

Cabinet & Policy Development Groups

14 January 2016

Budget 2016/17 - Update

Portfolio Holder Responsible Officer	Cllr Peter Hare-Scott Head of Finance
Reason for Report:	To consider options available in order for the Council to move towards a balanced budget for 2016/17.
RECOMMENDATION:	To consider and agree the updated budget proposals for 2016/17 included in Appendix 1.
Relationship to Corporate Plan:	To deliver our Corporate Plan's priorities within existing financial resources.
Financial Implications:	Now the Council has received notification of its Formula Grant Settlement it is imperative that it matches current and ongoing expenditure plans to estimated sources of income/funding.
Legal Implications:	It is a statutory requirement for the Local Authority to set a balanced budget.
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. This position has been revised based on an additional 2 months of financial monitoring information. In addition prudent levels of reserves will also continue to be maintained.

1.0 Introduction

1.1 On the 17 December 2015 the Council received formal confirmation of its Formula Grant Settlement. Our provisional formula grant award for 2016/17 amounts to **£3.04m**. This is unlikely to change significantly and is approximately £130k lower than what we first estimated.

As a direct consequence this increased the draft 2016/17 General Fund budget deficit but other savings proposals have helped to reduce the deficit to circa **£405k**.

1.2 Despite this it is both prudent and a legal obligation that we set a balanced budget and therefore further savings will be required.

1.3 It is useful that the formula grant announcement gave provisional figures for the three years following up to 2019/20: As we had predicted the Revenue

Support Grant, which currently stands at £1.7m, will completely disappear by 2019/20. The current and provisional future formula grant amounts are:

	15/16	16/17	17/18	18/19	19/20
	£m	£m	£m	£m	£m
Revenue Support Grant	1.7	1.02	0.5	0.18	0.00
Business Rates	<u>2.0</u>	<u>2.02</u>	<u>2.06</u>	<u>2.13</u>	<u>2.19</u>
Total Formula Grant	<u>3.7</u>	<u>3.04</u>	<u>2.56</u>	<u>2.31</u>	<u>2.19</u>

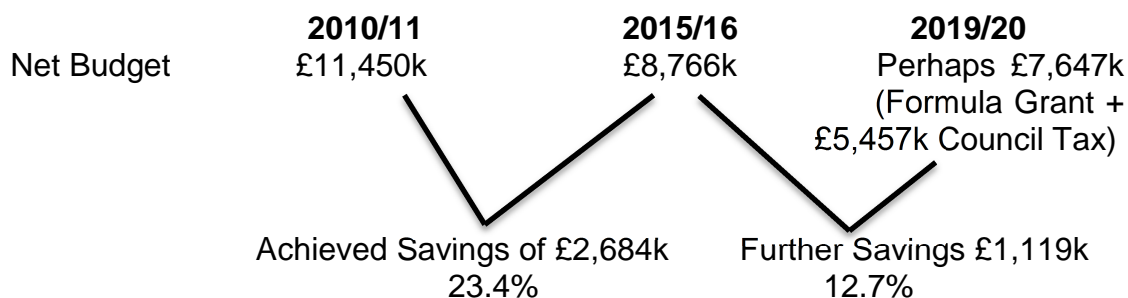
Slotting the provisional Business Rate Retention and Revenue Support Grant figures into the Medium Term Financial Plan shows that by 2019/20 we will need to find approximately **£1.1m** of savings, close to the amount we previously forecast. At this point we still have no details on the proposed changes allowing Councils' to retain more of the business rate income.

2.0 2016/17 General Fund Budget - Revised Position

- 2.1 Since the first round of PDGs and Cabinet meetings the Finance team and service managers have been revisiting a range of budgets to strive to deliver more savings or increase income levels.
- 2.2 This process has improved the General Fund budget by circa £422k (see **Appendix 1**) and now only leaves a budget gap of **£405k**. This reflects a lot of hard work and constructive negotiation over the past 2 months.

3.0 Conclusion

- 3.1 The Council still has approximately one month until the Cabinet will meet on the 11 February 2016 to formally recommend the overall budget and level of Council Tax for 2016/17 and officers will continue to work towards delivering a balanced budget position.
- 3.2 As has been said, on a number of occasions over the past few years, the Council's financial future is going to become increasingly challenging year on year and it is worth reflecting in terms of past, present and the future.



