

NORTH DEVON COUNCIL

REPORT TO: EXECUTIVE
Date: 6 February 2017
TOPIC: REVENUE BUDGET 2017-18, CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL STRATEGY 2017-2021
REPORT BY: CHIEF FINANCIAL OFFICER

1. INTRODUCTION

- 1.1 This report notes the latest forecast position in the Performance and Financial Management Quarter 3 of 2016-17 reported separately on the agenda and the draft Budget for 2017-18. These figures will be the basis of the recommendation to Council on 22 February 2017 when the Council Tax levels for 2017-18 will be approved.
- 1.2 The Council has a legal duty to prepare a balanced budget and in order to achieve this position a number of pressures have been identified and assumptions made throughout the preparation process. Members are minded to consider whether to implement or amend these whilst taking into account the implications on the Council's overall financial position and the level of Council Tax for 2017-18 year.
- 1.3 The Council's Corporate Plan 2015-2018 was updated by the Executive and Full Council in January 2016. In taking decisions on the budget and Council Tax, Members will be mindful of the two key corporate objectives set out in the Plan, these being:
- Organisational Transformation
 - Growing North Devon
- 1.4 A significant theme running through the Corporate Plan is the need to continue achieving savings within the Council's budgets. Sitting alongside and supporting the Corporate Plan is the Council's Medium Term Financial Strategy (MTFS) which has been updated and is shown later in this report.
- 1.5 It is however pleasing to report that the Council has a good track record of delivering efficiencies and savings and is in good financial shape to meet this challenge.

2. RECOMMENDATIONS

2.1 The Executive:

- 2.1.1 Note the latest forecast for Budget 2016-17 and the proposed contributions to earmarked reserves.
- 2.1.2 Note the Chief Financial Officer's assurance on the adequacy of the reserves and the robustness of the budget in paragraph 5.1.4.5
- 2.1.3 Note the Chief Financial Officer's highlighted areas of risk identified within the budget process set out in paragraph 5.1.4.6 and section 5.3
- 2.1.4 Note the latest Medium Term Financial forecast for 2017-2021 as shown in section 5.1.5
- 2.1.5 Subject to approval of 2.2.4 below, that funds are released for the capital schemes listed in section 5.2.2

2.2 Recommend to Council:

- 2.2.1 That there be an increase of 2.98% in the level of Council Tax charged by North Devon Council for 2017-18 (in accordance with the revised referendum limit ability of £5.00 per Band D property) with a Band D Council Tax level of £172.86.
- 2.2.2 The actions identified in sections 5.1.2 to 5.1.4, which are required to ensure a balanced budget is achieved and therefore recommend to Council the approval of 2017-18 General Revenue Account Budget.
- 2.2.3 To adopt the Medium Term Financial Strategy 2017-2021 in section 5.1.5 as part of the Policy Framework.
- 2.2.4 The Capital Programme 2016-17 to 2019-20 as highlighted in section 5.2 be approved.

3. REASONS FOR RECOMMENDATIONS

- 3.1 The 2016-17 latest forecast is reported to ensure Executive maintain budgetary control for the rest of the financial year.
- 3.2 To ensure Executive has assurance on the financial standing of the Council and risks associated with the budgetary framework.
- 3.3 Decisions on the level of Council Tax need to be taken by Executive as part of recommending next year's budgetary framework for adoption by Council.
- 3.4 To ensure Executive have a savings plan in place to deliver the long-term financial strategy of the Council.
- 3.5 To ensure Executive control the performance improvement activities of the Council.
- 3.6 To ensure that future capital investment is available and targeted to the Council's priorities.

4. CONSTITUTIONAL CONTEXT

Article and paragraph	Referred or delegated power?	A key decision?	In the Forward Plan?
Part 3 Annexe 4	Executive delegated decision making	Yes	Yes
Part 4 Budget Procedure Rules	Executive delegated to formulate Budget	Yes	Yes

