	Andrew Jones
Finance	n/a	Finance Report
Portfolio Holder(s)	13 Nov 2015	Cllr Whiting
<b>Consultation &amp; Community Engagement</b>		
None		
<b>Final Decision?</b>	Yes	

## **1. Summary**

- 1.1 This report sets out the latest projections for the General Fund revenue budgets in respect of 2015/16 and 2016/17 based on the current levels of service, and previous decisions. There are further matters that will need to be reviewed in order to finalise the base position as part of the 2016/17 budget setting process as set out in paragraph 8.5.
- 1.2 The 2015/16 latest budgets show a forecast surplus of £189,800 before any appropriations.
- 1.3 The proposed 2016/17 Base Budget currently shows a small surplus of £7,700.

## **2. Recommendations**

- 2.1 To recommend to Council:
  - (a) the latest base budget for the General Fund services in respect of 2015/16 as outlined in Appendix 'B';
  - (b) the base budget for the General Fund services in respect of 2016/17 as outlined in Appendix 'B'.
  - (c) the Council Tax Reduction Scheme for 2016/17 should continue to be based upon the council tax liability being reduced by 15% for those of working age.

## **3. Reasons For The Recommendations**

- 3.1 The Council is required to determine its budget requirements in order to set the Council Tax for 2016/17.
- 3.2 Should the final 2016/17 Tax Base figure become available prior to the meeting on the 2<sup>nd</sup> December, members will be informed of this and how it impacts on the 2016/17 Budget and medium term projections at that meeting. An estimated Tax Base has been allowed for within the figures for this report.
- 3.3 Since April 2013 the Council has been required to agree its own Council Tax Reduction Scheme. This replaces the former Council Tax Benefit scheme that was the responsibility of the Department for Work and Pensions. For 2016/17 it is proposed that the scheme remains unchanged to the Council's current scheme, with all claimants of working age having to pay a minimum of 15% of the council tax liability. Those of pensionable age will still be eligible for up to 100% reduction, in line with Government Regulations. The scheme is planned to be reviewed ahead of 2017/18, which will require consultation with relevant stakeholders before any changes are agreed.

## **4. Policy Framework**

### **4.1 Policy Framework**

The General Fund latest base budget 2015/16 and original budget 2016/17 report forms part of the Budgetary Framework of Fit for the Future. This

report is in accordance with the Council's Financial Strategy as last approved by the Executive in February and Budget Reviews in July and November.

#### **4.2 Fit For the Future**

One of the key elements of Fit For the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. Details of the financial projections for future years and savings required to be found were reported to members in November.

#### **4.3 Impact Assessments**

The Council's Budget covers the community throughout the District. It is a statement of fact and officers will have considered any impact prior to amending their budgets.

### **5. Budgetary Framework**

- 5.1 Securing savings and balancing its Budget will enable the Council to deliver its aspirations and priorities as well as core services. The Financial Strategy underpins all of its other strategies.
- 5.2 Members are reminded that the 2016/17 Council Tax will be set in February after budgets are finalised. The Executive has previously stated that it intends to set a 2% council tax increase for 2016/17, subject to any limits imposed by Central Government.
- 5.3 In 2016/17 there will be an additional revenue cost relating to the Leisure proposals presented to members in November. Based on the projections within that report and the recommendations agreed by Executive, this is estimated to be £607,000. This will present an additional cost to be funded as part of agreeing the 2016/17 final Budget.
- 5.4 The Council's Medium Term Financial Projections include net inflation for most services for 2016/17 at 0%. An inflation allowance of 1.1% has been included for National Non-Domestic Rates, 0.1% for the major contracts, 1% p.a. for salaries and a general inflation contingency of £25,000 allowing for other unavoidable price increases.
- 5.5 As part of formulating the 2015/16 budget, "non-contractual" budgets were reduced by 2.5%, with similar decreases to apply for the subsequent 3 years, so reducing these budgets by 10%, and thereby releasing budget savings of £735,000 by the end of the process. These reductions are intended to encourage budget managers to make best use of their budgets, and make innovative use of procurement opportunities. The September 2015 Executive agreed a range of proposed savings options, one of which was to bring the 2.5% savings target in respect of 2017/18 forward to 2016/17, so reducing the "non-contractual" budgets by 5% for 2016/17. If it is not possible to continue to make these savings, this will present an additional budget pressure for the Council.
- 5.6 When local authorities took on responsibility for setting their own Council Tax Reduction scheme in April 2013, funding towards this was provided from Central Government. The current scheme of 15% liability for working age claimants has been allowed for within the proposed Base Budget.