- 3.3 To date we have used the New Homes Bonus grant to fund economic development projects, help fund our capital programme and to fund certain "one off" revenue projects. Some other local authorities are already using the New Homes Bonus grant to various degrees to help fund their day to day spending (revenue expenditure).
- 3.4 So should we use more of ours in a similar fashion? The concern is one of *sustainability*. We do not know whether this funding will be provided

indefinitely. In fact the Department of Communities and Local Government is currently conducting a consultation where there is a proposal to cut the grant awarded to District Councils for new dwellings from six years to four. On top of this there is also consideration of changing the proportions awarded to district and upper tier authorities. This could result in Mid Devon receiving less and Devon County Council receiving more each year.

In the recent grant settlement we had a provisional forecast of our New Homes Bonus grant for future years:

	15/16	16/17	17/18	18/19	19/20
	£m	£m	£m	£m	£m
New Homes Bonus grant	1.6	1.8	1.8	1.2	1.1

You will notice the decrease after 2017/18 where the sum drops to £1.1m by 2019/20.

- 3.5 So how much New Homes Bonus grant do we currently hold? **Appendix 2** shows our predicted balance at 31 March 2015 to be £2,969k. We could fund the budget deficit from this grant which would mean that **£801k** of New Homes Bonus would be used to help fund the 2016/17 budget (the shaded area). However if the reserve is utilised in this manner there will be less monies available to fund future capital and economic projects.
- 3.6 Should this level of supported funding continue year on year then it would comprise circa 73% of our expected grant in 2019/20 and leave little available for capital. Clearly this would be a strategy involving considerable risk in the long term, especially if the grant were to be stopped in its entirety, which is a possibility.
- 3.7 It is also worth mentioning that as a district we are comparatively poor in terms of assets with much of the capital programme funded from “Right to Buy” receipts and the New Homes Bonus grant. We do not have a large portfolio of surplus assets which we could sell and use for new capital projects, some of which could reduce our annual running costs.
- 3.8 As the government is now paying central grants much more on a basis of “payment by results” more authorities are seeking financial security by striving to become self-financing. As an authority we too have broadened our approach. The Tiverton Market Walk project is an example where Mid Devon now has additional income from the shop units to help support the revenue budget, but with increased risks if those units are not let. We also have the benefit of the feed-in tariff from the solar panels installed on Phoenix House and other locations. Whilst this income is beneficial and has helped our position, the amounts that we need to balance our budget in the foreseeable future are significantly higher.
- 3.9 Members have now approved a draft Corporate plan with key defined focus areas, the question is how those aspirations can be met with a *sustainable* budget base, ideally with as much as possible under our own control. Going forward difficult and challenging decisions on the scope and extent of service delivery will be required to meet this objective.

Contact for more information: Andrew Jarrett – Head of Finance
Background Papers: Draft 2016/17 Budget Papers
Grant Settlement Email
File Reference:
Circulation of the Report: Management Team, Members & Relevant Service
Managers

2016/17 Budget Changes (since Nov PDG's)

Budget gap estimated at November/December PDGs and Cabinet	£ 826,890
<u>Confirmed Changes</u>	
Central government Formula grant worse than expected	130,000
Sparsity grant funding + maybe homelessness	(100,000)
Employers pay award based on officers on below SCP18	15,000
Salary reductions after redundancies (elections, CF, Comms, Econ Dev) + backfunding	(130,000)
Grant budget savings	(15,000)
Moorhayes utility saving re solar panels	(2,000)
Add extra planner matched by increased income	
	<hr/> 724,890
<u>Further Proposals and Work in Progress</u>	
2% Council tax increase (No Council tax freeze grant available)	(50,000)
Increased car parking income	(141,000)
Use some of Market Walk "profit"	(150,000)
some form of member budget - i.e. £500 per member for local stuff	21,000
DCC share of waste saving	
Sinking fund for amenity car parks	
Review position on grass cutting	
Apprentice levy - check when starts 0.5% of pay bill - not until 2017	
HRA recharges	
Check HB subsidy	
Change of £1 coins - costs of conversion of car park machines	
New budget gap after the above changes/revisions	<hr/> 404,890 <hr/>

Appendix 2**New Homes Bonus (NHB) Summary**

	£k
Balance at 31/3/15	(1,887)
2015/16 award	(1,613)
Estimated use of NHB to fund 15/16 capital programme	531
Projected balance at 31/3/16	(2,969)
2016/17 provisional award	(1,800)
	(4,769)

Monies Committed in 2016/17 General Fund Budget

Community Development	21
Business Development	43
Digital Strategy Staffing	102
Business Development	100
Legal Services	18
Corporate Training	12
Recycling premises move	100
Budget deficit funding	405
	801

**Available for 16/17 Capital Funding / Economic Development
Projects**

	(3,968)
2015/16 capital programme slippage funding	1,766
2016/17 capital programme funding	1,091
Projected balance at 31/3/17	<u><u>(1,111)</u></u>