

**Agenda Item No:** 9.3 **Report No:** 24/16  
**Report Title:** General Fund Revenue Budget 2016/2017  
**Report To:** Cabinet **Date** 08 February 2016  
**Cabinet Member:** Councillor Bill Giles  
**Ward(s) Affected:** All  
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**Purpose of Report:**

To present the 2016/2017 General Fund Revenue Budget to be recommended to Full Council.

**Officers Recommendation(s):**

**That Cabinet:**

- 1 Reviews the contributions to reserves and use of reserves as set out in Appendix D.
- 2 Considers any recommendations of the Scrutiny Committee.
- 3 Notes the Council Tax and Business Rates Collection Fund balances to be returned in 2016/2017.
- 4 Considers the statutory report of the Designated Chief Finance Officer as required by section 25(1) of the Local Government Act 2003, set out in section 14.
- 5 Notes completion of the statutory Non Domestic Rates Return (NNDR1) with retained rating income of £3,070,000 carried out in consultation with the Portfolio Holder.
- 6 Notes the response of the Society of District Council Treasurers (SDCT) to the Government Consultation on the Finance Settlement. (Appendix H)
- 7 Agrees to a balanced budget without the use of reserves for recurring expenditure acknowledging the use of £58,900 of New Homes Bonus (£1.592m total) for services.

### **That Cabinet recommends to Council:**

- 8** That it accepts the Government proposal in respect of a four year settlement as outlined in 1.7
- 9** An aggregate Council Tax requirement of £6,823,300 (a Council Tax increase of 0.5% for the aggregate Lewes District Council "Council Tax Requirement) comprising
  - a. A General Expenses Council Tax requirement of £6,279,340
  - b. A Special Expenses Council Tax Requirement of £543,960.
- 10** That following publication of the Final 2016/2017 Local Government Finance Settlement the Director of Corporate Services be authorised to make the necessary adjustments to maintain the general expenses council tax requirement at the above level and to report any adjustments to the next Cabinet meeting.

### **Reasons for Recommendations**

- 1** Cabinet is required to approve the budget in accordance with the Council's Constitution. This budget report sets out the level of General Fund revenue resources needed to support the Council's priorities and services.
- 2** The Council has a statutory duty to determine its Council Tax Requirement and level of Council Tax for the coming year. Cabinet makes a recommendation to Council on this matter having taken account of the Director of Corporate Service's statutory report on the adequacy of reserves and balances.

#### **1 National Context**

- 1.1** Delivering the Deficit Reduction Plan remains a national priority.
- 1.2** In December 2015, The Chancellor of the Exchequer gave the annual Autumn Statement to Parliament. Measures announced within it include the following:
  - The current £1,000 business rates discount to retailers will come to an end.
  - Department for Communities and Local Government (DCLG) will receive approximately 30% less funding over the period to 2020.
- 1.3** The provisional Local Government Finance Settlement for 2016/2020 confirmed that the central government core grant to run local services nationally will fall by around 15%. (LDC 15.4%)
- 1.4** This reduction includes the assumptions over the New Homes Bonus (NHB) which is reflected within each council's overall figures as well as each council's ability to grow its tax base (based on 2014-2016) and raise council tax by 2% (4% for upper tier authorities with adult care services with 2% ring fenced).

- 1.5 Added to the effects of inflation, the overall reduction is over 30% and the grant reduction programme has been front-loaded.
- 1.6 Many councils are rebalancing budgets to reflect the reduction in core funding. In order to rebalance budgets many councils are using 100% of NHB to support ongoing expenditure. The report recommends that a small percentage (4%) of the 2016/2017 NHB be used by LDC in support of services.
- 1.7 The Government has announced that authorities can elect for a 4 year grant settlement. In return for relative funding certainty the Council will have to publish a 4 year efficiency plan with authority for changes being limited to Full Council. Whilst details are not yet available, advisers are suggesting that the MTFs and subsequent delivery of savings will suffice in this respect.

## 2 Policy Context

- 2.1 Cabinet has previously set Financial Principles and Objectives in its Medium Term Financial Strategy (Appendix A). These are used as part of the framework to guide budget preparation and compilation of the Medium Term Financial Strategy.

