

CABINET

15 February 2016

Title: Budget Framework 2016/17	
Report of the Cabinet Member for Finance	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
Report Author: Kathy Freeman, Divisional Director – Finance	Contact Details: Tel: 020 227 3497 E-mail: Kathy.freeman@lbbd.gov.uk
Accountable Director: Jonathan Bunt, Strategic Director of Finance and Investment	
Summary: This report sets out the: <ul style="list-style-type: none">• Medium Term Financial Strategy (MTFS) for 2016/17 to 2020/21;• Proposed General Fund budget for 2016/17;• Proposed level of Council Tax for 2016/17;• Funding reductions to 2019/20• Financial outlook for 2017/18 onwards;• Draft capital investment programme 2016/17 to 20/21. <p>The General Fund net budget for 2015/16 is £151.444m and the proposed net budget for 2016/17 is £150.314m. The budget for 2016/17 incorporates changes in government grants, decisions previously approved by Members in the Medium Term Financial Strategy, savings approved by the Cabinet in October and December 2014 and other financial adjustments.</p> <p>Council Tax for 2016/17 is proposed to increase by £41.36 (3.99%) to £1,078.03 from its current level of £1,036.67 for a Band D property. The 3.99% increase is made up of 1.99% increase in Council Tax and an additional 2% charge for the Adult Social Care precept. The 2% precept will be ring-fenced for this purpose.</p> <p>The proposed draft capital programme is £492.072m for 2016/17 to 2020/21, including £312.217m for proposed HRA schemes. Details of the schemes included in the draft capital programme are at Appendix E.</p> <p>The Greater London Authority is proposing to reduce their Council Tax by 6.4% for a Band D property, reducing the charge from £295.00 in 2015/16 to £276.00 in 2016/17. The combined Council Tax bill will therefore be £1,354.03 for 2016/17, compared to £1,331.67 in 2015/16.</p>	

Recommendation(s)

Cabinet is asked to recommend the Assembly to:

- (i) Approve a base revenue budget for 2016/17 of £150.314m, as detailed in Appendix A to the report;
- (ii) Approve the adjusted Medium Term Financial Strategy (MTFS) position for 2016/17 to 2020/21 allowing for other known pressures and risks at this time, as detailed in Appendix B to the report;
- (iii) Delegate authority to the Strategic Director of Finance and Investment, in consultation with the Cabinet Member for Finance, to finalise any contribution required from reserves in respect of the 2016/17 budget, pending confirmation of levies and further changes to Government grants prior to 1 April 2016;
- (iv) Approve the Statutory Budget Determination for 2016/17 as set out at Appendix C to the report, which reflects an increase of 1.99% on the amount of Council Tax levied by the Council, plus a further 2% increase in relation to the Social Care Precept and the final Council Tax proposed by the Greater London Assembly (6.4%% reduction), as detailed in Appendix D to the report;
- (v) Approve the Council's draft Capital Programme for 2016/17 to 2020/21 as detailed in Appendix E to the report; and
- (vi) Approve the transfer of the one off collection fund surplus of £3.5m to the corporate redundancy reserve, as set out in section 2.11 of the report.

Reason(s)

The setting of a robust and balanced budget for 2016/17 will enable the Council to provide and deliver services within its overall corporate and financial planning framework. The Medium Term Financial Strategy underpins the delivery of the Council's vision of One borough; one community; London's growth opportunity and delivery of the priorities within available resources.

1.0 Introduction and Background

- 1.1 The purpose of this report is to seek agreement to the revenue budget for 2016/17 of £150,314m (£151.444m in 2015/16).
- 1.2 The report also sets out the Medium Term Financial Strategy (MTFS) for 2016/17 to 2020/21 and the Council Tax level for 2016/17.
- 1.3 As part of the budget setting process consideration has been given to the priorities set out in the existing Corporate Delivery Plan and how best these can be achieved with the resources available.

The vision is 'One borough; one community; London's growth opportunity'.

