

**Committee:** Scrutiny Committee

**Agenda Item**

**Date:** 17 November 2015

**9**

**Title:** Budget 2016/17 Overview

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Item for decision

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## Summary

1. At its meeting on 9 February 2016, the Scrutiny Committee will be invited to comment on detailed proposals for the 2016/17 budget, ahead of consideration by the Cabinet on 16 February and determination by the Full Council on 25 February.
2. This report provides an overview of the budget setting process and the documentation that will be coming forward for review.
3. The Scrutiny Committee's role is to provide an independent endorsement of the proposals prior to consideration by Cabinet, or to suggest alternatives. This is ordinarily an apolitical process; alternative budget proposals from Opposition Members should be formulated away from the Scrutiny process and presented to Cabinet and Full Council at the appropriate time.
4. The report also includes the results of the recent budget consultation and explains in more detail the Council reliance on New Homes Bonus (NHB).
5. There is also a section on Business Rates retention and early thoughts on what the Autumn Statement may contain.

## Recommendations

6. It is recommended that
  - a) Members provide feedback on the outcome of the consultation, New Homes Bonus reliance and Business Rates retention for inclusion in the Cabinet report for the 2016/17 Budget Strategy.

## Financial Implications

7. None.

## Background Papers

8. None.

## Impact

Communication/Consultation	Public consultation and business ratepayers consultation is carried out as part of the budget process.
Community Safety	None
Equalities	An Equalities Impact Assessment will be completed as part of the budget process.
Health and Safety	None
Human Rights/Legal Implications	It is a legal requirement to produce a balanced budget.
Sustainability	Budgets must be drawn up in the context of the Council's Medium Term Financial Strategy.
Ward-specific impacts	None
Workforce/Workplace	Some budget proposals may affect staff e.g. efficiency savings requiring different ways of working.

### **Budget setting process and timetable**

9. The 2016/17 budget relates to the financial year that will run from 1 April 2016 to 31 March 2017. The Full Council meeting on 25 February will set the budget, taking into account recommendations from the Cabinet. The Scrutiny Committee will have an opportunity to review the budget proposals before the Cabinet determines its recommendations.
10. It would be usual at this round of meetings for Scrutiny to be looking at the draft Budget Strategy for 2016/17 which would normally include the Medium term Financial Strategy (MTFS), the Reserves Strategy and the Treasury Management Strategy. However due to the Autumn Statement being made on 25 November and the likelihood of significant and challenging financial issues arising following the announcement it has not been possible to prepare this document for this meeting.
11. This report will cover the following key areas as we have them at the moment
  - a) Budget timetable and reports to expect
  - b) Budget papers for consideration by Members
  - c) Budget consultation outcomes
  - d) New Homes Bonus
  - e) Business Rates Retention
  - f) Autumn Statement

## Budget timetable and reports to expect

12. The following are the key steps taken to draw up the budget:

July 2015	Public consultation carried out
November 2015	Briefing for Scrutiny Committee (this report)
Late November 2015	Financial forecasts updated
December 2015	Financial Outlook and 2016/17 Budget Strategy approved by the Cabinet taking into consideration any guidance from this Scrutiny meeting  Provisional Local Government Finance Settlement released by DCLG  Business Ratepayers consultation initiated
January 2016	Finalisation of budget proposals  Confirmation of Local Government Finance Settlement
February 2016	Formal consideration of budget proposals by Members; Scrutiny Committee, Cabinet and Full Council
March 2016	Council Tax bills issued
1 April 2016	Financial year commences

## Budget papers for consideration by Members

13. Below is a summary of the separate components of the budget papers and suggestions for the types of issues the Scrutiny Committee may wish to consider. These suggestions are neither compulsory nor exhaustive.

### 14. Housing Revenue Account (HRA)

#### Summary

- a) Deals with budgets for council housing only, which by law are kept in a separate ringfenced account, separate from other council services.
- b) Expenditure on council housing is funded by rents and service charges payable by council tenants.
- c) HRA finances underwent substantial reform on 1 April 2012. Negative housing subsidy was abolished, replaced by the Council having to take on a share of the national housing debt. The result is that the HRA has significant levels of revenue headroom in its budget.

- d) The HRA has a 30-year business plan which sets out plans to maintain and improve housing stock and provide services to tenants, and plans for funding new council houses. The business plan allocates the revenue headroom and ensures that the debt is repaid within the 30-year period.
- e) HRA budgets are discussed by the Tenants Forum and Housing Board prior to consideration by Cabinet.

