


Agenda Item No:	6	
Committee:	Overview and Scrutiny Panel	
Date:	18 January 2016	
Report Title:	Draft Medium Term Financial Strategy and General Fund Budget 2016/17	

Cover sheet:

1 Purpose / Summary

To consider and make any appropriate recommendations to Cabinet on:-

- the draft Medium Term Financial Strategy, General Fund Budget 2016/17 and Capital Programme 2016-2019 for consultation;
- the revised General Fund Budget and Capital Programme for 2015/16.

2 Key issues

- The provisional Local Government Finance Settlement for 2016/17 was announced on the 17 December 2015, and as expected reduces the Council's Settlement Funding Assessment (government general grant plus business rates). The announcement confirmed a reduction of 14% (£859k) for 2016/17, an increase from what was in the December Cabinet report.
- Further significant reductions are forecast for 2017/18 onwards based on the Local Government Finance Settlement illustrations. **Consequently, until more details for future years have been received and the announced reforms to Local Government Finance are implemented, the figures detailed in this report should be treated with caution.**
- The settlement also included reference to four year financial settlement agreements with the Department of Communities and Local Government if the Council produces an Efficiency Plan for this period. No clear details have been set out to what an Efficiency Plan should include, however the Council's statutory requirement of a Medium Term Financial Strategy and Fenland's Comprehensive Spending Review should assist in meeting these requirements.
- It is proposed that Council Tax will increase by 1.9% in 2016/17 and over the medium term.
- Referendum limits have been announced at 2% for District Councils (or 5% if you have lowest quartile council tax levels).
- The settlement announcement means that for 2016/17, an additional £145,000 of savings will be required. However, £680,000 of the savings target of £968,000 for 2016/17 has been achieved to date. The remaining £288,000 has been identified and will be implemented during the current budget setting process.
- For the period 2017/18 – 2019/20 savings of around £2.212m will be required. These are based on the settlement illustrations set out in the announcements on the 17 December 2015 and consequently, forecasts for these years should be treated with caution.

- The review of the New Homes Bonus allocations are likely to have a significant impact on the Medium Term Forecasts from 2017/18 and have estimates of the impact of this been built into the forecasts based on the reforms announced for consultation on the 17 December 2015.
- The Spending Review announcements signalled a re-balancing of local government funding towards upper-tier authorities with responsibility for social care (though not to Shire Counties). This has also had a detrimental effect on the Medium Term Forecasts and is built into the figures provided in the settlement.
- There has been real business rates growth in the district during the last two years which are forecast to provide additional resources for 2016/17 and thereafter. These forecasts are however subject to some volatility as business rates can be subject to significant in-year variations.
- Revised estimates for 2015/16 are projecting an under-spend of around £560,000. This is mainly the result of one-off items as detailed in paragraph 2.5. This is also consistent with the Key Budgetary Control Information reports received by members during this year.
- Proposals to transfer the projected under-spend in 2015/16 to The Pilots' National Pension Fund reserve to provide funding towards any future additional liabilities.
- An updated Capital Programme for 2015/16 and for the medium term 2016-19 is proposed.
- The Fenland Comprehensive Spending Review is ongoing and will help identify and deliver projects to meet the savings challenge over the period of the Medium Term Financial Strategy.
- Given the scale of the challenges faced by the Council, the financial forecasts represent a considerable achievement and demonstrates the focus from Members and Officers throughout the Council in delivering the required savings.
- The Council continues to focus on delivering quality services and to minimise the impact on front-line services.
- The Spending Review and Autumn Statement was announced on 25 November 2015 and the Local Government Finance Settlement for 2016/17 was announced on the 17 December 2015.

3 Recommendations

- It is recommended that Members consider and make any appropriate recommendations to Cabinet on:-
 - (i) the draft budget proposals for 2016/17 outlined in this;
 - (ii) the revised estimates for 2015/16;
 - (iii) the projected under-spend for 2015/16 as detailed in paragraph 2 be transferred to The Pilots' National Pension Fund reserve;
 - (iv) the revised capital programme be approved.