## 3 Council Tax Referenda and Freeze Grant

- 3.1 The Localism Act 2011 introduced a requirement for referenda to approve or veto council tax increases that exceed limits set out by the Secretary of State (and approved by Parliament) in “principles” defined for the following financial year.
- 3.2 The Secretary of State has indicated that the threshold for 2016/2017 is 2% for principal authorities. This threshold is applied to changes in the aggregate of an authority’s “General” and “Special” Expenses.
- 3.3 There is currently no proposal for an extension to the Council tax freeze grant regime that has been in operation for the last four years. All previous year’s tax freeze grants have been subsumed within the funding assessment for each local authority with the exception of the current year (2015/2016) which is subject to the consultation on the overall settlement. This equates to £75k for LDC.

## 4 Lewes District Council’s own council tax requirement for 2016/2017

- 4.1 The Council’s average band D tax each year is calculated as follows:

$$\frac{\text{Aggregate Council Tax Requirement}}{\text{Band D taxbase}} = \text{Band D tax requirement}$$

- 4.2 The aggregate Band D requirement in the current year is £189.61.
- 4.3 The aggregate Council Tax Requirement comprises two elements. The majority part is General Expenses. In the current year the General Expenses band D requirement is £172.11. The remainder (£17.50) is attributed to Special Expenses.

- 4.4** The Council's commitment to passing on reductions made by devolving responsibility for the upkeep of open spaces to Parishes means that 2016/2017 General Expenses Band D tax will be recommended at £175.41 (a 1.9% increase) and the Special Expenses element will reduce to £15.20. The aggregate for next year of £190.61 is a 0.5% increase against the aggregate of £189.61 in the current year.

## **5 The 2016/2017 General Fund Budget**

- 5.1** The General Fund Budget Summary for next year is shown at Appendix B together with the movement between 2015/2016 and 2016/2017. It should be noted that there have been changes in managerial responsibilities, the service totals by responsible Director are however comparable.

- (a)** the Council's efficiency programme, inflation, variations in income and changes in demand for services. A statement showing the major variations is given at Appendix C.
- (b)** A balanced budget for next year requires a total savings target of £685,000 (of which £285k has been achieved and is incorporated within the service budgets shown in the Summary) with £400,000 to be met from the joint transformation programme. The only withdrawal from the general fund reserve is to meet non-recurring expenditure.
- (c)** A budget of £109,000 is available in 2016/2017 to support the implementation of service priorities.
- (d)** A summary of contributions to and from reserves is shown in Appendix D. Reserves can be used to finance revenue or capital expenditure and the summary shows the aggregate planned use in 2015/2016 and 2016/2017.
- (e)** Business Rates retained by the Council under the retention arrangements introduced by the Government from 1 April 2013. The amount shown is net of a tariff (£7.399m in 2016/2017) payable to the Government (because the Council's assumed business rates income exceeds its assumed spending needs baseline) and a levy (£0.684m in 2016/2017) in respect of growth in business rates income. All such levies are payable into the East Sussex Business Rates Pool and redistributed back to pool members (LDC's share estimated at £0.300m in 2016/2017).
- (f)** Details of Government grants are shown in the sources of finance section of the General Fund Budget Summary. Key movements are the reduction in Revenue Support Grant (£709,000) and Housing Benefit Administration Grant (£60,500) and an increase in New Homes Bonus (£215,500) generated from 187 additional homes in the District.

### **5.2 Pay and Price Assumptions**

- (a)** The 2016/2017 draft budget has been prepared in accordance with the following framework:

*Base budget:*

- (i) No new items to be added to the budget except where approved by Cabinet in the year to date.
- (ii) Savings reported to and agreed by Cabinet to date to be incorporated within draft budgets.

*Employee budgets:*

- (iii) An average provision of £70k has been made for movements in the pay bill in line with the ministerial announcement that pay will increase by 1% in the sector.
- (iv) Provision has been made of £70k for annual contractual salary increments.
- (v) The Council's budgeted employer's pension contribution rate for 2016/2017, reflected in the cost of each service, is the same as that proposed by the actuary following the three-yearly review of the East Sussex Pension Fund finalised in December 2013. The following contributions are proposed by the actuary:

2016/2017 20.5% plus £135,000 (equates to 21.9% in total)

***Inflation:***

- (vi) No allowance for general price increases other than where these are unavoidable eg business rates
- (vii) Agreed cost indices in tendered contracts.
- (viii) Should average price inflation (excludes pay) exceed assumptions in the budget outlook by 1%, this would add around £100,000 to the budget savings target.
- (ix) Income from general fees and charges is largely related to usage and activity levels. A separate report is agreed annually to agree increases in volume and price to be reflected in the budget. The MTFS assumes that overall income will rise by CPI.

