

Cabinet 19 November 2015

Budget 2016/17

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Head of Finance

Reason for the report: To consider options available in order for the Council to set a balanced budget for 2016/17 and agree a future strategy for further budget reductions for 2017/18 onwards.

RECOMMENDATION: To consider the draft budget proposals for 2016/17 and start to plan for additional savings as identified in the Medium Term Financial Plan.

Relationship to the Corporate Plan: To deliver our Corporate Plan's priorities within existing financial resources.

Financial Implications: Looking forward the current Government maintains its pledge to continue the austerity programme, with most public sector commentators estimating further cuts of between 25-40% over the life of the current Parliament. Once this is factored in to the Council's Medium Term Financial Plan we have predicted a funding deficit of circa £1.25m on our General Fund by 2019/20. Note the £1.25m includes savings targets of £467k from increased income from our Leisure Centres, £130k additional income from car parking and £130k from IT savings with a North Devon District Council partnership. This highlights the need to take steps to plan for further reductions to our ongoing expenditure levels.

It is a statutory requirement for the Local Authority to set a balanced budget each year.

Risk Assessment: Service Managers and Finance staff have assessed volatility in income and large contractor budgets, taking account of current and estimated future demand patterns. In addition prudent levels of reserves will also continue to be maintained.

1.0 Introduction

- 1.1 The press have recently reported that the Treasury have reached agreement with four government departments, including the Department for Communities and Local Government, for an *average* of 30% cut in government funding over the next four years.
- 1.2 There is no question that our formula grant will be cut and it is now likely that the Revenue Support Grant of £1.7m will disappear entirely by 2019/20.
- 1.3 It is worth reflecting that our budgets are affected in three principal ways:
 - a) The formula grant received from central government
 - b) Devon County Council's budget being cut leads to them cutting funding to us, and others, in a variety of ways

- c) Government departments such as Department of Work and Pensions and Department for Communities and Local Government also have lower budgets and reduce grants.
- 1.4 Although the priority is to balance next year's budget, strategic decisions will need to be made to accommodate this reduced funding going forward.
- 1.5 The summer savings exercise, that was first undertaken in the summer of 2010, which included Service Managers, Heads of Service, Accountants, the Head of Finance and the Chief Executive challenges all services to look at reducing costs/increasing income, but still deliver the same level of service (especially the front-line services).
- 1.6 This exercise didn't just focus on balancing the next financial year, it also looked at where savings could be delivered over a rolling three year period. Although this year's exercise has been successful in identifying £1,066k of savings for 2016/17 (see Appendix 3), there has been very little proposed for subsequent financial years (only £565k). We can no longer expect service managers to continue to reduce cost and still expect "business as usual". It is now clear that this "salami slicing" strategy for ongoing budget reductions will no longer be viable.
- 1.7 The proposed savings shown in Appendix 3 of £1,066k will need to be agreed by Members, as every proposed saving that is rejected will need to be matched by a suggestion of where a similar saving could be made. Members will be aware that the budget is an evolving process. We have already made a range of assumptions relating to: pay awards, inflation, fees/charges, demand for services, property increases, etc. More information may well change/alter our assumptions in the months leading up to February, when the budget has to be finalised. So the current budget gap of £827k will be revised over the next few months, but it is based on the most current information, in conjunction with professional guidance, that is available.
- 1.8 An updated Medium Term Financial Plan was presented to the Cabinet at its October meeting, which further explored the challenging financial position that the Council is facing over the next 4 years. However, it should be stressed that the Council has placed itself in a very strong position to deal with the situation and continues to look into opportunities to further reduce operational costs without immediately reducing service levels. But it remains a real possibility moving forward that some difficult decisions will have to be made relating to what the Council can and can't afford to deliver/support in the future. This is further evidenced by the low level of service savings estimated from 2017/18 onwards.

2.0 The Draft 2016/17 Budget

- 2.1 The first detailed draft budget figures have now been returned from all Service Managers. In compiling the draft 2016/17 budget, Service Managers and Finance Staff were acutely aware of the worsening financial environment that the Council was now going to have to operate within. A provisional Formula Grant cut of £597k has been estimated.

- 2.2 The initial aggregation of all service budgets (which also includes assumptions surrounding predictions of interest receipts, contributions to our capital programme, transfers from/to reserves and Council Tax levels) currently indicates a GFund budget gap of £827k (see Appendix 1).
- 2.3 At this point it is worth summarising how we have arrived at this deficit. The table shown below shows the main budget variances affecting the 2016/17 draft budget, which has included nearly all of the savings identified at Appendix 3.