## **6. Risks**

- 6.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.
- 6.2 The main sources of income which may be subject to reductions include:
- Government grant (e.g. Revenue Support Grant, Benefits Administration Grant);
  - Business Rates Retention;
  - Fees and charges from provision of services;
  - Rent income;
  - Investment interest.

Whilst reductions have been factored in to the estimated Revenue Support Grant, the Spending Review announcement on 25 November and the subsequent Grant Settlement will confirm the accuracy of this projection.

- 6.3 Increased expenditure in service provision may be due to:
- Inflation and price increases for supplies and services;
  - Increased demand for services increasing costs;
  - Changes to taxation regime;
  - Unplanned expenditure;
  - Assumed savings in budgets not materialising.
- 6.4 Triggers for increased costs or reduced income include:
- Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available;
  - Unplanned expenditure, e.g. costs from uninsured events, costs of planning appeals or other legal process;
  - Project costs – whereby there are unforeseen costs, or the project is not properly costed, or the risks related to them are not properly managed.
  - Changes to assumptions underpinning the Medium Term Financial Strategy – these assumptions are closely monitored.
- 6.5 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, regular 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 (e.g. WCC Legal, Local Government Futures for advice on local government funding).
  - 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 brought to them for consideration.
- Within the 2015/16 budgets there is a Contingency Budget with an uncommitted balance of £100,800 for any unplanned unavoidable expenditure
- Reserves – whilst much of these Reserves have already been earmarked for specific projects, it is important that Reserves are held for any unforeseen demands.
- In addition to the Reserves, the Council holds the General Fund Balance of £1.5m. 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 risks within each Service Risk Register. Individual Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.
- Inflation provision - £24,500 inflation provision is held in the 2016/17 Budgets. This may be used where budget managers can demonstrate that they are unable to accommodate the limited inflationary uplift being incorporated within budgets.

## **7. Alternative Options Considered**

- 7.1 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

## **8. Background**

- 8.1 At its meeting on 18 April 2012 the Executive agreed that the management of the Council's Fit For the Future change programme would be through the delivery of the Service Area Plans. Plans were updated at the September 2015 Executive meeting.
- 8.2 Options for finalising and balancing the budget will be brought forward in February 2016.
- 8.3 This report presents the proposed Base Budget for 2016/17. These figures reflect the costs of maintaining the current level of service, any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure) and any other commitments that members have previously agreed to be incorporated within the 2016/17 Budget. The report also considers the current year's budget, and includes details of latest proposed changes to the 2015/16 Budget.
- 8.4 Any recent changes that need to be resolved that have not been included in the budgets at this stage will be fed into the February report.
- 8.5 In February all the following information should be available:
- 2016/17 Base Budget
  - 2016/17 Revenue Support Grant Settlement.

- Updated Business Rates Retention projections
- 2016/17 New Homes Bonus

- 8.6 If the main revenue sources above are below the projections within the medium term financial strategy, detailed consideration will be required as to the means of being able to set a balanced budget. This may include making further savings from services, generating additional income, or using the Council's limited reserves in the short term. Alongside this, it will be necessary to agree how the cost of the Leisure Options will be funded in 2016/17 as referred to in paragraph 11.9 and the reports to November Executive.
- 8.7 The Council will then be in a position to agree the 2016/17 Budget and the District Council element of the Council Tax. In addition, the total Council Tax for the District will be set, including the elements set by the County Council, the Police and Crime Commissioner and the parish and town councils.
- 8.8 The report is broken down into the following sections and appendices:
- Section 9 - Savings
  - Section 10 - Base Budgets
  - Section 11 - 2016/17 Base Budgets
  - Section 12 - Latest Budgets 2015/16
  - Section 13 - Capital Financing and Reserves
  - Section 14 - General Grants
  - Section 15 - Conclusion
  - Appendix A - Analysis of Budget Movements from 2015/16 to 2016/17
  - Appendix B1 - Revenue Budgets Summary
  - Appendix B2 - Detailed Revenue Budgets – available on the Executive Meeting page on the Council's website ([www.warwickdc.gov.uk](http://www.warwickdc.gov.uk))
  - Appendix C - Capital and Reserve Financing Variations
  - Appendix D - Glossary of Terms

