

REDDITCH BOROUGH COUNCIL

EXECUTIVE COMMITTEE

2ND FEBRUARY 2016

MEDIUM TERM FINANCIAL PLAN 2016/17 – 2018/19

Relevant Portfolio Holder	John Fisher
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering (Exec Director)
Wards Affected	All
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

- 1.1 To enable Members to recommend the proposed budget for 2016/17 and to consider the impact of the financial settlement on the medium Term Financial Plan to 2018/19. .

2. RECOMMENDATIONS

2.1 The Committee is asked to RECOMMEND ;

- 2.1.1 the savings and additional income for 2016/17 of £619k
- 2.1.2 the revenue bids for 2016/17 of £10k
- 2.1.3 the Capital bids for 2016/17 of £1.220m
- 2.1.4 the unavoidable pressures for 2016/17 of £305k
- 2.1.5 the increase in Council Tax for 2016/17 of 1.9%
- 2.1.6 the transfer from balances of £598k

- 2.2 The Committee is asked to consider and comment on the future years Medium Term Financial Plan and approve the steps proposed to ensure the funding available meets the needs of the Borough over the next 3 years.

3. KEY ISSUES

Financial Implications

- 3.1 The Council receives a proposed financial settlement on an annual basis from Central Government. Over the last few years the element of the funding allocated that relates to the Revenue Support Grant (RSG) has been reducing and the grant for 2015/16 is £1.567m.
- 3.2 Following announcements made in the Autumn Statement the Council was expecting this RSG to reduce to zero by the end of the Parliament ie 2019/20. Officers were considering plans to address this shortfall in revenue to ensure that a sustainable approach to the delivery of services was in place. Over the last few years the Council has taken every opportunity to deliver savings to meet the reduction in

Government funding to include sharing of services with other Councils and looking to transform our services to our community. Savings of £1.5m per annum have been realised from these initiatives whilst increasing balances to £1.9m and officers are continuing to review services to improve the offer to our residents whilst delivering savings.

- 3.3 The Provisional Settlement was received in late December and contained more detail on funding allocations. The funding allocations have changed from 2016/17 and therefore the Revenue Support Grant will disappear for Redditch earlier than anticipated and by 2018/19 will only be £40k with payments to Government (negative grant) being made by 2019/20 of £330k.
- 3.4 In previous years the funding reductions have been calculated on the Business Rates Baseline together with the Revenue Support Grant. The Baseline Funding Level is the amount the Council retains from the £39m collected from Business Rates within the Borough. The following table shows the total funding received from Government in 2015/16.

2015/16	£m
Baseline Funding Level	2.003
Revenue Support Grant	1.578
TOTAL FUNDING RECEIVED (Settlement Funding Assessment)	3.581

- 3.5 From 2016/17, the Government has proposed changes to the way cuts are implemented. A new calculation called 'Core Funding' is to be used as the basis for reducing the funding given to the Council from Central Government. The Core Funding now includes the Council Tax Requirement (Council Tax Revenue) from 2015/16 together with the Settlement Funding Assessment (as detailed in 3.4) .For Redditch, the Core Funding was worth £8.978m in 2015/16.

2015/16	£m
Settlement Funding Assessment	3.581
Council Tax Requirement	5.397
CORE FUNDING	8.978

- 3.6 It is proposed that between 2015/16 and 2019/20, uniform annual cuts are to be applied to each tier of local authorities' Core Funding. Over this four year period, the cumulative cut to lower tier services (Borough) will be 19.2%. This results in the new Core Funding Assessment to be £7.254m.

	£m
Settlement Funding Assessment 2015/16	3.581
Council Tax Requirement 2015/16	5.397

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Core Funding 2015/16	8.978
Cumulative Reduction	-19.2%
CORE FUNDING 2019/20	7.254

- 3.7 If Core funding for 2019/20 is £7.254m the Settlement Funding Assessment for Redditch (funding to be received from Government) is £1.857m. This is due to the income from Council Tax being taken as part of the Core Funding.

	£m
Core Funding 2019/20	7.254
Less - Council Tax Requirement	-5.397
SETTLEMENT FUNDING ASSESSMENT	1.857

- 3.8 Once the Settlement Funding Assessment falls below the amount the Council retains from Business Rates which would equate to £2.187m in 2019/20 the Council is then in the position to return funding to Government. In 2019/20 this is assessed to be £330k.