The three corporate priorities that support the vision are:

1. Encourage Civic Pride;
2. Enabling social responsibility;
3. Growing the borough.

2.0 Medium Term Financial Strategy (MTFS)

- 2.1 In February 2015, Assembly approved the budget for 2016/17 which included a £2.152m contribution from reserves as a one off measure with the deficit being rolled forward to 2017/18.
- 2.2 The 2016/17 budget incorporates savings of £12.855m as agreed by Cabinet in December 2014.
- 2.3 Following Assembly in February 2015, a number of amendments were made to the MTFS, including changes in funding assumptions and additional pressures being identified. A budget update report was presented to Cabinet in July 2015 which increased the estimated budget gap to £5.7m.
- 2.4 Provisional funding allocations for 2016/17 were announced in the Local Government Finance Settlement by DCLG (Department for Communities and Local Government) on 17 December 2015. At the time of writing this report, the final Settlement is yet to be announced.
- 2.5 For the first time in many years, DCLG announced a provisional four year settlement, giving councils the ability to plan with greater certainty for the future. DCLG will be requesting for Councils to formally accept the four year offer. Details of how to formally accept the offer are yet to be announced.
- 2.6 In previous years, reductions to local government funding have been calculated based on reductions of the revenue support and other central government grants. On this basis, the Medium Term Financial Strategy incorporated significant funding reductions of £36.8m to Revenue Support Grant (RSG) and top up grant. Following the provisional settlement, the funding reductions were £28.5m, £8.3m lower than previously forecast. In calculating the 2016/17 to 2019/20 settlement, the DCLG considered the relative ability of each council to generate income, through Council Tax and business rates retention and calculated the RSG on the overall funding for each council. Due to the Council having a relatively low Council Tax base and collecting less business rates than our level of need, our funding cut was lower in comparative terms compared to councils with a high Council Tax and higher ability to raise revenue from business rates.
- 2.7 Despite the change in DCLG's approach in calculating the funding reduction, it is nonetheless a substantial cut and the financial challenge faced by the Council over the next five years is still £63m.

Table 1 - Changes to funding in 2015/16 compared to provisional 2016/17 Settlement

Funding Source	Final 2015/16 £000	Provisional 2016/17 £000	Variance £000
Revenue Support Grant	45,429	36,690	-8,739
Top up grant	35,003	35,290	287
Education Services Grant	3,300	3,440	140
New Homes Bonus Grant	2,871	6,055	3,184
LCTS Administration Grant	346	346	0
HB Administration Grant	1,349	1,254	-95
Change in Government Funding	88,298	83,075	-5,223
Council Tax Precept	44,188	49,314	5,126
Retained NNDR Income	15,521	17,006	1,485
NNDR Compensation Grants	1,419	1419	0
NNDR Pooling Gains	300	0	-300
Council Tax Surplus	1,404	0	-1,404
Business Rates Surplus	314	-500	-814
Change in Local Funding	63,146	67,239	4,093
Total Change in Funding	151,444	150,314	-1,130

- 2.8 The reduction to the Council's core funding of Revenue Support Grant and Top up is over £8.4m. There was also a reduction in the Housing Benefit administration grant of £0.095m. The reductions were partially offset by increases in the New Homes Bonus which had increased due to an accelerated build of new homes in the borough and there being no London Enterprise Panel top-slice for 2016/17. Previous estimates had also been prudent due to government announcement casting doubt over the future of New Homes Bonus. The impact of these changes meant reductions in central government funding of £5.2m.
- 2.9 Due to a number of changes in the Council's local funding, the reduction in central funding was largely offset by growth in the Council Tax base in excess of £5m. The growth in the Council Tax base is made up of a large number of properties being built in the borough, as well as less support being provided to those previously in receipt of the Council Support Scheme. The position in earlier iterations of the MTFS was more cautious on the Council Tax base due to the impact of announced changes to tax credits.
- 2.10 The income retained through business rates has also increased in 2016/17. This is not due to business growth but is in relation to adjustments made to the appeals provision as claims are settled with the Valuation Office.
- 2.11 The estimated Council Tax and NNDR surplus accumulated from prior years is £3.5m, due to an increase of the number of properties in the borough, and a reduction of support provided through the Council Tax support scheme. It is important to note that the surplus is a cash surplus and would only benefit the Council for one year. Due to the Council having set a balanced budget for 2016/17,