**Possible issues for consideration by Scrutiny:**

- Do the proposals have the support of council tenants?
- Have the potential impacts of the Housing Bill been properly accounted for?
- Are there clear plans for the use of revenue headroom that deliver useful outcomes within reasonable timescales?

## **15. Treasury Management**

### **Summary**

- a) Including monies collected for other organisations, over £125m flows in and out of the Council's bank accounts each year. Inevitably, temporary cash surpluses arise.
- b) In addition, the Council holds financial reserves, including its own balances, and S106 funds.
- c) Treasury management is the process by which these cash flows and balances are managed. The prime objective is to ensure security of funds, secondary priorities are to ensure sufficient liquidity to enable commitments to be met, and capacity to earn income on the balances held.
- d) The Council is required to approve a Treasury Management strategy that ensures appropriate risk management including a safe approach to investing surplus funds.
- e) Treasury management strategy also governs how long term borrowing is used to fund capital expenditure.
- f) The strategy is accompanied by mandatory "prudential indicators" which are technical measures of the affordability and sustainability of the Council's borrowings and investments.
- g) The Council is advised in its treasury management activity by leading independent experts, Arlingclose Ltd.

### **Possible issues for consideration by Scrutiny:**

- Is the strategy consistent with advice provided by Arlingclose?
- Does the strategy ensure that the Council's exposure to risk is appropriate and properly managed? Has the right balance been struck between safeguarding funds and earning a return?
- What do the prudential indicators say about the appropriateness of the Council's plans?

## **16. Capital Programme**

### **Summary**

- a) Capital expenditure is spending on schemes or assets that have long term value to the Council and the community. Examples include council housing, vehicles, IT systems, building improvements, or grants to outside bodies and individuals such as disabled adaptations.
- b) Capital expenditure is financed by contributions from the HRA or General Fund, capital receipts (sale of Council assets), external funding such as S106 contributions or government grant, or by borrowing.
- c) The Capital Programme sets out capital expenditure plans for the next 5 years, together with details of how this is to be financed.

### **Possible issues for consideration by Scrutiny:**

- Do the proposed items in the Programme provide tangible outcomes and value for money?
- How do we ensure that capital grants given to outside bodies and individuals achieve the intended outcomes?
- Are the financing methods appropriate, and built into revenue budgets?

## **17. Medium Term Financial Strategy (MTFS)**

### **Summary**

- a) The MTFS relates to the General Fund (all services except Council Housing) and sets out forecasts for the next five years.
- b) It includes estimates of income and expenditure, and quantifies the extent of any surpluses or deficits anticipated during the five year period.
- c) The MTFS sets out in outline the Council's strategy for addressing deficits, or using surpluses, in order to ensure that Corporate Plan priorities are underpinned by sound finances.

- d) The key reason for having an MTFS is to anticipate potential difficulties long before they arise and ensure that robust plans are in place to address them. This is of particular importance because of expected future cuts in Government funding of local government.

**Possible issues for consideration by Scrutiny:**

- Are the assumptions used to build the forecasts reasonable?
- What would happen if actual events differed from the assumptions?
- Does the Council have a robust plan for addressing any deficits forecasted?
- Are plans for the use of any surpluses prudent, sustainable and good value for money?

**18. Robustness of Estimates and Adequacy of Reserves**

**Summary**

- a) By law, the Council must set its General Fund budget and Council Tax having given due regard to advice from its chief financial officer (CFO) on the robustness of estimates and adequacy of reserves.
- b) The report will summarise the key risks in the Council budget, and the assumptions that are most volatile. This will be translated into advice about the minimum safe level of contingency reserves that should be maintained, and whether other reserves are needed to meet expected pressures in the coming years.
- c) The Secretary of State has powers to intervene if the CFO's advice is disregarded by Members, in the event of inappropriately low levels of reserves being maintained.

**Possible issues for consideration by Scrutiny:**

- Are the risks clearly explained?
- Is the advice about minimum safe contingency reserves proportionate to the risks involved?
- Is the level of reserves held by the Council appropriate?

**19. General Fund Budget and Council Tax**

**Summary**

- a) The General Fund covers budgets for all Council services except council housing.

- b) General Fund expenditure is mostly funded from fees & charges and Government grant. The balance is funded by Council Tax. By law the Council must set a balanced budget.
- c) The report will set out in detail proposed budgets for all General Fund services, proposed fees & charges, and a Council Tax resolution.