	£m
Business Rates Baseline 2019/20	2.187
Settlement Funding Assessment 2019/20	1.857
PAYMENT TO GOVERNMENT	0.330

- 3.9 It is clear that this new methodology for determining authorities' Revenue Support Grant (RSG) allocations takes into account individual authorities' council tax raising ability and the type of services provided. This is a significant change in the methodology and would appear to favour social services authorities, with significantly larger funding reductions for district councils. It reduces government funding assuming optimistic increases in housing growth and council tax increases and may prove to be unrealistic. Central government intend for local government to be able to spend the same level by the end of this Parliament in cash terms as it does today – therefore a real terms reduction.

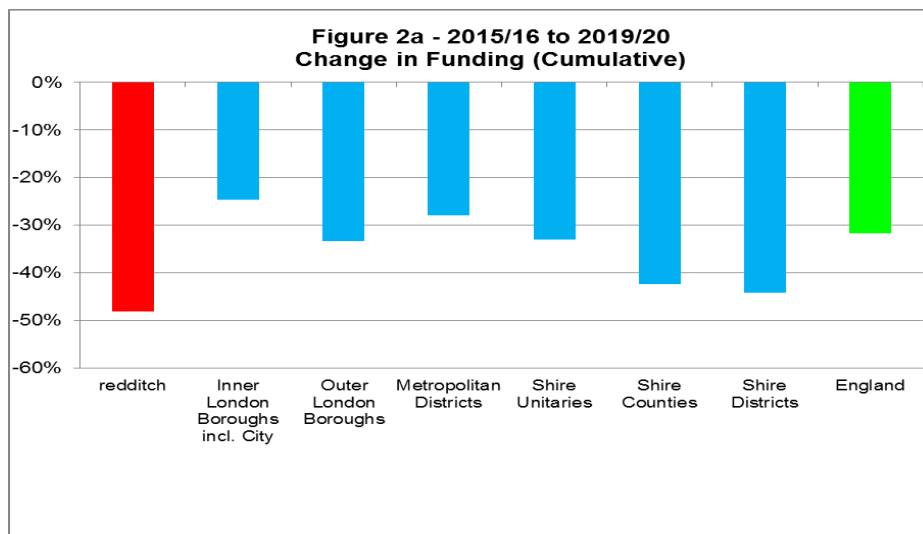
- 3.10 The table below reflects the reductions to RSG funding for Redditch based on the Grant received in 2015/16 .

£000's	2015/16	2016/17	2017/18	2018/19	2019/20
Redditch <i>Cumulative Reduction</i>	1,567	900 (-43%)	360 (-77%)	40 (-97%)	-330 (-121%)

3.11 As Members are aware there were indications in the Summer that the RSG would be withdrawn in full over the next 4 years. An assessment had been made of this loss within the financial planning however the front loading of the grant had not been anticipated. The following illustrates the impact of the settlement on council, the loss of RSG over the next 4 years up to and including 2019/20 compared to previous forecasts.

Revenue Support Grant	Medium Term Financial Plan Assumption	Settlement December 2015	Reduction to Financial Plan Assumptions
	£'000	£'000	£'000
2016/17	1,499	900	-599
2017/18	1,424	360	-1,064
2018/19	700	40	-660
2019/20	350	-330	-680
Total	3,973	970	-3,003

3.12 The £3m shortfall in funding relates to that compared with the original budget assumptions. It is worth noting that the £3m loss increases to £5m should real terms inflation be added to the base position for 2015/16. The graph below shows the impact of the significant funding reductions over the 4 year period for Redditch compared to other Councils.



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- 3.13 The Council Tax Discount Scheme funding which was included into the Revenue Support Grant in 2013/14 will also disappear and therefore all funding for Council Tax Support will have to be met by the Borough.
- 3.14 The other element of significant income to the Council is New Home Bonus. The Government have stated that this fund will continue on the current basis for 2016-17. The position beyond 2016-17 is not yet confirmed as it is subject to consultation although it will continue albeit on a reformed basis.
- 3.15 The level of New Homes Bonus for 2016/17 is £1.1m. Based on projections included within the consultation paper the following table shows the impact of the reductions in New Homes Bonus that may face the Council depending on the final scheme implemented.