it is recommended that the one-off Council Tax and NNDR surplus is transferred to the corporate redundancy reserve to mitigate the cost of severance and pension strain costs of early retirement costs. This is recommended as the Council has announced a voluntary redundancy scheme for staff as it seeks to make early savings towards the budget gap in the MTFs ahead of the Ambition 2020 programme.

- 2.12 In 2015/16 the Council received £1.419m in NNDR compensation grants for a number of reliefs the Government introduced since 2013/14 onwards. The relief also compensated Councils for the 2% inflation cap imposed by DCLG as rates were previously estimated to be uplifted in line with RPI (Retail price index inflation). No confirmation has been received regarding the NNDR compensation grant.
- 2.13 The above changes in funding have been incorporated in the Medium Term Financial Strategy, which is attached as Appendix B of this report. It is proposed that central provision of £1.27m is created to offset against any unannounced funding changes and changes in levies.
- 2.14 For the first time in many years, the Government have responded to the request of local authorities to provide certainty to enable better medium term financial planning. The Government will be requesting local authorities to accept the “four year offer”, with the view that councils who do not accept the offer will be given a one year settlement for 2016/17.
- 2.15 The table below captures the provisional 4 year settlement over the parliamentary period to 2019/20. In 2017/18, the New Homes Bonus starts to reduce as funds are re-directed towards the Improved Better Care Fund. Further details are yet to be announced in regards to how the Better Care Fund will operate, as the current Better Care Fund is pooled between Health and the Council, though there have been ministerial announcements that it is explicitly local government money. For this reason, the Better Care Fund has not been brought into the MTFs funding adjustments.

Table 2- Provisional Settlement 2016/17 to 2019/2. Estimated figures for 2020/21

Funding Source	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Revenue Support Grant	36,690	28,760	23,290	17,730	13,728
Top Up Grant	35,290	35,990	37,050	38,230	38,230
Education Services Grant	3,440	2,00	1,000	0	0
New Homes Bonus Grant	5,937	5,937	3,800	3,700	3,430
HB Administration Grant	1,254	1,154	1,054	1,000	950
LCTS Administration Grant	346	346	346	346	346
NHB Returned Funding	118	118	0	0	0
Government Funding	83,075	74,305	66,540	61,006	56,684

3.0 General Fund Revenue Budget 2016/17

- 3.1 The proposed budget for 2016/17 was initially approved by Assembly in February 2015 which incorporated savings agreed by Cabinet in December 2014 of £12.855m. This was then adjusted for items detailed in the approved MTFS and other adjustments made in accordance with financial regulations during 2015/16.
- 3.2 The Council Tax increase of 1.99% approved for the 2015/16 budget was the first increase to Council Tax in seven years. Withholding increases to Council Tax for such a long period of time has significantly reduced the overall income available for the Council. Although the Council did receive financial support through the Council Tax Freeze Grant, some of these grants were one off whilst the ongoing ones were rolled into the Revenue Support Grant and were subsequently reduced as RSG was cut. The Strategic Director of Finance and Investments has advised that Council Tax levels should increase to ensure that the Council's overall tax base is not eroded and proposes an increase of 1.99%.
- 3.3 In recognition of the pressures experienced by Adult Social Care nationally, DCLG have allowed councils nationally to introduce a 2% precept on their Council Tax to offset against the cost of Adult Social Care. The pressures of Adult Social Care are estimated in excess of £4m in 2016/17, so it is proposed that the Council increases Council Tax by a further 2% which will be ring-fenced to mitigate the pressures experienced by Adult Social Care.
- 3.4 Following adjustments to items set out in the MTFS and the pre-agreed savings, proposed Directorate budgets are provided in Appendix A and the Statutory Budget Determination for 2015/16 is set out in Appendix C of this report.
- 3.5 The proposed net budget requirement for 2016/17 is £150.314m and the details of how this is funded are set out in Table 1 of this report.
- 3.6 Details of the levies (Environment Agency, East London Waste Authority, Lee Valley Park, London Pension Fund Authority) the Council is required to pay in 2016/17 are yet to be confirmed. The budget includes an increased provision for the cost of levies of £0.626m in respect of the ELWA levy.
- 3.7 It is proposed that authority is delegated to the Strategic Director of Finance and Investments in consultation with the Cabinet Member for Finance to make the necessary adjustments using the funding provision or from reserves following confirmation of levy and final funding announcements.