**Possible issues for consideration by Scrutiny:**

- Is the proposed budget consistent with the Medium Term Financial Strategy and the CFO's advice on the level of reserves that should be maintained?
- Is the budget consistent with the Budget Strategy approved by the Cabinet?
- Have consultation responses been properly taken into account?
- Does the budget support the Corporate Plan?
- Are proposed budget growth items (service investment) justified with clear outcomes that provide value for money?
- Are proposed budget reductions (efficiency savings or service reductions) reasonable and consequences properly thought out?
- Is the proposal regarding Council Tax reasonable?

20. Scrutiny Committee Members are invited to familiarise themselves with the Council's existing Budget Book that can be found on the Council's website at: [www.uttlesford.gov.uk/finance](http://www.uttlesford.gov.uk/finance) (see area second from bottom on the right of the webpage).

21. At all times Adrian Webb, the Chief Finance Officer shall be pleased to meet with Members individually or in groups to discuss any aspect of the Council's finances.

**Budget consultation outcomes**

22. For the previous four years the budget consultation has been based on the key actions contained within the Corporate Plan. However for 2016/17 the approach to this consultation was changed to try to improve the response rate.

23. In addition the council widened the scope of the consultation, using three streams

- a) A telephone survey undertaken by a professional market research company who contacted a profiled sample of Uttlesford residents. The company was commissioned to deliver 500 responses and in fact exceeded that with 533 responses.

- b) Open public consultation using an online questionnaire. Paper copies were also available at council office reception desks. In addition a face to face consultation was also carried out with staff available to answer questions at Great Dunmow Carnival and at Saffron Walden and Thaxted markets. This received 79 responses.
- c) The 450 members of the Uttlesford Citizens Panel. This received 208 responses.

24. This gives a total response of 820 compared to 196 in 2014.

25. The full analysis of the budget consultation is included as Appendix One. This report contains an executive summary, precis of the combined results of all the survey streams and detailed results from each of the telephone, public and panel consultations. Very briefly, the people of Uttlesford would like their council to concentrate spending on collecting bins, planning how the district develops, sweeping the streets, supporting the elderly, working with police and preventing drugs use. They would rather the council spent less on providing car parks and funding Saffron Walden Museum. For next year they are of the opinion that Council Tax, or at least the Uttlesford portion of it, should remain at the same level.

### **New Homes Bonus**

26. The New Homes Bonus scheme is a subsidy payable based on the number of new homes brought into use during a 12 month period. This was shown in the February budget papers as

<b>MTFS PERIOD</b>								
	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
2011/12 award	£0.714m	£0.714m	£0.714m	£0.714m				
2012/13 award	£0.534m	£0.534m	£0.534m	£0.534m	£0.534m			
2013/14 award	£0.794m	£0.794m	£0.794m	£0.794m	£0.794m	£0.794m		
2014/15 award		£0.835m	£0.835m	£0.835m	£0.835m	£0.835m	£0.835m	
2015/16 award			£0.721m	£0.721m	£0.721m	£0.721m	£0.721m	£0.721m
2016/17 provisional				£0.708m	£0.708m	£0.708m	£0.708m	£0.708m
2017/18 provisional					£0.93m	£0.93m	£0.93m	£0.93m
2018/19 provisional						£1.435m	£1.435m	£1.435m
2019/20 provisional							£1.441m	£1.441m
2020/21 provisional								£1.051m
<b>TOTAL NHB</b>	<b>£2.042m</b>	<b>£2.877m</b>	<b>£3.598m</b>	<b>£4.306m</b>	<b>£4.522m</b>	<b>£5.423m</b>	<b>£6.070m</b>	<b>£6.286m</b>