£000's	2017/18	2018/19	2019/20	2020/21	Total
Redditch	295	493	622	688	2,098

- 3.16 The consultation also include proposals to reduce New Homes Bonus (NHB) where there is no local plan, where homes have been allowed on appeal or where the growth would have occurred anyway.
- 3.17 The consultation on what proposals for the move to 100% business rates retention may look like is expected to be issued in June 2016. This may be of benefit to Redditch but with anticipated appeals on Business Rates and limited information available on the proposals it is difficult to assess the impact of the financial plan.
- 3.18 As part of the financial statement information there was confirmation that Councils could take up a four year deal to ensure stability across the financial plan. There was indication that an efficiency statement would have to be provided to secure this agreement but the details of format or monitoring arrangements of the efficiency arrangements have not yet been released. Further reports will be brought to members for consideration once the details are available.
- 3.19 Other key elements of the Provisional Settlement and Autumn Statement so far as it relates to local government are:
- **A social care council tax 'precept'** of 2% will allow councils responsible for delivering adult social care such as Worcestershire County Council to raise up to £2 billion a year by 2019-20. Local authorities will be given this additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care. This is a new power for relevant councils to increase council tax to specifically pay towards social care in their areas;

- **An extra £1.5bn for the Better Care Fund** by the end of the Parliament – more information needed to understand the impact of this;
- The extension of **Small Business Rate Relief** to continue for another year – this is good news for local businesses and for our Business Rates Accounts;
- “Local authorities running education to become a thing of the past, delivering £600m savings to Education Services Grant”;
- Plans to build an additional 400,000 affordable homes by the end of the decade.
- An apprenticeship levy will be introduced in April 2017 at a rate of 0.5% of an employer’s pay bill, to deliver 3 million apprenticeship starts by 2020. This is estimated to cost this Council around £30k (General Fund) and £17k (HRA) pa from 2017-18.
- Over £500 million by 2019-20 for the Disabled Facilities Grant to fund up to 85,000 housing adaptations pa. More detail on this proposal is needed to fully understand the impact of this change;
- **Homelessness** - increased funding of £10m available to invest in innovative ways of preventing and reducing homelessness. More detail on this proposal is needed to fully gauge the impact;
- Restrictions on **shared ownership** to be removed and planning system reformed to deliver more homes;
- Real-terms protection for the police budget.

3.20 Some further interesting points were included:

- Proposal to reform services and make them more efficient. A package of new flexibilities will be introduced to encourage local authorities to **release surplus assets**. Local authorities will be able to spend 100% of their fixed asset receipts investing in making services more efficient (local authorities currently hold £225 billion in assets). Under this guidance councils will be able to use new capital receipts from April 2016 to March 2019 to pay for the revenue set up costs of projects that are designed to make revenue savings. It will be for individual local authorities to decide if a project qualifies. In order to qualify, councils will be required to prepare an annual efficiency strategy listing all qualifying projects and this strategy, and any variations to it, will need to be approved by full council.
- It is proposed that the regime of referenda for “excessive” council tax increases will continue at the current rate of 2 percent. Council’s are asked to be mindful of prevailing inflation rates when considering increases and the DCLG have confirmed that there is no council tax freeze grant offer for 2016-17. This does not affect past allocations which are locked into the revenue settlement.

- 3.21 The impact of the settlement and in particular the speed that the RSG is reducing compared to that originally anticipated, together with the uncertainties around the New Homes Bonus funding will make it difficult to identify all the savings required to balance the financial position over the medium term.
- 3.22 A response to the proposed settlement has been sent by the Council and is attached at Appendix 1.
- 3.23 In light of the financial pressures facing the Council a full review of all expenditure and income generated has been undertaken by officers to ensure that only essential spend in delivering services is incurred which will give the Council the ability to increase balances to support the pressures over the next 4 years.
- 3.24 As part of this exercise officers have identified a number of financial unavoidable pressures that they have raised as impacting on their ability to deliver their service against the proposed budgets for 2016/17. In addition they have proposed savings or additional income generated and capital bids for projects and replacement of equipment.
- 3.25 The savings and additional income include:
- General review by managers of all budgets to identify where expenditure budgets can be released to support the financial plan
 - Further savings from the Place review within Environmental Services
 - Funding from earmarked reserves of associated expenditure
 - Significant income generated from the crematorium. As Members are aware the improved facilities will increase income whilst presenting an enhanced environment to the public and funeral officials
- 3.26 The identified unavoidable pressures include:
- The financial cost associated with the increase in properties in the Borough and therefore the additional refuse staffing required
 - The financial cost of the reductions in supporting people funding and the potential loss of the Early Help contract due to commissioning
 - The cost associated with retaining the fraud team within the Council to support identification and prosecution of fraud for the remaining services to be undertaken by the Council following the housing benefit fraud work being transferred to the DWP