5. REPORT

5.1 Revenue Budget

5.1.1 Quarter 3 Forecast 2016-17

- 5.1.1.1 The Performance and Financial Management Quarter 3 of 2016-17 is also reported on the agenda. The current forecast is that the Council has a small net budget surplus of £0.002m against its budget.
- 5.1.1.2 This forecast takes into account an additional contribution of £0.060m which has been made to the Leisure Centre Replacement Reserve to fund an overall budget of £0.138m to secure outline planning consent and to prepare and tender a contract for the construction and future operation of the council's leisure facilities. This was approved as part of the Leisure Provision at Seven Brethren report to the Executive meeting in January 2017.
- 5.1.1.3 The original budget for 2016/17 included a forecast to achieve £0.250m worth of salary vacancy savings. The current position forecasts this saving will be exceeded this year; of which £0.352m has been identified at 31 December 2016.
- 5.1.1.4 Current projections indicate the cost of borrowing forecast at £0.460m, a small reduction on the budgeted cost of £0.490m. This cost includes both the interest payable on external borrowing and the authority making a 'minimum revenue provision (MRP)' to set aside repaying the principal on the borrowing need. The reduced cost of £0.030m is though offset by a similar reduction in the authority's interest receivable from investments. These movements are as a result of the recent changes in interest rates.
- 5.1.1.5 The Business Rate retention scheme was introduced in April 2013 which sees Billing authorities receive a 'baseline' funding but in

addition they are exposed to the risks and rewards of retaining a proportion of the income collected. This exposure is mitigated by participation in the Devon-wide pool.

- 5.1.1.6 Last year we achieved additional income of £0.954m and projections this year 2016/17 are indicating a net gain of some £0.996m. We prudently only built in £0.703m additional income growth into the base budget as these figures can fluctuate during the year. At 31 December 2016 we have assumed a lower additional income figure of £0.100m on top of the growth already factored into the budget.
- 5.1.1.7 The recommended level of general fund balance is 5%-10% of the council's net revenue budget (£0.597m to £1.194m). The forecast general fund reserve at 31 March 2017 is £1.161m, which is a level of 9.7%.

5.1.2 Budget 2017-18

- 5.1.2.1 Preparation of the 2017-18 budget began in the autumn of 2016 in order to consider the cost of known budgetary pressures and provide opportunity to consider the impact of proposed reductions.
- 5.1.2.2 The Government's Spending Review (SR2015) took place in November 2015, which announced local government facing further funding reductions nationally of some 53% over the period to 2019-2020.
- 5.1.2.3 In addition, it was also announced that by the end of this Parliament, local government would retain 100% of all business rates. However, until the finer detail on this funding change is announced we cannot determine the financial impact of this structural finance reform.
- 5.1.2.4 During the last spending review (2011-2015) the Council reduced its net budget by £4m. Whilst this was achieved without significant detriment to service provision it should be noted that the Council is now operating with some 125 fewer staff than it had 6 years ago, a reduction in the workforce of 26%.
- 5.1.2.5 The Council made the decision during 2016-17 to accept the Government's offer of a 4-year financial settlement through to 2019-20 year. This was confirmed by the Government in November 2016. By accepting the 4-year settlement helps the Council to plan ahead with greater certainty and to provide a financial platform to delivery upon our corporate plan.

5.1.2.6 The refreshed 4-year Medium Term Financial Strategy was approved this time last year (February 2016) and the forecast cumulative budget gap / (surplus) was shown as follows

Years	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Budget gap / (surplus)	0	(0.055)	0.180	0.402

5.1.2.7 The forecast for 2017-18 (at this time last year) was a small budget surplus of £55,000. Following a more detailed annual budget setting exercise mentioned in 5.1.2.1 there have been a number of movements to this forecast however I am pleased to be in a position to put forward a balanced budget for 2017-18 financial year.

5.1.2.8 A summary of the main budget movements for 2017-18 is as follows:

	£m	£m
Medium Term Financial Plan forecast for 2017-18	(0.055)	
Funding movement		(0.055)
Pension triennial valuation	0.275	
Removal of vacant posts	(0.190)	
Business rates (NDC properties)	0.050	
2 months less savings from W&R service changes	0.060	
Other (exp & inc movements less than £50k)	0.150	
Cost pressures & savings		0.345
Reduction in grants (paid out)	(0.070)	
Rural services grant (income)	(0.115)	
New homes bonus grant (income)	(0.050)	
Council Tax income	(0.124)	
Net movement in reserves	0.069	
Options to balance the budget		(0.290)
Balanced Budget for 2017-18		0.00

The Council's net budget for 2017-18 is £11.945m; a table outlining the summary Budget 2017-18 is attached as Appendix 1.

Details showing the proposed level of strategic grants for 2017-18 are in Appendix 2.