27. As can be seen it is a rolling six year scheme.

28. Also presented to the February 2015 Cabinet meeting was a summary of the budget position

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
Gross service expenditure	33,829	33,148	30,820	26,316	21,895	20,380
Gross service income	-24,228	-23,274	-20,255	-15,313	-10,438	-8,441
Demand growth	0	50	100	150	200	250
<b>Net service expenditure</b>	<b>9,600</b>	<b>9,924</b>	<b>10,665</b>	<b>11,153</b>	<b>11,657</b>	<b>12,189</b>
Capital financing costs	3,454	1,366	1,429	1,546	1,540	1,509
Pension fund deficit	102	102	502	527	552	577
Recharge to HRA	-1,372	-1,300	-1,300	-1,300	-1,300	-1,300
Other corporate items	-50	-50	-50	-50	-50	-50
<b>Total budget</b>	<b>11,733</b>	<b>10,042</b>	<b>11,246</b>	<b>11,876</b>	<b>12,399</b>	<b>12,925</b>
<b>Funding</b>						
Business Rates Retention	-1,303	-1,329	-1,356	-1,383	-1,411	-1,439
Council Tax Freeze Grant	0	0	0	0	0	0
Collection Fund Balance	-89	0	0	0	0	0
Section 106 Funding	-10	0	0	0	0	0
Formula Grant	-1,234	-925	-620	-300	0	0
New Homes Bonus	-3,598	-4,306	-4,522	-5,423	-6,070	-6,286
<b>Total Funding</b>	<b>-6,234</b>	<b>-6,560</b>	<b>-6,498</b>	<b>-7,106</b>	<b>-7,481</b>	<b>-7,725</b>
<b>Net Operating Expenditure</b>	<b>5,499</b>	<b>3,482</b>	<b>4,748</b>	<b>4,770</b>	<b>4,918</b>	<b>5,200</b>
<b>Movement in Reserves</b>	<b>-846</b>	<b>-11</b>	<b>-86</b>	<b>-197</b>	<b>-273</b>	<b>-60</b>
<b>COUNCIL TAX REQUIREMENT</b>	<b>4,653</b>	<b>3,471</b>	<b>4,662</b>	<b>4,573</b>	<b>4,645</b>	<b>5,140</b>
<b>COUNCIL TAX INCOME</b>	<b>-4,653</b>	<b>-4,736</b>	<b>-4,904</b>	<b>-5,106</b>	<b>-5,373</b>	<b>-5,603</b>
<b>In year surplus (-) / deficit</b>	<b>0</b>	<b>-1,265</b>	<b>-242</b>	<b>-533</b>	<b>-728</b>	<b>-463</b>

29. The key part of this table are the two lines 'New Homes Bonus' and 'In Year Surplus' which when shown as below effectively indicate the reliance the council has on NHB.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
New Homes Bonus (NHB)	4,306	4,522	5,423	6,070	6,286
In year surplus	1,265	242	533	728	463
<b>Council Reliance on NHB</b>	<b>3,041</b>	<b>4,280</b>	<b>4,890</b>	<b>5,342</b>	<b>5,823</b>

30. As can be seen as the year's progress the council becomes ever more reliant on NHB.

### Business Rates Retention

31. In October it was announced that by 2020/21 councils would be able to retain 100% of Business Rates collected. Clearly with an international airport within its boundaries it seemed Uttlesford could benefit from this.

32. However at the time of the announcement the press release contained two interesting comments

- a) 'and local government will take on new responsibilities'
- b) 'Local government will of course also need to contribute to fiscal consolidation over this Parliament'

Clearly there is no new money for this.

33. On 12 October the Secretary of State for Communities and Local Government, Greg Clark, gave a written statement to the House of Commons in which some more 'hints' were given about the scheme. The key comments were:

- a) **"As well as phasing out the local government grant from Whitehall, these new powers will come with new responsibilities to ensure the reforms are fiscally neutral."** We assume this fiscally neutral to the government. This confirms that local government will have to take on new burdens/ services, as well as losing grant funding, in return for 100% retention.
- b) **"Redistribution between councils will remain important, to reflect the different need of different authorities."** This implies that top slicing of Business Rates will remain for those authorities like Uttlesford who collect high amounts of Business Rates.
- c) **"...we will consider the responsiveness of the system to future changes in relative needs and resources, whilst maintaining a strong incentive for authorities to grow their local economies."** This may mean Uttlesford will not be able to keep Business Rates growth in its entirety.

- d) **“We will also consider how risk and business rates volatility can be better managed and how to protect authorities against significant falls in income.”** This means that a safety net arrangement will most likely be put in place.

34. The full statement can be found at:

<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2015-10-12/HCWS221/>

35. This statement does not rule out the changes starting in 2016/17 but does imply it could be a very similar system to the one currently in place.

### Autumn Statement

36. The Autumn Statement, which is also referred to as the Spending Review, will be announced on 25 November. Like many such announcements the details will emerge over the days following it.

37. The big questions for Uttlesford are

- a) At what speed will Business Rates Retention be introduced?
- b) Is this the end for NHB? If so;
- c) At what speed will NHB be phased out?
- d) What additional responsibilities will UDC be expected to take on?
- e) Will it all add up?

### Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
A detailed risk assessment shall accompany the budget proposals. There are no specific risks at this stage.			

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.