- The shortfall in income following Members decision to defer the alternative model of service delivery in Leisure whilst a full review of customer demand and value is undertaken

3.27 The Capital bids proposed include:

- Purchase of a new refuse vehicle to address the additional demand on the service from the new properties in the Borough
- Improvements to the gym equipment and the dance studio at the Abbey Stadium
- Flood mitigation works

In relation to funding of the Capital Programme from borrowing; the Minimum Revenue Provision (MRP - statutory element of the funding calculation)will be determined by charging the expenditure over the expected useful life of the relevant assets. This will be the principal annuity with an annual interest rate of 4% starting in the year after the asset becomes operational. This is a change from previous years, where MRP was charged in equal instalments over the useful life. This change has come about in order to recognise the time value of money, resulting in less charge in early years, rising as time goes on

3.28 Clearly the impact of the reduction in RSG and the proposed unavoidable pressures have resulted in a financial position that is worse than that originally anticipated and officers have therefore considered all elements of funding to achieve a balanced budget for 2016/17. It is proposed that a number of actions are undertaken to achieve a balanced financial position over the financial plan period and reports will be presented to members during 2016/17 to identify how the shortfalls in future years can be met.

3.29 It is proposed that officers undertake a comprehensive exercise of mapping all demand that is met by the Council. This will involve an full analysis of the associated costs and the value to our residents and community in how we achieve the demand. This will enable the Council to address services across a matrix of cost / demand and value and to focus on those areas whereby high cost / low value/ low demand can be explored further. This would provide opportunities to work with other stakeholders or to enable the Council to decide if a service provided really gives value to both the Council and the community. It is anticipated that further savings and reductions in costs can be realised from this exercise.

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3.30 The 3 year financial summary, including the reductions in grant and the proposed pressures and savings is shown overleaf;

REDDITCH 2016/17-2018/19			
	2016-17	2017-18	2018-19
	£000	£000	£000
Departmental Expenditure (Starting Position)	10,717	10,593	10,593
Incremental Progression/Inflation on Utilities	10	221	559
Unavoidables	305	364	370
Revenue Bids/Revenue impact of capital bids	10	10	10
Savings and Additional income	-619	-522	-531
Net Service Expenditure	10,424	10,666	11,002
Investment Income	-494	-494	-495
Cost of Borrowing	835	1,014	994
Recharge to Capital Programme	-505	-505	-505
Net Operating Expenditure	10,260	10,681	10,996
Funding from reserves	0	0	0
Revenue Support Grant	-900	-360	-40
Business Rates Retention (Baseline Funding)	-2,020	-2,060	-2,120
Business Rates Growth	0	0	0
Funding from Business Rate Pool	0	0	0
New Homes Bonus	-1,126	-1,154	-695
New Homes Bonus Community Scheme	0	0	0
Collection Fund Surplus (Council Tax)	-104	0	0
Council Tax	-5,574	-5,725	-5,932
Other Grants	-16		
Admin Subsidy Grant Reduction	101	127	167
Business Rates Growth	-50	-50	-50
Parish Precept	8	8	8
Transfer from Balances	-579	0	0
Funding Total	-10,260	-9,215	-8,663
Shortfall	-0	1,466	2,333

3.31 Should the budget projections for 2016/17 be approved the balances will reduce to £1.3m which remains at £550k above the minimum level that is set by the S151 Officer .

Service / Operational Implications

- 3.32 The pressures as identified will ensure that services are delivered to the community. The additional cuts to RSG will need to be addressed to ensure that quality of service provision is maintained in the Borough.

Customer / Equalities and Diversity Implications

- 3.33 Undertaking a comprehensive review of the financial cost and the value of the demand on all the Councils services will ensure that all customers needs will be identified to enable members to make informed and considered judgements about the budget over the financial plan.

4. RISK MANAGEMENT

- 4.1 To mitigate the risks associated with the financial pressures facing the Authority regular monitoring reports are presented to both officers and Members to enable proactive action being undertaken to address any areas of concern.

5. APPENDICES

- Appendix 1 – response to Settlement
- Appendix 2 – Proposed Savings
- Appendix 3 – Proposed revenue bids
- Appendix 4 – Proposed Unavoidable pressures
- Appendix 5 – Capital Bids

AUTHOR OF REPORT

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