Table 1 – Reconciliation of Major 2016/17 Budget Variances

Variances	Amount £000
<i>External items outside of our control</i>	
Reduced formula grant settlement	597
Increased pension contributions - auto enrolment	110
NIC rebate removed from contracted out pensions	180
NNDR GP surgery appeals	100
Pay award circa	100
Falling commodity prices for recycling	125
<i>Subtotal</i>	1,212
<i>Other changes</i>	
Deficit on our 2015/16 budget taken from reserves	187
Increase in sinking funds for asset replacement	132
Increased interest payable	78
Decrease in Collection Fund surplus	32
Income from garden waste scheme	(250)
Increased leisure income	(155)
Increased income from investments	(102)
Contributions from town and parish councils	(100)
Increase Council tax income	(95)
Other net savings	(112)
Draft budget gap for 2016/17	827

- 2.4 The above table clearly demonstrates how a budget gap of £827k has been arrived at and without the hard work undertaken by Service Managers to propose further savings during the summer months we would now be facing a budget deficit of £1,893k for 2016/17 (i.e. £827k + £1,066k). Appendix 3 shows those potential savings which were identified earlier in the year, amounting to £1,066k.
- 2.5 In compiling the 2016/17 draft budget we have also examined budget performance during 2015/16 and then made any relevant budget corrections for staffing changes, levels of income, changes in legislation, increases in inflation, etc. In some areas cost pressures have emerged since the summer meetings and these are now reflected in the draft budget figures, which is why the shortfall has increased.
- 2.6 Due to the need to get budget information to all of the PDG and Cabinet meetings during November and early December there are still a few key issues that have not been resolved or are still to be fully evaluated. These

issues may either improve or worsen the summary budget position currently reported.

3.0 The Future

- 3.1 It is clear that a lot of work has already been undertaken in order to deliver a draft budget gap of £827k. We now are set with two tasks: firstly, to deliver a balanced GFund budget by February 2016 in order to formally set the Council Tax and secondly, and of equal importance, begin to plan how our future spending plans can be financed. Work with town and parish councils will continue and a review of the success of the new waste service will be undertaken. The MTFP tabled at the October Cabinet meeting shows the challenge of balancing our ongoing revenue commitments with our available funding. The summary figures from the MTFP highlighted a £1.25m budget gap over the next 4 years assuming a continued reduction in Government funding year on year. (See table 2 below) This further assumes that all of the £1,066k saving proposals suggested by Service Managers are accepted by Members.
- 3.2 Due to the future uncertainty over the exact level of Formula Grant reduction going forward it is imperative that Management Team, Service Managers and Members give consideration to matching future service provision to likely levels of financial resources. Table 2 below summarises the projected shortfall over the next four years.

Table 2 – MTFP General Fund Summary

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total Gross Expenditure	35,865	36,286	36,387	36,601	36,992
Total Income	(27,832)	(28,777)	(29,042)	(29,396)	(29,746)
Net Cost of Services	8,033	7,509	7,345	7,205	7,246
Interest Payable	68	147	146	144	143
Interest Receivable	(134)	(171)	(178)	(154)	(191)
Capital Financing	375	361	354	353	430
New Homes Bonus	0	(1,613)	(1,810)	(2,055)	(2,114)
Net transfers to Earmarked reserves	424	2,396	2,592	2,837	2,896
Loan principal adjustment	0	0	0	0	28
Total Budget Requirement	8,766	8,629	8,449	8,330	8,438
<i>Funded by:</i>					
Revenue Support Grant	(1,705)	(1,108)	(665)	(332)	0
Non Domestic Rates	(2,062)	(1,962)	(1,962)	(1,962)	(1,962)
Council Tax Freeze Grant	(50)	0	0	0	0
Collection Fund Surplus	(43)	(40)	(40)	(40)	(40)
Council Tax	(4,971)	(5,066)	(5,116)	(5,172)	(5,223)
Reduction in CTR grant to TC/PCs	65	55	47	40	34
Total Funding	(8,766)	(8,121)	(7,736)	(7,466)	(7,191)
Cumulative Surplus)/Deficit	0	508	713	864	1,247

(1) Formula Grant in 2015/16 includes £50k of Council Tax Freeze grant awarded in respect of 2014/15.

3.3 In addition to this revenue funding pressure, is our ongoing commitment to future capital programmes, not helped by the current low levels of capital receipts. Even greater pressure may be placed on future programmes if additional borrowing was made to fund new Council Houses, Depots, Sport Centre enhancements, Town Centre enhancement works, vehicle replacements, etc.

3.4 The draft Capital Programme for 2016/17 is attached at Appendix 6. The size of our current and future capital programmes has substantially reduced, due to the reductions in funding and level of sale receipts and now only includes projects that are essential maintenance, or asset replacement or income generating/cost reducing.