5.1.3 Budget 2017-18 Funding

- 5.1.3.1 There are three main sources for the Council to fund its net budget of £11.945m; direct government grants, Business rates and income collected from Council Tax payers.
- 5.1.3.2 The level of funding the Council receives for its share of the Council Tax bill equates to £5.710m.
- 5.1.3.3 The main grant received from Central Government is paid via the Local Government Finance Settlement.
- 5.1.3.4 North Devon has been provisionally allocated £3.622m, which is £0.561m (13.4%) less than the £4.183m allocated for 2016-17. The final settlement is due to be approved by Parliament in February 2017.
- 5.1.3.5 The balance of funding of £2.613m used to fund the Budget 2017-18 is as follows:

- New Homes Bonus of £1.143m, which is made up as follows:

	<u>Increase</u>	<u>Cumulative total</u>
Year 1 (2013/14)	£110,660	
Year 2 (2014/15)	£98,920	
Year 3 (2015/16)	£302,710	
Year 4 (2016/17)	£332,040	
Year 5 (2017/18)	£299,100	£1,143,430

- The government have reviewed New Homes Bonus and have made changes to reduce the legacy payments of the original scheme of 6 years down to 4 years from 2018-19; with a transitional year in 2017-18 of 5 years of payments. In addition to this, the scheme will now only be rewarding growth over a national baseline of 0.40%. These changes were anticipated when we were setting out the 2016-2020 Medium Term Financial Strategy and we had estimated New Homes Bonus reducing to £1.1m for the 2017-18 financial year.
- The government have awarded additional funding to support rural areas. The Rural services delivery grant awarded for 2017-18 is £0.250m.
- Business Rate retention growth of £1.220m. Last year (2015-16) we achieved growth above our baseline funding of £0.954m. Initial projections are forecasting a net gain in 2016-17 of £0.996m and 2017-18 of £1.423m. Exposure to the risks and rewards of the scheme are mitigated by participating in the Devon-wide pool. However, these figures can fluctuate

depending on how all the Local Authorities within the pool perform and we have prudently budgeted for a lower additional income figure of £1.220m for 2017-18.

5.1.4 Reserves

- 5.1.4.1 The Council started 2016-17 with earmarked reserves of £4.664m and a General Fund Balance of £1.161m.
- 5.1.4.2 The Performance and Financial Management Quarter 3 report of 2016-17, also on the agenda, provides an updated forecast position for reserves. It is currently forecast that the amount held in earmarked reserves will reduce to £3.252m and the General Fund Balance to remain at £1.161m as at 31 March 2017.
- 5.1.4.3 The Budget 2017-18 includes contributions to and (from) specific earmarked reserves. Appendix 1 summarises these reserve movements.
- 5.1.4.4 Appendix 3 details the forecast reserve balances for the period to 31 March 2018 and it is currently forecast that the amount held in earmarked reserves will be £2.667m and the General Fund Balance of £1.161m as at 31 March 2018.
- 5.1.4.5 In compliance with the Local Government Act 2003 the Chief Financial Officer assures Members of:
- The robustness of the estimates; and
 - The adequacy of the proposed financial reserves
- 5.1.4.6 The Chief Financial Officer would also like to draw Members' attention to the risks associated with Revenue and Capital budgets identified in section 5.3 below.

5.1.5 Medium Term Financial Strategy 2017-2021

- 5.1.5.1 Whilst preparing the Budget 2017-18 each Head of Service was tasked with preparing service plans covering 2017-18 and beyond. These plans have been through Overview and Scrutiny Committee in January 2017 and some of the 2017-18 revenue implications have been factored into the budget. The purpose of these plans is to ensure that the Council has a strategic approach to delivering the budget reductions expected as a result of the Government's austerity programme.
- 5.1.5.2 The Medium Term Financial Strategy (MTFS) was last considered by the Executive at its meeting on 2 February 2016. Council

approved the MTFS 2016-17 to 2019-20 at its meeting on 24 February 2016.