4.0 Council Tax Requirement

- 4.1 As outlined in section 3 above, the Council proposes to increase Council Tax by 1.99% + 2% (£41.36) from £1,036.67 to £1,078.03 for a band D property.
- 4.2 The Greater London Authority has provisionally proposed a 6.4% reduction in its charge for 2016/17. The Council Tax charge would be reduced from the 2014/15 amount of £295.00 to £276.00 (Band D property).
- 4.3 The calculation of the proposed Council Tax for 2016/17 is shown in Appendix D.

4.4 Under the Local Government Finance Act 1992, Council Tax must be set before 11 March of the preceding year.

5.0 Financial Outlook

5.1 The Chancellor's Autumn Statement published on 25 November 2015 estimated the economy was expected to grow faster than forecasted last year in 2016, 2017 and 2018. Projections beyond 2018 remain the same.

Table 3 - Change in GDP forecasts between SR14 and SR15

	GDP 2014	GDP 2015	GDP 2016	GDP 2017	GDP 2018	GDP 2019
Autumn SR 15	2.90%	2.40%	2.40%	2.50%	2.40%	2.30%
Autumn SR 14	3.00%	2.40%	2.20%	2.40%	2.30%	2.30%

5.2 Future year's public sector expenditure is set to increase shown in the Resource Departmental Expenditure Limit (RDEL) which funds local authorities. In the Autumn Statement 2014, the forecast spend on the RDEL showed a decline of c£20bn from 2015/16 to 2017/18. The forecasts announced in the latest Autumn Statement shows a steady increase in the RDEL from £338bn to £348bn by 2018/19.

Table 4 – Change in Resource Departmental Expenditure Limit (RDEL) projected in the autumn statement

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn
RDEL SR15	338	343.7	345.8	348.6
RDEL SR14	339.1	321.8	310.6	n/a

5.3 Although there is not a direct relationship between RDEL and local government funding the RDEL is an indication of the expenditure levels of expenditure. The increase in the RDEL is not reflective of the increased funding to be made available to councils, but will reflect the additional income councils will generate through local funding such as Council Tax and business rates.

5.4 The increase in RDEL could also reflect the Government's plans to allow councils to retain 100% of business rates income. The Government plans to consult on their proposals on business rates over next few months.

6.0 Capital Programme

6.1 The Council is required to review its capital spending plans each year and set a capital programme. A key consideration when setting the programme is the projected level of available capital resources and the affordability of the overall programme, including the revenue cost of financing any debt.

6.2 The level of existing internal resources has been reviewed during the year and where relevant capital receipts and other capital reserves will be used to reduce the borrowing requirement of the approved programme in order to reduce debt charges on the Council's revenue budget. Officers will continue to review available capital funding and ensure that the capital programme is financed in the optimum way.

This includes provision for the Strategic Director of Finance & Investment to amend the source of funding for schemes if it is financial advantageous to do so.