## **9. Savings**

- 9.1 Much work has already been undertaken to address the forecast budget deficit in future years.
- 9.2 There has been a significant amount of procurement activity on-going across the Council. In addition to the letting of contracts, the actions within the Procurement Strategy have been progressed, including member and officer training courses. All this work is helping to ensure good procurement practices are well embedded across the authority.
- 9.3 The 2016/17 Base Budget assumes that the following savings or additional income, totalling £837,000, agreed by the September 2015 Executive will be achieved, with further savings agreed in future years:
- 5% "non-contractual" budget savings (£347,300) have been devolved to Service Areas. Most have been identified against Budgets whilst a few are yet to be identified. The situation is to be monitored.
  - £50,000 savings from reducing the inflation contingency increase.
  - £50,000 additional income from Treasury Management consideration of alternative investment instruments.

Savings / income areas being progressed (£490,000 as included within Appendix A):

- £100,000 savings from revised terms and conditions, as staff change their working practices as part of Fit For the Future.
- £70,000 savings from a staffing review of Health and Community Protection.
- £50,000 savings from a Support Services Review.
- £20,000 savings from a restructure of land charges delivery.
- £50,000 savings by adopting "Digital by Default".
- £70,000 savings from Customer Service Centre / One Stop Shop Review.
- £20,000 savings from cessation of duplication of Housing Advice contracts.
- £50,000 additional income by increasing car parking charges.
- £40,000 savings from a review of travel tokens (subject to further review by members).
- £20,000 savings from Civic Support budgets (subject to further review by members).
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9.4 Progress in achieving these savings will be monitored and progress reported to members in future reports.

## 10. Base Budgets

10.1 The proposed Base Budgets for 2016/17 and the Latest Budgets for 2015/16 are shown below. These figures include all financing charges (which are dealt with in Section 14 later). Section 12 of this report considers the 2016/17 Base Budget, with Section 13 looking at the Latest 2015/16 budget figures.

	<b>Base Budget 2015/16 £000</b>	<b>Latest Budget 2015/16 £000</b>	<b>Base Budget 2016/17 £000</b>
<b>Net Expenditure for District Purposes</b>	13,563	14,420	10,335

10.2 The above figures fluctuate year on year mainly to reflect changes to the use of reserves (often due to project slippage), and changes in external support, notably Revenue Support Grant and retained Business Rates.

## 11. 2016/17 Base Budget

11.1 In preparing the 2016/17 Base Budget the over-riding principle is to budget for the continuation of services at the existing level. The following adjustments need to be made to the 2015/16 Original Budget.

- Removal of any one-off and temporary items
- Addition of inflation
- Addition of previously agreed Growth items
- Addition of unavoidable Growth items
- Inclusion of any identified savings

11.2 The table below summarises how the 2016/17 base budget has been calculated. Appendix 'B' gives more details to support this.

	£	£	£
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2015/16 ORIGINAL</b>			<b>13,563,182</b>
Plus Inflation			158,500
Plus Committed Growth:			
- Staffing	293,500		
- Increases in expenditure	176,600		
- Reduced income	99,000	569,100	
	<hr/>		
Less Savings:			
- Reduced expenditure	(1,533,400)		
- Increases in income	(603,100)	(2,136,500)	
	<hr/>	<hr/>	
<b>CHANGES IN SERVICE INCOME and EXPENDITURE</b>			<b>(1,567,400)</b>
Changes in Interest			(142,700)
Changes in Contributions to Capital			60,800
Changes in non-service specific contributions to / (from) reserves			(1,737,582)
			<hr/>
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2016/17 ORIGINAL</b>			<b>10,334,800</b>
			<hr/> <hr/>

### 11.3 Inflation

No inflation has been applied to most budgets. The only exceptions are in respect of Business Rates, which has been inflated at 1.1% and equates to £12,800, the major contracts at 0.1% (£4,700) and salaries at 1% p.a. (£141,000). In addition, the general inflation contingency budget has been reduced to £24,500.