## **6 Deficit Reduction Programme**

- 6.1** The Government has clearly stated its position that the economy will grow throughout the period of this Parliament and that public sector funding will continue to reduce.
- 6.2** The Council's MTFS through to 2019/2020 reflects a widely held expectation that core funding from Revenue Support Grant will be extinguished by the end of the period. (By 2018 for LDC)
- 6.3** The Government is consulting on the full retention of business rates by local government (currently 50%) but has announced that at any change will be fiscally neutral.

## **The Council's Savings Plan**

- 6.4** Appendix E shows the savings plan through to 2020. The target for the current year is set to be achieved. All pay budgets are now set with a built in vacancy factor of 2%.
- 6.5** The savings for 2016/2017 will mainly derive from the Organisational Development programme which includes the shared services agreement with Eastbourne Borough Council.

## **7 Medium Term Budget Outlook**

- 7.1** The Medium Term Budget Outlook is shown at Appendix F. It builds upon the budget for 2016/2017 and uses assumptions for future years. No significant changes in assumptions have been made from 2015/16.
- 7.2** Council tax levels for 2017/2018 onwards have been modelled at 2% (the target rate of CPI). In line with the objectives in the Budget Outlook delivers a sustainable recurring base budget up to 2020, with no call on reserves for recurring expenditure, and with no future reliance upon Revenue Support Grant. The four year savings target from 2016/2017 to 2019/2020 amounts to £3.186m which is an excess of £365,000 over the forecast requirement identified in the MTFS.
- 7.3** In the event that savings fail to materialise it would be necessary to utilise the New Homes Bonus spending power and even then a substantial budget gap would remain. The Council's reserves and balances would be under great pressure and the shape of the Council's service provision would be biased more towards statutory services.
- 7.4** A number of underlying risks need to be constantly monitored:
- (a)** Retained business rates:
- There is likely to be a loss of retained rate income associated with regeneration projects in Lewes and Newhaven. This will be partly balanced by newly created non domestic premises and additional New Homes Bonus spending power where non domestic premises are replaced with domestic dwellings. In such cases there may be a need to use the additional New Homes Bonus spending power to cover any loss in retained business rates.
  - The outcome of appeals against business rate valuations remains a key risk. Successful appeals can be backdated to 2010 and the decisions of Valuation Tribunals elsewhere in England can trigger fresh appeals from certain categories of business (eg GP surgeries in 2015). There are currently 230 outstanding appeals against the LDC rating list.
- (b)** General income levels: The review of fees and charges for next year has resulted in a higher savings target (an extra £80,000) as agreed at Cabinet in January.

7.5 Throughout the coming year Cabinet will receive monitoring reports to review budget against actual quarterly.

## **8 The Council's Capital Programme**

8.1 The Prudential Code requires local authorities to plan their capital expenditure programme for at least three years ahead. This corresponds with the time scale covered by the Council's Capital Strategy. Understandably, the most detailed information is available for Year 1, with the programme for years 2 and 3 liable to variation when more precise forecasting can be undertaken in terms of both the availability of capital resources and spending requirements.

8.2 Revenue contributions to capital can be made either by the provision of a non-recurring contribution in the Revenue budget when circumstances permit or by annual recurring contributions if further savings can be generated within the revenue budget. Alternatively, contributions can be made from unallocated reserves and balances, or by using balances on reserves which are no longer required.

8.3 The Capital Programme report demonstrates that a programme focussed on statutory requirements and core service needs and priority Council projects can be achieved for the next 3 years.

## **9 Conclusions**

9.1 In light of the above commentary it is essential that Cabinet carefully controls the recurring base budget.

9.2 The General Fund Reserve can be used as a short term measure to manage the pressures arising from lower income, rises in demand for statutory services and the lead in time needed to deliver savings.

9.3 The Council's earmarked reserves could be reassigned to balance a future budget in exceptional circumstances, but again this is not a sustainable solution.

9.4 Current and medium term pressures require the recurring base budget to be significantly reduced. Unless there is a compelling business case that helps achieve the base budget restructuring any calls for additional recurring resources need to be considered only when until the desired savings targets are delivered.