- 5.1.5.3 The MTFS underpins and provides the financial cornerstone of the Corporate Plan, which will shape the Executive's activities. It is good practice that the MTFS is refreshed on an annual basis to ensure that the Council's forward looking financial position is considered particularly in the current economic climate.
- 5.1.5.4 The MTFS model represents a view as of today based on numerous financial assumptions about the future, which are described in detail together with the risks associated with their volatility.
- 5.1.5.5 The MTFS looks at the changing financial situation of the Council over the future four financial years for 2017-18 to 2020-21. The starting position is the Budget 2017-18, which is rolled forward based on a set of assumptions.
- 5.1.5.6 The refresh of the MTFS has involved reviewing all previous assumptions in light of new and more current information. These changes reflect actual experience and additional information or remove unsafe assumptions. The main assumptions in the forecast are as follows:
- **Pay settlement.** The Government has indicated continued strict controls needed to minimise public sector pay. The budget for next year and the future years in the MTFS have assumed a 1% increase, which adds around £0.090m cost each year. The risk however is that a higher increase is agreed which would add further cost to what has been predicted.
 - **No further borrowing to fund capital expenditure.** The Budget 2017-18 and Treasury Management strategy includes borrowing costs of up to £0.598m and the MTFS assumes an additional £0.040m up to 2020-21 to cover current capital programme commitments. The model assumes no further borrowing is undertaken than currently committed to. If borrowing beyond this is considered a business case will be made outlining all the possible funding options.
 - **Additional legislative requirement will be funded by additional grant.** Under the new burdens doctrine the Department of Communities and Local Government (DCLG) provides additional grant funding, either as a specific grant or included in formula grant. It is also assumed that the grant will be sufficient to fund the additional costs.
 - **The move to Universal Credit has a nil effect.** The move from rent allowances to universal credit will see reductions in expenditure and grant income. It is assumed that we will make

sufficient savings to match the grant reduction. It is also assumed that there will be no significant impact on homelessness and prevention.

- **No impact from future changes to pensions.** There is an additional cost to be incurred when auto-enrolment is implemented in October 2017. This cost of £0.180m has been factored into 2017-18 and 2018-19 years on the assumption that all employees remain in the scheme ongoing. The impact from the recent triennial review of the pension scheme has already been factored into the 2017-18 base budget which sets out the authority's employer contributions for the next three years to 2019-20. The next triennial review of the pension scheme takes place in the autumn of 2019; the model has prudently assumed an increased cost for 2020-21 year based upon the cost impact from the recent review for 2017-18 onwards. However, if the actual results are in line with the assumptions recently made within the pension review then this impact should be lower.
- **Includes increases in the level of council tax per annum with effect from 2017-18.** This does not mean that the Council cannot freeze or amend the level of council tax, but the decision will be made as part of the budget consideration each year. However, the model assumes a rise each year, if a decision is made to not increase then this will produce a cumulative budget gap of £0.110m in each of the years the tax is not increased.
- **No impact from changes to council tax support or other council tax discounts.** The scheme has been based on a cost neutral model; however changes due to increased take up or loss of collection above that forecast would have a direct financial impact on the Council and its major preceptors. The scheme is reviewed as part of the quarterly performance and financial management report.
- **Additional income from the reform of business rates.** From 2013-14 the government allowed authorities to share in the benefit from growth in business rates, which amounted to £0.745m in 2014-15 and £0.954m in 2015-16. The latest forecast for 2016-17 is estimated at £0.996m. The MTFS forecasts a continued increase each year in line with proposed major development e.g Anchorwood Bank. All authorities in Devon with the exception of South Hams are entered into a pooling arrangement. This may enable a greater share of any increase to be retained, subject to growth across the whole pool.
- **No changes to formula funding methodology.** The Council made the decision during 2016-17 to accept the Government's offer of a 4-year financial settlement through to 2019-20 year. The MTFS has been extrapolated up to 2019-20 based on this

settlement and an assumption made on funding levels for 2020-21.

- **Use of New Homes Bonus.** The government have reviewed New Homes Bonus and have made changes to reduce the legacy payments of the original scheme of 6 years down to 4 years from 2018-19; with a transitional year in 2017-18 of 5 years of payments. In addition to this, the scheme will now only be rewarding growth over a national baseline of 0.40%. The MTFS has incorporated the estimated impact of the changes for future years through to 2020-21.

5.1.5.7 The refreshed MTFS model detail is shown in Appendix 4 and the forecast cumulative budget gap / (surplus) is shown as follows:

Years	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
Budget gap / (surplus)	0	0.138	0.317	0.555

5.1.5.8 The figures shown in the model are forecast and members should be mindful of the sensitivity of some of the figures incorporated; the following **sensitivity analysis** highlights how figures can change both upwards and downwards:

- A 1% movement on pay awards has an impact of £0.090m; the MTFS has factored in 1% each year therefore any variance to this will change the forecast
- No Council Tax rise is a cost impact of £0.110m in lost income on the base budget
- For every £1m extra borrowed (over a 10 year period) would be an additional annual cost to revenue budget of £0.120m

5.1.5.9 The major plans currently included within the MTFS to deliver the savings required in the short to medium term are:

- Implementation of approved changes to the garden waste and recycling services (June 2017) and inclusion in the Devon-wide saving sharing scheme with Devon County Council
- Continued vigorous vacancy management measures and on going reviews of the structure of the Council to determine whether posts can be removed without detrimentally impacting on the way the Council operates
- Reviewing external grants and all services provided by external partners through voluntary and contractual arrangements

- 5.2.7 The timing and realisation of capital receipts can be impacted by events beyond the control of the Council and we have been able to manage cash flows for projects through internal borrowing.
- 5.2.8 We also have authority to borrow from the Public Works Loan Board (PWLB) as outlined in the Treasury Management Annual Investment Strategy and the Council currently has external borrowing of £2m, of which £1.5m was undertaken during 2014/15 and a further £0.5m during 2016/17 to support capital expenditure.

5.3 Risk Assessment

- 5.3.1 Whilst formulating the budget proposals, risks to specific income and expenditure budgets were identified. During the course of the process assessments were made in respect of these risks. In light of the information that officers had available appropriate amendments were made to the budget forecasts where possible. Highlighted below are risks identified that could yet have a major impact on the Council's ability to achieve the Budget 2017-18.
- 5.3.2 **Government grants** – Parliament is expected to approve the funding allocated to Local Government in February 2017. The risk to 2017-18 is that it could be approved at different levels to that assumed in the Budget 2017-18, although the likelihood is unlikely due to the Council accepting the Governments offer of a multi-year settlement which was confirmed in November 2016.
- 5.3.3 **Income** from car parks, planning, sale of recyclable materials, commercial waste and investments are key areas of income, which have been detrimentally impacted since 2009 as a result of the recession. Whilst some areas such as car parks and recycling income have started to recover it remains difficult to predict when stability and, or any significant improvement will return to the economy and is therefore continues to be a source of major risk to the Council's Budget 2017-18. However, the budget estimates have been set prudently taking account of the latest 2016-17 forecast income levels.
- 5.3.4 **Capital receipts** – The Council faces two main risks in this area. The first is the fact that the Capital Programme is forecast to be funded from as yet unrealised receipts. The second is the ongoing value of receipts generated could be lower due to the economic situation. Both these factors could lead the Council to seek other sources of funding, such as increasing external borrowing and therefore add further borrowing costs to that already included in the 2017-18 budget.
- 5.3.5 **Savings plans** – Service plans have been approved and net savings been factored into the 2017-18 budget. To achieve the full financial benefit of the savings identified will require negotiation with supplier, partners and other organisations therefore there is a risk that the full benefit may not be achieved, or achieved within 2017-18 financial year.

- 5.3.6 **Increase in demand for services** – Demand for specific services has continued to increase during 2016-17. Homelessness prevention measures in particular have increased over the past couple of years. It is considered that in light of the current economic climate and general public sector budget cuts that this will continue through 2017-18, which will further impact the Council's budget.
- 5.3.7 **Localisation of council tax support** – The scheme has been approved for 2017-18 and has been based on a cost neutral model; however, changes due to increased take up or loss of collection above that forecast would have a direct financial impact on the Council and its major preceptors. The scheme will be reviewed as part of the quarterly performance and financial management report.
- 5.3.8 **Business Rates retention** – We are now exposed to the risk of lower collections, decline on the tax base and successful outstanding appeals. However this is mitigated by participating in the Devon-wide pool. The Council is also experiencing growth in Business rates income, which has been included in the financial plans.
- 5.3.9 **Welfare reforms** – The Government has embarked on significant changes to the welfare system, which includes changes to the amounts claimants are entitled to, consolidating different forms of benefit and payment methodology. These may generate risks both from increased demand for services and more directly on resources of the Council. There are still many aspects of the reform unclear, but the Council will continue to monitor progress and analyse the impact on our customers as well as the Council itself.

6. RESOURCE IMPLICATIONS

- 6.1 Included in the report.

7. STATEMENT OF INTERNAL ADVICE

- 7.1 The author (below) confirms that advice has been taken from all appropriate Councillors and officers.

8. STATEMENT OF CONFIDENTIALITY

- 8.1 This report contains no confidential information or exempt information under the provisions of Schedule 12A of 1972 Act.

9. BACKGROUND PAPERS

- 9.1 The background papers are available for inspection and kept by the author of the report.

Executive Members: Councillor Michael Harrison and Councillor Richard Edgell

Author: Jon Triggs, Head of Resources

Date: 25 January 2017