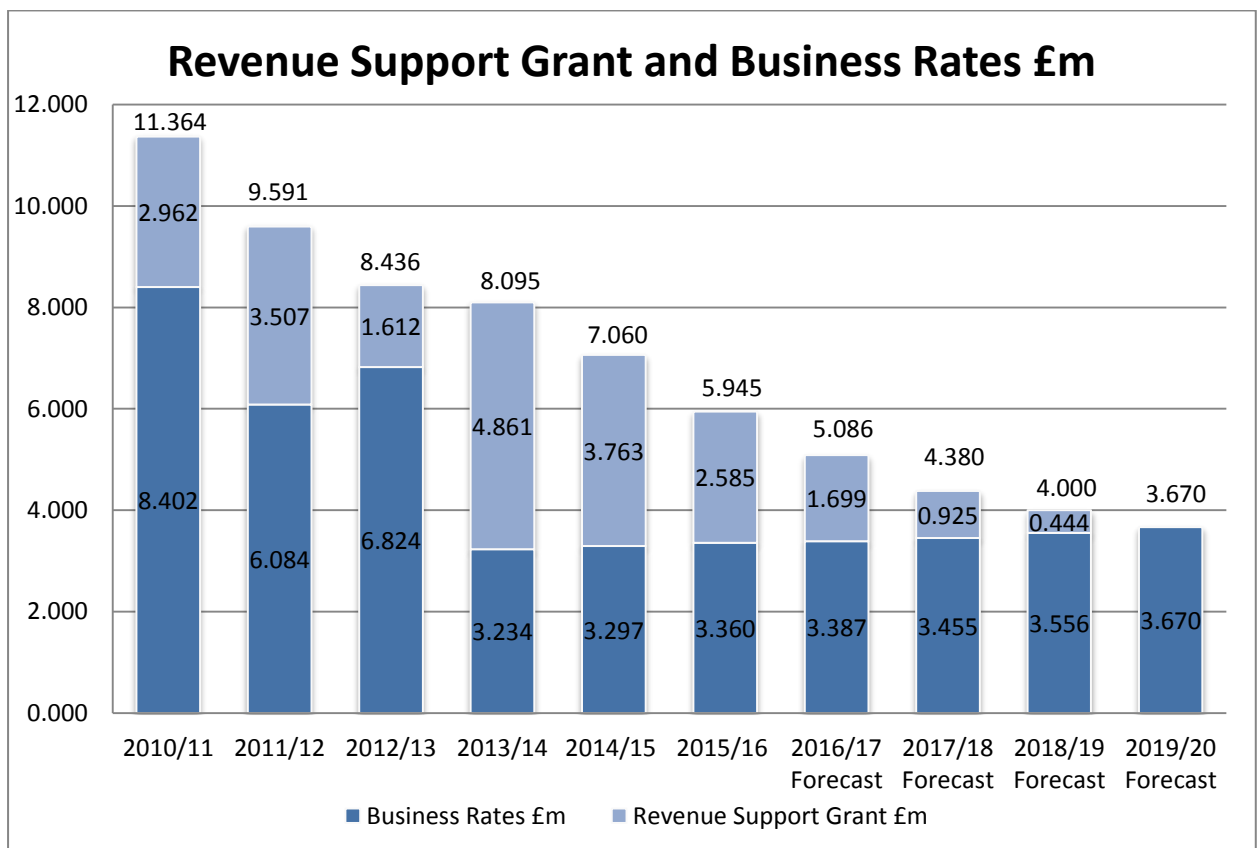
Wards Affected	All
Forward Plan Reference	
Portfolio Holder(s)	Cllr John Clark, Leader Cllr Chris Seaton, Portfolio Holder, Finance

Report Originator(s)	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Provisional Finance settlement – Department for Communities and Local Government (DCLG). Spending Review and Autumn Statement 2015 (HM Treasury) Medium Term Financial Forecasts working papers. Government announcements since February 2015.

Report:

1 Introduction

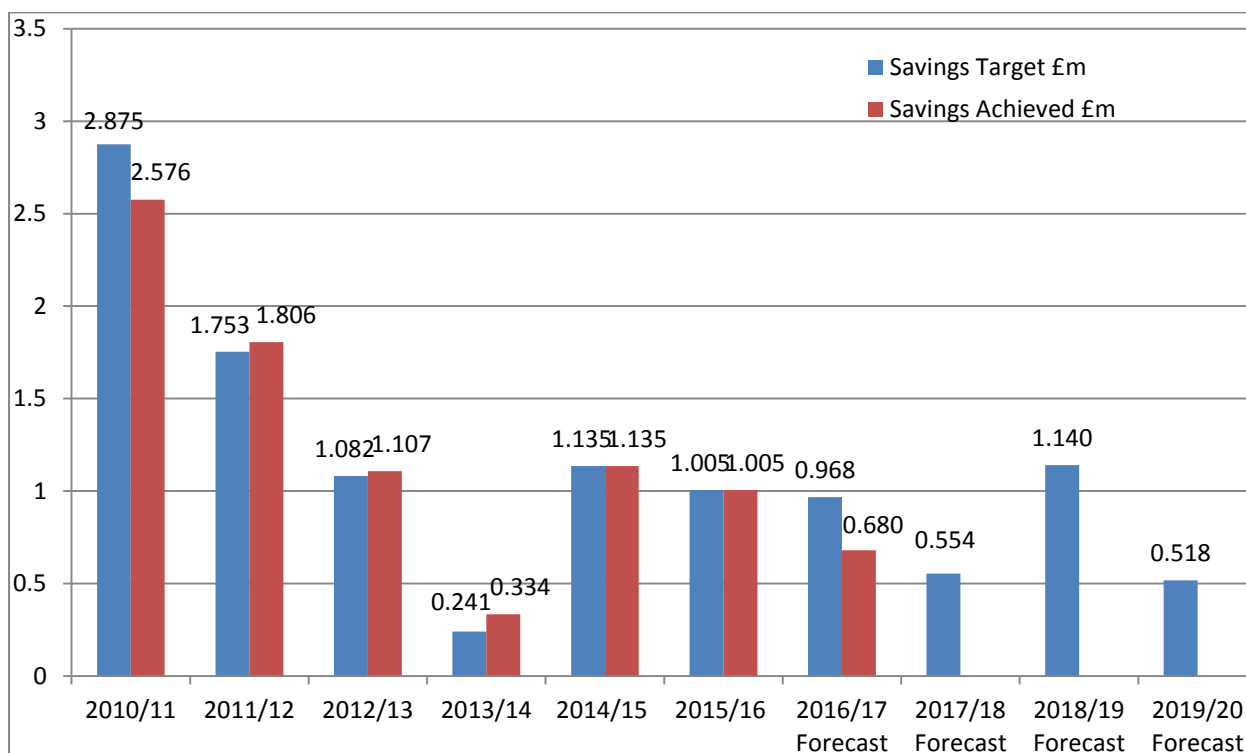
- 1.1 This report sets out the financial implications of the council's priorities described in the draft Business Plan 2016 – 2019. Revenue estimates are draft at this stage and along with the draft Business Plan will be subject to public and stakeholder consultation prior to final budget and council tax levels for 2016/17 being set in February 2016.
- 1.2 Much of the financial information provided is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. Some of these factors, such as the final level of external grant support and the level of Government set fees, will not be known until later in the process and any amendments will be reported to Cabinet and Council at the February 2016 budget meeting.
- 1.3 In addition, the Local Government Finance Settlement for 2016/17, the Spending Review and Autumn Statement 2015 (see paragraph 3 below) and the continuing challenging economic climate means the Council needs to produce a robust strategy for the future to meet these challenges.
- 1.4 Local Government has been at the forefront of the austerity measures introduced by the government following the General Election in 2010, to reduce the national deficit. This Council has seen significant grant reductions since 2010 and by the end of 2015/16 we will have delivered over £8m of savings. This is exemplified in the graphs below:



(Note: The new Business Rates Retention system was introduced in 2013/14. Prior to that, the government used a different formula to calculate the allocation of business rates. Consequently, the split between business rates and RSG for these years could vary considerably between years, although the overall allocation reduced significantly. Since 2013/14, the graph shows the continuing trend of reducing RSG, within an overall reduced funding allocation, until it is phased out completely in 2019/20 with the introduction of 100% business rates retention).

Revenue Support Grant (RSG) and Business Rates will have reduced by 54% between 2010/11 and 2016/17, with forecast reductions of 14% per annum for the next two years, a 9% reduction in 2018/19 years as RSG is phased out, reducing to zero in 2019/20 as part of the government's strategy for local government to keep 100% of business rates revenues by the end of this Parliament.

The following graph illustrates how successful the Council has been in delivering the required savings targets over the last 6 years. With the exception of 2010/11, where as a result of the emergency budget following the general election, substantial reductions in government grants were announced in year (this Council's savings target increased by £1.525m in the year, of which £1.226m was achieved, a significant achievement), the savings targets have been met in every year.