9.5 There is capacity within the budget to meet time limited initiatives of a non-recurring nature, either from specific earmarked reserves, the General Fund Reserve, or the service priorities budget which is in effect a contingency that can be deployed once the overall year end position can be reliably predicted.

9.6 The Council needs to be reassured that the aggregate of reserves and the working balance is sufficient to meet the medium term finance strategy principles and objectives.

## **10 Reserves**

10.1 Section 25 of the Local Government Act 2003 contains the statutory duty on the Chief Finance Officer to report to the authority on the robustness of the estimates it makes when setting the Council Tax and on the adequacy of its proposed financial reserves.

- 10.2** The Chartered Institute of Public Finance and Accountancy issued updated guidance in July 2014 (The Local Authority Advisory Panel Bulletin no. 99) in relation to reserves and balances. This has been taken into account in this report.
- 10.3** The Council's reserves and balances need to cover all significant identified risks and operational service needs. As part of the annual budget and closing of accounts processes, the Council reviews and approves the position on its reserves. This is a mandatory requirement for all councils.
- 10.4** Where it is known in advance of a financial year that a reserve will be used, the expenditure is budgeted for and included in the draft budget and a contribution is made from that reserve. The Leader can authorise additional uses up to £100,000 during the year in accordance with the Council's Constitution and Council above that amount.
- 10.5** Savings can be achieved by reducing the annual level of contributions to reserves, but reserves are essential to ensure the financial sustainability of services. Making short term cuts to annual contributions is not a sustainable course of action but reviewing the level of contribution in parallel with service reviews and realignment exercises may enable reductions to be achieved. Reviews are made at least twice a year, during the budget cycle and as part of the accounts closure process.
- 10.6** A statement of the Council's Main Reserves projected through to 31 March 2017 is shown at Appendix D.
- 10.7** The Strategic Change Reserve holds New Homes Bonus received pending its use on approved projects. The most significant project to be funded from the Reserve is the Joint Transformation/Service Integration Programme with Eastbourne Borough Council (£2.25m allocated across 2015/2016 and 2016/2017).
- 10.8** The Asset Maintenance Reserve provides resources for major works to General Fund assets including corporate buildings, parks, and the indoor leisure facilities for which the Council has landlord repairing responsibilities.
- 10.9** The Vehicle and Equipment Replacement Reserve provides funding for the cyclical replacement of the vehicle fleet. In 2016/2017, £1.1m is committed to fund the up-front costs of restructuring the Waste and Recycling Service, including equipping a Materials Reclamation Facility (MRF) to process recyclables.
- 10.10** The General Fund Reserve holds funds pending allocation to specific projects. It also retains a balance as a buffer against unforeseen expenditure or reductions in income as explained in section 12 below.

## **11 Collection Fund Balance**

- 11.1** The Council Tax Collection Fund Balance and the Non Domestic Rates Collection Fund Balance are key components of the Council Tax setting process. A principle of the MTFs is to achieve a zero balance (or as close as possible) each year. A review of the likely Collection Fund position is made at 31 March 2016 including a review of the provision for doubtful debts.



**11.2** There is an estimated credit balance of £1,090,010 on the Council Tax Collection Fund which can be utilised in the 2016/2017 budget. The surplus will be redistributed to preceptors as follows:

<b>Council Tax Collection Fund</b>	<b>£</b>
East Sussex County Council	172,400
Lewes District Council	771,000
Sussex Police and Crime Commissioner	92,200
East Sussex Fire and Rescue	54,500
<b>Total</b>	<b>1,090,100</b>

**11.3** The statutory Non Domestic Rating Return (NNDR1) was due to be submitted before the deadline of 31 January 2016. The retained rates income for 2016/2017 has been estimated at £3.180m. A debit balance of £1,599,400 is estimated on the Business Rates Collection Fund at 31 March 2016 as a result of the provision needed in respect of business rates valuation appeals. The balance will be charged against the 2016/2017 budget, shared as follows:

<b>Business Rates Collection Fund</b>	<b>£</b>
East Sussex County Council	143,900
Lewes District Council	639,800
Central Government	799,700
East Sussex Fire and Rescue	16,000
<b>Total</b>	<b>1,599,400</b>

## **12 Unallocated General Fund Reserve**

**12.1** The Council uses a risk-based approach to setting the level of General Fund Reserve Minimum.

**12.2** As a guideline the Council should keep a minimum level unallocated General Fund Reserve of £1m.

**12.3** This can be further analysed as:

<b>Risk</b>	<b>£</b>
Unforeseen emergencies not covered by the Bellwin Scheme, capital programme overrun and general requirements	500,000
Delays in savings and lower than expected income	400,000
General provision for service risks	50,000
Provision for contingencies to be used in accordance with Financial Procedure Rules	50,000
<b>Total Minimum General Fund Reserve</b>	<b>1,000,000</b>

The projected General Fund Reserve at 31 March 2017 is £1.5m.