Current capital programme

- 6.3 The Council's current capital budget for 2015/16, inclusive of the new Clockhouse Avenue / East Street land Purchase scheme (£3.180m), is £134.691m, and Directorates are currently forecasting to overspend against this by £6.8m. This will be financed by bringing forward and adjusting future year budgets accordingly.
- 6.4 The 2015/16 capital programme will be funded by £48.816 worth of capital grants, £40.730 of HRA/MRR funding, £0.119m of Section 106, £20.628 of capital borrowing, £1.477 of revenue/reserve contributions, and £22.920 of capital receipts.
- 6.5 The budgets for the following five years are draft and will still be subject to change as a result of budget roll-forwards from this year. A summary of these budgets is shown in the table below. The full list of schemes is included at Appendix E.

Table 7 – Capital programme 2014/15 to 2020/21

Capital Expenditure	2014/15 Actual £'000	2015/16 Approved £'000	2016/17 Proposed £'000	2017/18 Proposed £'000	2018/19 Proposed £'000	2019/20 Proposed £'000	2020/21 Proposed £'000
General Fund Capital Programme	67,250	53,198	105,769	69,740	2,856	878	612
HRA Capital Programme	78,544	81,493	79,059	56,070	63,128	57,960	56,000
Sub-Total (Operational Capital Programme)	145,794	134,691	184,828	125,810	65,984	58,838	56,612
Finance Lease & PFI Additions	25	54	69	88	96	112	144
Corporate Borrowing yet to be allocated to schemes	-	-	-	6,651	8,788	9,522	9,788
Total	145,819	134,746	184,897	132,550	74,868	68,472	66,544
Financed by:							
Capital Grant	47,723	48,816	63,206	49,906	-	-	-
Section 106	1,187	119	-	-	-	-	-
Revenue & Reserves Contributions	13,161	1,477	875	400	400	400	6,400
Capital Receipts	14,035	22,920	11,741	10,732	15,750	21,500	18,000
HRA / MRR	51,860	40,730	53,507	45,338	47,738	36,460	32,000
Sub-Total	127,966	114,063	133,390	106,376	63,528	58,360	56,400
Net Financing Requirement	17,853	20,683	51,507	26,174	11,340	10,112	10,144

Table 8 – Cost of In-Year Borrowing

Minimum Revenue Provision (MRP) (over 20 year life)	893	1034	2,923	1,136	567	506	500
Interest Payable (@3.5%)	625	724	2,046	795	397	354	350
Total	1,518	1,758	4,968	1,932	964	860	850

- 6.6 The two most significant areas of the capital programme are the provision of school places and housing. This reflects the needs of the borough in terms of dealing with a high birth rate and high level of migration into the borough. School expansion schemes are funded by Central Government (the Education Funding Agency), and the HRA programme is self financed by the HRA using a mixture of Government grants, capital receipts and HRA revenue funding. Therefore they do not pose a pressure on the General Fund, in terms of needing to borrow and servicing the cost of borrowing.
- 6.7 Another significant area of the programme is the Corporate Accommodation Strategy. This has a budget of £9.4m over the next two years and will rationalise the corporate office portfolio, which will enable future capital receipts and revenue savings to be realised.
- 6.8 In January Cabinet agreed a number of new schemes to be funded from corporate borrowing made available of £5m in 2016/17 and £10m in the subsequent years up until 2021, as per the provisions made available in the Councils Medium term Financial Strategy (MTFS). The main intention of this process was to enable the Council to meet its statutory and health and safety requirements. Therefore bids that fulfilled these purposes were prioritised and selected. This process was also primarily aimed at the services/schemes that do not attract external funding, for example to maintain corporate property and IT, roads and the environment.
- 6.9 The details of the new bids going forward at this stage are included in the Budget Strategy report that was presented to Cabinet in January. The £5m made available in 2016/17 has been fully allocated to schemes, but for subsequent years the funding has only been partially allocated, and therefore there will be further schemes put forward to Members to allocate the remaining funding. The new approved schemes as well as the corporate funding remaining to be allocated are included in the table above.
- 6.10 The Council also has a schedule of corporate sites and properties for sale (as presented to Cabinet in January 2015). This will generate additional capital receipts, which could be added to the corporate borrowing available for future years, and therefore will increase the remaining funding that directorates have to bid for. As part of this, the capital investment requirements of the Ambition 2020 programme will have to be considered. Once future bidding processes occur and new bids are put forward they will be presented for approval to Cabinet and added to the capital programme accordingly.
- 6.11 Other schemes that have external funding (e.g. government grants) can be added to the capital programme during the year and will appraised internally as and when such funding is allocated / received.
- 6.12 A draft capital programme for the following five years is presented for approval as amendments will be required after 1 April 2016 when further information becomes available.