During these years, Members have been very clear, that where possible, front line services should be protected. The Council's strategy of identifying savings 12 months in advance of the financial year has led to the successful delivery of the required savings targets and means the Council are in a good position to meet the challenges of 2016/17 and beyond. These savings have been achieved through a number of ways, such as Management and Service reviews, shared services, procurement and income generation.

2 Revised Estimates 2015/16

- 2.1 As part of the budget setting process for 2015/16, approved by Council on 26 February 2015, £1.005m of savings were required in order to achieve a balanced budget.
- 2.2 As reported during the course of this year through the monthly monitoring reports to all Members and at previous Cabinet meetings, the required savings for 2015/16 have been identified and implemented. In addition, significant progress has been made towards identifying the required savings for 2016/17.

- 2.3 Significant organisational efficiency changes have been implemented in Environmental Services (Support Team), Human Resources, ICT, Legal Services, Markets and Events, Accountancy, Customer Access, Environmental Health, Post and Reprographics, Marine Services and Corporate Management Team. These together with other efficiency changes, for example the full year effects of both the Revenues and Benefits service joining Anglia Revenues Partnership (ARP) and the transfer of the Building Control team to CNC, part year savings from the Shared Planning Service with Peterborough City Council and higher retained income from business rates from additional growth have enabled the savings target to be met for this year with significant contributions towards the savings target for 2016/17.
- 2.4 Given the size of savings required, this is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.
- 2.5 The latest revised estimates for 2015/16 are set out at Appendix A for approval. The current estimate for net expenditure is £12.553m, which means that there is forecast to be a surplus of £561k by the end of this year. This is mainly a result of the Council receiving a significant refund of business rates mainly at the Port (£104k), higher than anticipated planning fees (£95k) and RTB/VAT sharing income from Roddons (£180k) together with higher than anticipated retained business rates income (£186k). The forecast surplus has arisen due to the above mainly one-off adjustments which could not have been predicted when the budget was set. In addition, the level of the projected surplus could change between now and the end of the year due to the volatility of some income streams.
- 2.6 At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure where possible, this position is maintained at the year end.
- 2.7 Members will be aware of the Council's current and potential future liability to The Pilots' National Pension Fund. In June 2015, Cabinet agreed, as part of the 2014/15 outturn proposals, to make a contribution of £500,000 to a new Pilots' National Pension Fund Reserve to provide funding towards any future liability. Although officers are continuing to explore options to minimise the Council's future liability, it is considered prudent to transfer the projected surplus for 2015/16 (detailed in 2.5 above) to this reserve.
- 2.8 Consequently the General Fund Balance is forecast to remain at £2.386m at the end of 2015/16.

3 **Government Spending Review – Autumn 2015**

- 3.1 The government announced the outcome of its spending review on 25 November 2015 which will determine the level of government spending until the end of this parliament, ie. until 2019/20. The main announcements which affect this Council are summarised below:

Local Government Spending

- The main Revenue Support Grant will be phased out and according to the government, local government funding (taking into account grant, business rates and council tax income) is forecast to be higher in cash terms by 2019/20 than in 2015/16. Core central government funding is forecast to fall by 24% in real terms, or £4.1bn, over the Spending Review period. According to the LGA, when taking into account Office for Budget Responsibility (OBR) forecasts of income raised locally by councils, the overall position is a 6.7% real terms reduction.

Business Rates

- Local government will be able to keep 100% of business rates revenues by the end of this Parliament to fund local services. According to estimates, this would give control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues.
- The system of top-ups and tariffs which redistributes revenues between local authorities will be retained.
- The Uniform Business Rate will be abolished and any local area will be able to cut business rates as much as they like.
- The doubling of small business rate relief will be extended by a further year. However, there was no mention of an extension to the retail relief scheme which gives qualifying retail outlets a rate relief of £1,500 per annum.
- The government will consult about changes to the local government finance system in 2016, in preparation for 100% business rates retention.
- The consultation will take into account the main resources currently available to councils, including council tax and business rates. As part of these reforms, additional responsibilities will be devolved to local authorities, empowering them to drive local economic growth and support their local community. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners to local government and will also consult on options to transfer responsibility for funding public health.
- The transfer to the new system is expected to be fiscally neutral although the re-balancing of funding towards upper-tier authorities with responsibility for social care could, depending on future distribution models, have a detrimental effect on District Council resources. This process is likely to start in 2016/17.