### 11.4 Staffing

Staffing costs will increase in 2016/17. The main changes:

- Increase in employer's Local Government Pensions Scheme contribution (£94,100 adverse).
- The new state pension arrangements which will operate from April 2016 will remove the "opt-out" reduction in respect of employers' National Insurance contributions. The increased cost will be £214,000.

Both of these increases are in accordance with the financial projections previously presented to members.

### 11.5 Growth / Income Reductions

Only previously committed growth and unavoidable changes have been included in the Base Budget. This totals £275,600 of which £176,600 relates to increased expenditure and £99,000 relates to reduced income. Appendix 'B' lists the main items, the largest being:



- Provision for a potential increase in the Office Cleaning Contract (+£50,000);
- Reduction in Investment Properties lettings income (+£45,000);
- Increase in net costs of Housing Benefit payments and IT systems (+£37,000);
- Business rates assessment for St. Mary's Land's car parks (+£30,000);
- Reduction in Pump Rooms catering commission (+£26,000).

## 11.6 Savings

Various savings have been allowed for within the Budget. These total £2,136,500 which comprises £1,533,400 reductions in expenditure and £603,100 increases in income. Appendix 'B' lists the main items, the largest being:

- Removal of one-off / time limited items (-£687,000);
- Agreed Budget savings – see paragraph 9.3 [excluding the inflation and Treasury Management items] (-£490,000);
- Discretionary budget reductions review (-£347,000);
- Fees and Charges annual review increases (-£209,000);
- Increases in Car Parking income (-£200,000).

- 11.7 Whilst the increased income for car parking has been factored into the Base Budget, the element of the increase relating to increased charges is still subject to the conclusion of the consultation and agreement by Council in January. Of this increase, as detailed in the fees and charges report, £70,000 should be earmarked towards car park improvements. Further consideration of the use of this funding will be given within the February Budget report.
- 11.8 Having taken the above into account, there is a forecast reduction of £1,567,400 in net service expenditure.
- 11.9 The large decrease in non-service specific contributions to / from reserves (-£1.7m) consists mainly due to no allocations from New Homes Bonus to reserves (-£1.4m) and an increased allocation from the Business Rates Volatility Reserve (-£0.3m). Appendix 'A' identifies a reduction of £0.5m in service expenditure funded from reserves which brings the total change in contributions to / from reserves to £1.2m as referred to in paragraph 13.7.
- 11.10 In addition to the above there are also various other, general, financing adjustments required to arrive at the demand for Council Tax. Taking all these items into account produces a small surplus of £7,700. It should be noted that these Base Budget figures do not allow for the implications from the Leisure Options report recently considered by Members. In 2016/17 there will be an additional revenue cost relating to the proposals. This will present an additional cost to be funded as part of agreeing the 2016/17 final Budget and Council Tax level.
- 11.11 The Medium Term Financial Strategy presented to Members in November showed a deficit of £218,000 for 2016/17. The latest figure of £7,700 budget is a positive change of £225,700. Whilst there are various positive and negative changes now being identified the outcome will be very dependent on the budget savings options and discretionary savings targets being achieved.

11.12 However, as outlined in section 9, the final Revenue Support Grant and other unforeseen events mean the final position will not be known until early 2016.

11.13 Appendix 'B'

Appendix 'B' is broken down into two parts – Appendix 'B1' and Appendix 'B2'. Both appendices provide details of service expenditure and income in portfolio order. Appendix 'B1' is a summarised version of Appendix 'B2'.