4.0 The November/December PDGs and Cabinet meetings

4.1 The first round of draft budget meetings will allow discussions with Members, Senior Management, Service Managers and Finance Officers in order to review the proposed draft 2016/17 budget – see Appendix 2. This will include scrutinising and challenging the initial position (and confirming acceptance of all proposed savings put forward) and discussing any other budget areas that Members would like to see additional savings from.

4.2 Before the next round of PDGs and Cabinet in January the Council will receive formal confirmation regarding its; Formula Grant (n.b. active rural lobby ongoing), Council Tax Freeze Grant, other emerging legislative changes, more information regarding the 2015/16 budget performance, etc. At this point if any of the initial assumptions/estimates significantly worsen, then we will need to bring further savings options forward for consideration.

5.0 Public Consultation

5.1 Earlier year's consultations have consistently highlighted the three most valued services:

- REFUSE COLLECTION & RECYCLING - First
- PARKS, OPEN SPACES & PLAY AREAS - Second
- ENVIRONMENTAL HEALTH - Third

The three services valued the lowest comprised:

- COMMUNITY GRANTS - First
- PUBLIC CONVENIENCES - Equal second
- COMMUNITY SAFETY - Equal second

5.2 With the Council having to make more challenging decisions with regard to service prioritisation these views and our Corporate Plan should be foremost in determining changes to the base budget.

6.0 Statutory, Discretionary Services and the Level of Service Provision

6.1 Whilst the Council has a legal obligation to perform some activities, others are at the discretion of the elected members, subject to funding. Although some undertakings are clearly statutory and others clearly discretionary, there are some service areas that have elements of both.

Finance has attempted to split the General Fund service areas, distinguishing between statutory, discretionary and running costs, both fixed and variable. It is not a definitive document, some elements are subjective and is only meant as a basis for discussion. The total net direct costs of £9.27m are analysed at Appendix 6.

6.2 The main *discretionary* services of the Council comprise:

- Business development (although a corporate priority)
- Community development (includes community group grants)
- Leisure facilities
- Parks and open spaces
- Shops and industrial units

What can we do to balance the budget?

6.3 An activity's net cost could be changed by one or more of these factors:

- a) Changing the frequency
- b) Changing the quality, instead of a "Platinum service" we may be forced to offer a "Silver service"
- c) Increasing fees or start charging for a service
- d) Reducing the overheads
- e) Stopping the activity entirely
- f) Different models of service delivery (including partnership)

6.4 Over the last five years the Authority has concentrated its efforts in maintaining frontline service levels across all sectors by reducing overheads. It is now clear that following those budgetary cuts some service areas are struggling to deliver their service plans, within their existing budgets. Indeed in a few cases external reviews have necessitated increasing the resources in a particular service area to meet our legal obligations.

What options are available if something is *statutory*?

6.5 Although we cannot stop the function, we may be able to approach it differently in terms of frequency or quality.

6.6 Some of our income streams are influenced by external market forces and in setting prices we have to be mindful of the going market rate. Aside from Council tax, the main discretionary income streams are:

- Building control fees
- Burial fees
- Car park charges
- Industrial unit rent

- Leisure centre fees
- Licence fees
- Market tolls
- Shop rents
- Trade waste fees

6.7 Any multi million pound business employing staff and utilising assets needs teams to support them and our frontline services are no different.

6.8 The key components, some statutory, others essential, include:

- Audit
- Accountancy
- Customer First
- Procurement (Buying goods and services)
- Human resources (Includes health and safety)
- IT
- Legal services
- Property services

6.9 For example our waste service has to have vehicles and depots to operate from, both of which need to be maintained. The staff need to be managed, to be paid, and legislation provides for health and safety considerations. Depots and building such as Phoenix House are fixed costs, although even here we have created savings by renting out some space. The “back office” activities are therefore intrinsically linked to the “frontline” and savings from both areas have continued to be made.

7.0 Conclusion

7.1 The feedback from all three budget PDGs and the Cabinet will be reported to the January Cabinet for consideration in order to set a balanced 2016/17 budget and agree a forward plan. Early in the New Year Management Team will meet to establish a strategic plan of how £1.25m of savings in the next four years can be achieved. This process will be based upon giving Members a series of options, some of which may require short term investment, to generate medium or long term savings. The savings options will need to be considered across all Member meetings, based upon the priorities contained within the new corporate plan. Having identified possible savings, there will need to be careful consideration of their potential impact, probable lead times for delivery of that saving and any associated disengagement costs or possible ‘spend to save’ implications that would arise.

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Background Papers: Draft 2016/17 Budget Papers
MTFP report - Oct 2015 Cabinet

Circulation of the Report: Management Team, Members and relevant Service Managers