New Homes Bonus

- The government will consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from six years to four years. This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately. Any reforms to the NHB are not expected to take effect until April 2017.
- This potentially will have the greatest impact on this Council's resources over the spending review period (over and above what we have previously assumed). Paragraph 6 below further analyses the potential impact of this proposal.

Capital Receipts

- Local authorities will have the flexibility to spend capital receipts (excluding Right to Buy receipts) from asset sales on the revenue costs of reform projects, subject to conditions that will be set out alongside the Local Government Settlement in December 2015 (Capital receipts can currently only be used for repayment of debt or for funding capital spending).

Disabled Facilities Grant

- £500 million by 2019/20 for Disabled Facilities Grant (DFG), which is predicted to fund around 85,000 home adaptations that year and prevent 8,500 people from needing to go into a care home in 2019/20.
- DFG's are delivered via the Better Care Fund, and as such any consideration of this funding needs to be considered within this wider policy framework.
- In 2015/16, £220 million was provided for DFG's, so there is an apparent significant increase in funding allocation. There is no information of how the funding will reach £500 million by 2019/20 over the next four years.

Apprenticeships

- The apprenticeship levy will be introduced in April 2017 at a rate of 0.5% of an employers pay bill. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means the levy will be paid on any pay bill in excess of £3 million. Assuming local authorities will have to pay this levy, there will be an additional cost to this Council of around £34k in 2017/18.

- 3.2 Throughout the Spending Review announcements, it is clear that funding Adult Social Care is seen as a high priority. This includes allowing local authorities who are responsible for social care the ability to raise council tax by up to 2% per year, above the existing referendum threshold, to spend exclusively on adult social care. In addition, the government will be consulting on the transfer of £800 million from the New Homes Bonus funding to social care. There will also be a re-balancing of funding to upper-tier authorities following the move to 100% business rates retention. This re-balancing has begun in 2016/17 and was part of the Council's Provisional Settlement received on the 17 December 2015. This has seen funding removed from District Councils towards upper tier authorities, though not to Shire Counties.

4 Fenland Comprehensive Spending Review

- 4.1 In July 2015, the Council voted to establish a Fenland District Council Comprehensive Spending Review (FDC-CSR) in light of the significant further savings of approximately £1.8 million the Council would have to find from 2016-19. This savings target has subsequently increased to £3.180m following the Provisional Local Government Finance Settlement and £968,000 of savings for 2016/17 have been delivered or identified.
- 4.2 FDC-CSR means the Council will be looking at everything we do to assess all of the options available to make savings and generate income to ensure we meet our savings targets and remain a sustainable organisation in to the future.
- 4.3 In November 2015, Councillors received a pack of information outlining the range of options available and were tasked with indicating their preferences of which options should be worked up into full business cases for delivery, if viable. Members will have completed this process by December 2015 and will convene to confirm their priorities in January/February 2016.
- 4.4 Once these priorities have been confirmed, full business cases will be prepared and the appropriate consultation with staff, residents and stakeholders will take place followed by decision making which will take place through 2016/17 to deliver projects to meet our savings challenge over the period of the Councils Medium Term Financial Strategy.

5 Local Government Finance Settlement

- 5.1 The Provisional Finance Settlement for 2016/17 was announced on the 17th December 2015. The Provisional Settlement set out the Settlement Funding Assessment for 2016/17 and indicative illustrations of funding levels up to 2019/20.
- 5.2 The Settlement Funding Assessment for 2016/17 included in the draft budget is detailed below:

Table 1 – Provisional Settlement Funding Assessment – December 2015

	Actual 2015/16 £000	Estimate 2016/17 £000	2016/17 % Reduction
Revenue Support Grant	2,585	1,699	
Business Rates Baseline Funding	3,360	3,387	
Settlement Funding Assessment	5,945	5,086	-14.45%

- 5.3 Following the announcement that Revenue Support Grant (RSG) will disappear by 2019/20, and the illustrative future year funding figures provided in the Provisional Settlement, the Medium Term Forecasts detailed in Appendix B exemplify this position by reducing the overall Settlement Funding Assessment by 14% in 2016/17 – 2017/18, 9% in 2018/19 and by 8% in 2019/20. This is a change from the forecasts in February 2015 which showed an overall 10% per annum reduction over the medium term. This has seen an increase in the savings required due to the re-balancing of the funding between tiers of Council and also the fact that RSG has completely been removed in 2019/20.
- 5.4 This reduction in (RSG) could be partly compensated by the announcement that local authorities will keep 100% of business rates income by 2019/20 (currently 50% - Fenland 40%, County Council 9% and Fire Authority 1%). However, this has not been modelled in the medium term forecasts, as there is no guarantee that additional resources will be forthcoming to District Councils from whatever distribution mechanism will be in place for business rates.