The analysis in Appendix 'B2' is divided into two sections – expenditure and income under the direct control of the budget manager (e.g. salaries, fees and charges income, etc.) and those items for which they have little or no control over (support service allocations and capital financing charges).

Explanations are provided where significant variations have been identified.

## **12. Latest Budget 2015/16**

12.1 Under the new Budget Review process, amendments to budgets are presented to members, for approval, on a regular basis rather than waiting until this report. Consequently, many changes have already been approved. This report continues that process and provides details of the latest budgets for the current year. Appendices 'B1' and 'B2' provide detailed analysis of net expenditure by service in Portfolio groupings.

12.2 The Latest Budgets total £14,419,700 which is an increase of £856,518 compared with the originally approved budget for 2015/16 of £13,563,182. The major items for this are:

- Contribution from Business Rates Volatility Reserve (£1,225,200 adverse);
- Contribution from the General Fund Balance to offset reduced New Homes Bonus returned "top slicing" (-£250,000 favourable)
- Earmarked Reserves no longer required (-£75,500 favourable);
- Car Parks – new business rates assessments (£164,000 adverse);
- Other properties business rates assessments (-£142,300 favourable).

12.3 The main reasons responsible for the decrease in service income and expenditure are included within Appendix 'B', which can be summarised as follows:

	£	£	£
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2015/16 ORIGINAL</b>			<b>13,563,182</b>
Plus Committed Growth:			
- Staffing	22,400		
- Increases in expenditure	416,100		
- Reduced income	126,100	564,600	
	<hr/>		
Less Savings:			
- Reduced expenditure	(515,700)		
- Increases in income	(231,300)	(747,000)	
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<b>CHANGES IN SERVICE INCOME and EXPENDITURE</b>			<b>(182,400)</b>
Changes in Interest			(5,500)
Changes in Contributions to Capital			61,800
Changes in non-service specific contributions to reserves			982,618
			<hr/>
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2015/16 LATEST</b>			<b>14,419,700</b>
			<hr/> <hr/>

12.4 The first part of the table above shows that the total net expenditure on services has reduced by £182,400. This is the result of a mixture of changes, the most notable ones being detailed in paragraph 12.2 above.

12.5 The comments made in paragraph 11.12 concerning the content of Appendix 'B' are equally applicable to the information provided in respect of the Latest Budgets for 2015/16.

12.5.1 The Budget Review to the Executive in November 2015 identified, and reported on, budget increases totalling £14,500. The Budgets included in this report have identified a surplus of £189,800 which is a decrease of £204,300 to the previously reported figure referred to above. The main items for this change are:

- Business rates refunds (-£108,000 favourable);
- Private Sector Stock Condition Survey delayed until 2017/18 (-£75,000 favourable);
- Housing Market Assessment delayed until 2018/19 (-£60,000 favourable).

### **13. Capital Financing and Reserves**

13.1 In order to arrive at the position for the Council's overall net expenditure it is necessary to take account of the effects of the Council's capital financing arrangements and any transfers to and from reserves. These are summarised below:

Line Ref	BASE BUDGET 2015/16 £'000	LATEST BUDGET 2015/16 £'000	BASE BUDGET 2016/17 £'000
<b>1 Net Cost Of General Fund Service Expenditure</b>	<b>19,616</b>	<b>22,931</b>	<b>17,864</b>
<b>Capital Financing and Reserves</b>			
2 Depreciation & Intangible Assets in Service Estimates	(3,921)	(5,564)	(3,630)
3 Loan Repayments, Revenue Contribs & Interest Paid	35	35	4
4 Revenue Contributions to Capital	312	374	373
5 Contributions to / (from) Reserves	(1,632)	(1,444)	(2,861)
6 External Investment Interest	(292)	(297)	(404)
7 IAS19 Pension Adjustments	(555)	(1,014)	(1,011)
8 Contributions to / (from) General Fund	-	(601)	-
<b>9 TOTAL CAPITAL FINANCING and RESERVES</b>	<b>(6,053)</b>	<b>(8,511)</b>	<b>(7,529)</b>
<b>10 TOTAL ESTIMATED NET EXPENDITURE</b>	<b>13,563</b>	<b>14,420</b>	<b>10,335</b>
<b>Change from Base Estimate</b>		<b>857</b>	<b>(3,228)</b>

13.2 Detailed explanations of the changes to items 2 to 8 are within Appendix 'C'.

13.3 Most of the changes to the Capital Financing and Reserves figures reflect changes in specific items within the cost of General Fund service expenditure, whereby many increases in service expenditure are met by a contribution from a specific reserve which would be included here.