Capital appraisal and monitoring arrangements

- 6.13 The Council has in place a capital appraisal process for new capital schemes. The appraisal process includes an analysis of the strategic fit of the scheme, options appraisal and key risks, financial implications, a detailed risk register, health and safety issues, and deliverability and key milestone issues. Only once a scheme successfully meets all these criteria can works commence.
- 6.14 The Council also has a capital monitoring system, which is primarily designed to ensure that projects are delivered within the timescales and within the budget approved by Cabinet. The capital programme is supported by the Capital Delivery Team and is monitored by Project Managers in consultation with the Finance Service.
- 6.15 An upgrade to the financial system ('Oracle R12') was implemented during 2014/15 and following this the Oracle Planning & Budgeting Cloud Service (PBCS) tool has been added this year. This has enabled improvements in the way officers are able to manage and report on capital projects. Project Managers can view the live financial performance of their schemes on their personalised 'dashboards', upload their forecasts directly into the system, and now automatically pass these forecasts along their approval hierarchy for approval. This has streamlined and made transparent the approval process within budget monitoring.

7.0 Consultation

- 7.1 A consultation on the 2015/16 and 2016/17 savings was carried out in the autumn of 2014. Details of the consultation are included in paragraph 5 of the Budget Strategy 2015/16 report that was presented to Cabinet on 16 December 2014. Local business rate payers have also been consulted as required by regulations and the final 2016/17 budget was considered by the Public Accounts and Audit Select Committee (PAASC) on 3 February 2016.

8.0 Financial Implication

- 8.1 Financial Implications have been covered throughout the report.

9.0 Legal Implications

Implications completed by Dr Paul Feild, Corporate Governance Lawyer

- 9.1 A local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. The current budget setting takes place in the context of significant and widely known reductions in public funding to local authorities. Where there are reductions or changes in service provision as a result of changes in the financial position the local authority is free to vary its policy and consequent service provision but at the same time must have regard to public law considerations in making any decision lawfully as any decision eventually taken is also subject to judicial review. Members would also wish in any event to ensure adherence as part of good governance. Specific legal advice may be required on the detailed implementation of agreed savings options. Relevant legal considerations are identified below:

- 9.2 Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, so for example if savings proposals will affect staffing then it will require consultation with Unions and staff. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet.
- 9.3 If at any point resort to constricting expenditure is required, it is important that due regard is given to statutory duties and responsibilities. In particular the Council must have regard to:
- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must be fulfilled or varied with agreement of current providers;
 - any legitimate expectations that persons already receiving a service (due to be cut) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
 - any rights which statute may have conferred on individuals and as a result of which the council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs statement of special educational needs in the education context);
 - the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
 - to any responses from stakeholders to consultation undertaken.
- 9.4 In relation to the impact on different groups, it should be noted that the Equality Act 2010 provides that a public authority must in the exercise of its functions have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant 'protected characteristic'. This means an assessment needs to be carried out of the impact and a decision taken in the light of such information.

Background Papers Used in the Preparation of the Report

Local Government Finance Settlement 2016/17
Autumn Statement 2015

List of appendices

Appendix A – Revenue Budget 2016/17
Appendix B – MTFS 2016/17 to 2020/21
Appendix C – The Statutory Budget Determination
Appendix D – Calculation of the Council Tax Requirement
Appendix E – Draft Capital Programme 2016/17 – 2020/21