### **13 Setting the Council Tax including the other preceptors**

- 13.1** The calculation of the overall tax requirement will be presented to Council on 25 February 2016, when all precept details will be known. The precept details for East Sussex County Council, East Sussex Fire Authority and Sussex Police Authority should all be available before Council meets.
- 13.2** At the time of writing this report, not all Town and Parish Councils had notified the Council of their precept requirements.
- 13.3** A schedule of the 2016/2017 Special Expenses is attached at Appendix G.

### **14 Report of the Chief Finance Officer (Director of Corporate Services)**

- 14.1** The Chief Finance Officer is the Council's principal financial advisor and has statutory responsibilities in relation to the administration of the Council's financial affairs (Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988).
- 14.2** The budget proposals before Cabinet have been prepared in accordance with the Council's policy framework and reviewed by Corporate Directors, Heads of Service, Lead Councillors and the Scrutiny Committee.
- 14.3** Prudent use of reserves is an appropriate measure to finance one off budgets.
- 14.4** The underlying earmarked reserves will continue to be replenished from annual contributions in the base budget.
- 14.5** The earmarked reserves are not used to fund the recurring base budget or to fund initiatives that will add to the recurring base budget.
- 14.6** The commentary within this report provides a framework for achieving a sustainable medium term budget position. The level of the Council's reserves, balances and provisions are adequate and prudent for the commitments within the Medium Term Financial Strategy.
- 14.7** Should the budget be adopted by the Council be materially unaltered then In the opinion of Chief Finance Officer, the estimates used to calculate the budget are robust and the levels of reserves are adequate.

### **15 Legal Implications**

- 15.1** The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.
- 15.2** Chief Financial Officers also have a duty to report on the robustness of estimates and adequacy of reserves under Section 25 of the Local Government Act 2003.

**15.3** Section 151, of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

## **16 Risk Management**

**16.1** A risk assessment in accordance with the Council's Risk Management methodology has been completed and the following significant risks and mitigating factors have been identified.

- (a)** Revenue Budgets – these have been compiled in accordance with the approved budget preparation guidelines, mitigating the risk that the budgets do not reflect likely expenditure needs or income levels. Cabinet will consider the estimates and recommend an overall budget to Council, having assessed the position in relation to its approved MTFS.
- (b)** The Council has adequate Reserves and Balances established as a mechanism to support the Council through its deficit reduction programme and preparing for the future.
- (c)** Further drops in income – the working balance and specific service reserves provide a buffer to absorb further falls in income and property related transactions in the short to medium term.
- (d)** As inflation begins to take effect there is every prospect that future pay settlements will follow a similar pattern. The Medium Term Budget Outlook anticipates inflation rates in line with national projections including pay and price movements through to 31 March 2020 and takes into account local circumstances.
- (e)** With the drop in world commodity and oil prices there is the potential for a deflationary period. In the worst case this could lead to negative investment interest rates and to a drop in income receipts that are driven by CPI formulae.

## **17 Equality Screening**

**17.1** This is a budget report for which detailed Equality Analysis is not required to be undertaken. The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports and it is not considered necessary to undertake an overarching analysis of the budget proposals as a whole.

## **18 Background Papers**

**18.1** Information on the Provisional Local Government Finance Settlement for 2016/2017 is available from this website:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2016-to-2017>

## **19 Appendices**

Appendix A – Medium Term Finance Strategy – Principles and Objectives.

Appendix B – The 2016/2017 General Fund Budget Summary.

Appendix C – Variations in recurring service expenditure 2015/2016 to 2016/2017.

Appendix D – Summary of Contributions to and use of Reserves

Appendix E – 2020 Savings Plan.

Appendix F – Medium Term Budget Outlook 2016/2017 to 2019/2020

Appendix G – Special Expenses 2016/2017

Appendix H – Society of District Council Treasurers response to Government Finance Settlement consultation