13.4 Depreciation and Intangible Assets in Service Budgets (line ref 2 above).

Similarly, the notional Capital Financing Charges reflect the change in capital charges within the cost of individual services. These changes occur as a result of variations such as slippage between years and new schemes within the Council's capital programmes.

13.5 Loan Repayments, Revenue Contributions and Interest Paid (line ref 3 above).

This is made up of the interest element of finance leases which the Council has entered into as well as interest on the bank overdraft. Other than the finance lease interest relating to photocopiers and the Dog Wardens van and potential bank overdraft interest, there is no external interest payable by the General Fund in 2015/16 or 2016/17.

13.6 Revenue Contributions to Capital (line ref 4 above).

The increase in 2015/16 and 2016/17 is a consequence of an increase in the amount of Disabled Facilities Grant that this Council receives from the DCLG. This grant is included in the revenue service budgets and then appropriated "below the line" to finance capital expenditure.

13.7 Contributions to / (from) Reserves (line ref 5 above).

The 2016/17 original budget shows an increase in contributions from reserves of £1,229,400 when compared to the 2015/16 original budget. This is mainly

accounted for by the falling out of £1,211,000 in respect of one off contributions to reserves in 2015/16 and a contribution of £312,000 from the Business Rates Volatility Reserve offset by reductions in general contributions from reserves, mainly the Service Transformation Reserve, of £293,600.

The 2015/16 latest budget shows an increase in contributions from reserves of £413,500. This reflects the crediting back to the General Fund of a) £408,000 funding for revenue slippage in order to meet expenditure carried forward from 2014/15 b) an additional £334,000 and £398,000 in relation to Grounds Maintenance and Planning Public Open Space S106 contributions received in the year and credited to the respective reserves c) a contribution of £932,000 from the Business Rates Volatility Reserve and d) reduced reserve funding of service expenditure of £194,500 when compared with the original.

### 13.8 External Investment Interest (line ref 6 above).

When compared to the 2015/16 original, net external investment receipts are expected to increase by £5,000 in 2015/16 and by £112,000 in 2016/17. The positive variation in 2015/16 is partly due to additional interest of £84,000 earned on increased balances as a result of variations in the 2014/15 and 2015/16 revenue and capital programmes. This has been offset by a reduction of £52,000 as a result of interest rates not rising during 2015/16 as had originally been forecast due to the global economic situation not being as buoyant as expected. The Housing Revenue Account balances form part of the increased balances available for investment and in recognition of this an additional £40,000 has been credited to the Housing Revenue Account. During 2015/16 the Government redeemed its 2 ½% Consolidated Stock Gilt and the Council's proceeds from this redemption amounting to £8,000 has been included within the 2015/16 interest receivable. As part of its continuing partnership with Waterloo Housing Association, the Council disposed of land at the rear of 1 Market Street Warwick in 2014/15 under a deferred capital receipt arrangement and the General Fund has been credited with £5,000 in 2015/16 to reflect the foregone interest that it would have earned if the capital receipt had been received outright rather than deferred for a number of years.

With regard to 2016/17, the slippages in the revenue and capital programmes referred to above are expected to unwind to a limited degree thus slightly lessening the balances available for investment when compared with 2015/16 latest. However, this is still expected to generate £83,000 additional interest when compared to the 2015/16 original. 2016/17 should see the long predicted improvement in the interest rate environment with the first increase in Bank Rate forecast to be in the second quarter of 2016 and it is expected that Bank Rate will be at 1% by the end of 2016/17. Consequently, income from increasing investment rates is expected to realise an additional £145,000 when compared with the 2015/16 original. Although overall investment balances are anticipated to fall slightly, the Housing Revenue Account balances are expected to remain a significant proportion of the Council's investments and as a consequence an additional £121,000 will be credited to the Housing Revenue Account when compared to the 2015/16 original. As per 2015/16 above the General Fund has been credited with £5,000 in 2016/17 to reflect the foregone interest that it would have earned if the land at the rear of 1 Market Street capital receipt had been received outright rather than deferred for a number of years.

Work is currently underway in preparing the 2016/17 Treasury Management and Investment Strategies. In discussion with the Finance Portfolioholder and

Capita, consideration is being given to the inclusion of additional investments instruments, such as equity funds. Whilst security of the funds will be paramount, it is intended that the Council will be able to achieve enhanced returns to achieve the extra investment income included within Paragraph 9.3. Details will be included within the forthcoming Treasury Management report in February.

13.9 IAS 19 Adjustments (line ref 7 above).

IAS 19 requires an authority to recognise the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out. The figures included in the budgets are based on the latest budgets from the Pension Fund actuary.

13.10 Contributions to / (from) General Fund (line ref 8 above).

In line with the decisions made at the June and July 2015 Executive meetings as part of allocating the 2014/15 accounts surplus, £601,000 has been contributed from the General Fund in 2015/16.

**14. General Grants**

14.1 In order to complete the picture the general grants position also needs to be considered.

14.2 The estimated Revenue Support Grant figures show a reduction of £0.7m in 2016/17. Further details of Government financial support should be available following the Spending Review announcement on 25 November and the Provisional Grant Settlement expected in December which will be included within the February Budget setting report.

14.3 Business rates retention figures show a reduction of £1m in 2016/17.

14.4 Given the proposed increase in Council Tax, Council Tax Freeze Grant arrangements are not expected in respect of 2016/17.

14.5 At this stage, no New Homes Bonus has been included in respect of 2016/17.

14.6 The Collection Fund is expected to be in surplus for the current year which will present a one off small saving for 2016/17. This will be calculated later in the year to be included within the February 2016 Budget report.

14.7 The net result of all these movements is shown below:

	<b>BASE BUDGET 2015/16 £'000</b>	<b>LATEST BUDGET 2015/16 £'000</b>	<b>BASE BUDGET 2016/17 £'000</b>
<b>TOTAL ESTIMATED NET EXPENDITURE</b>	13,563	14,420	10,335
Less: Revenue Support Grant	(2,499)	(2,510)	(1,845)
Less: Business Rates Income	(1,873)	(2,835)	(806)
Less: General Grants:			
- Council Tax Freeze Grant	(79)	(82)	-
- Council Tax New Burdens	(23)	(23)	-
- New Homes Bonus	(1,623)	(1,623)	-
- Social Mobility Grant	-	(71)	-
Collection Fund (Surplus) / Deficit	-	-	-
Council Tax	(7,466)	(7,466)	(7,692)
	<hr/>	<hr/>	<hr/>
<b>(Surplus) / Deficit</b>	<b>-</b>	<b>(190)</b>	<b>(8)</b>
	<hr/>	<hr/>	<hr/>

This shows that there is a forecast surplus of £190,000 in 2015/16 and £8,000 in 2016/17. These figures are before the resultant surpluses are appropriated to reserves.

## **15. Conclusion**

- 15.1 As part of the Service Planning Process and thorough Budget Reviews, Senior Management has identified significant savings as detailed in section 9 and 10 for 2016/17.
- 15.2 Taking the above factors into account has helped result in the proposed 2015/16 Latest Budget presenting a surplus over the Original Budget of £190,000. As part of the February Budget report, recommendations will be made that consider the use of this surplus to replenish the various reserves that the Council holds.
- 15.3 This report, in considering the 2015/16 Latest Budget constitutes the third Budget Review (2015/16) report for the year presented to Members.
- 15.4 The proposed 2016/17 Base Budget presents a small budget surplus of £8,000 in the Council's expenditure in continuing to provide its services and meet its commitments. Any changes to the overall position will be considered within the February Budget report.