6 New Homes Bonus

- 6.1 Following the government's announcement of a consultation on changes to the New Homes Bonus (NHB) (as detailed in 3.1 above), there is considerable uncertainty around the estimates included in the table below and in the medium term forecasts.
- 6.2 A consultation on reforms to NHB was announced on the 17 December 2015. The proposed reforms key focus is to reduce the payments from 6 years to 4. In addition, there are proposals to sharpen the incentives for payment (Councils must have a local plan to receive payment; councils will not receive NHB if the housing is granted on appeal; and the possibility of starting baseline to measure growth before any NHB is paid).
- 6.3 Actual and forecast NHB allocations, based on the current system, but also including an overall estimated reduction based on the proposed reforms, which are included in the medium term forecasts are as follows:

Table 2: New Homes Bonus Illustration – Based on current allocation methodology, reduced based on the proposed reforms

		Financial Year of Payment								
		Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Year of Delivery	Yr 1 (Oct 2009-10)	290	290	290	290	290	290			
	Yr 2 (Oct 2010-11)		323	323	323	323	323	323		
	Yr 3 (Oct 2011-12)			247	247	247	247	247	247	
	Yr 4 (Oct 2012-13)				356	356	356	356	356	356
	Yr 5 (Oct 2013-14)					347	347	347	347	347
	Yr 6 (Oct 2014-15)						479	479	479	479
	Yr 7 (Oct 2015-16)							350	350	350
	Yr 8 (Oct 2016-17)								350	350
	Yr 9 (Oct 2017-18)									350
	Total NHB allocation	290	613	860	1,216	1,563	2,042	2,102	2,129	2,232
	NHB Reforms estimated impact							-41	-834	-989
	Revised NHB allocations	290	613	860	1,216	1,563	2,042	2,061	1,295	1,243

- 6.4 The table above clearly shows that the impact of these reforms will reduce significantly the levels of NHB the Council receives. Officers will respond to the consultation document, in consultation with the relevant portfolio holders, in the best interests of Fenland District Council.

7 Business Rates

- 7.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.
- 7.2 There has been real business rates growth in Fenland over the last two years, however how this impacts on the resources available to this Council is complex, due to the rules surrounding the Business Rates Retention system.
- 7.3 Additional business rates growth over and above the Baseline Funding level results in a levy payable to the government equivalent to 50% of this growth amount. This amount is payable to the government in the financial year to which it relates. However, this Council's share of growth together with calculations for bad debts and appeals provision is included in the Business Rates Collection Fund for the year and any surplus on the Collection Fund at the year end, is then available to the Council in the following financial year.
- 7.4 In addition, the government announced various measures which reduced the amount of business rates receivable in 2014/15 and 2015/16 - capping increases to 2% and a series of 'reliefs'. However, authorities are being compensated by the government through a separate grant payment for any loss of business rate income resulting from these measures.
- 7.5 This Council is part of a pilot scheme agreed between the Treasury and Cambridgeshire and Peterborough Councils, whereby the authorities will be able to keep 100% of business rates generated above forecast levels (currently shared 50/50 with Central Government). This trial began in 2015 and we are awaiting further information regarding how this trial interacts with the government's announcement on authorities keeping 100% of business rates income by 2019/20. For the purposes of this report, it has been assumed that the trial will continue as originally agreed and the forecast additional rates income has been included in the medium term forecasts.
- 7.6 All of the above interact with each other producing a very complex assessment of the impact on the Council's resources. Although the Treasury deal is potentially good news for the Councils involved, other factors within the overall business rates income projections result in an overall deficit being projected on the collection fund at the end of 2015/16. This is a result of a significant increase in the appeals provision being required due to a Valuation Tribunal decision regarding purpose built doctors surgeries which could significantly reduce their rateable values (backdated to 1 April 2010). This demonstrates the volatility within any forecast of future business rates income. The projected deficit on the collection fund in 2015/16 (£528k) is carried forward and is a cost within the 2016/17 estimates. This Council's share of the deficit (40%) is estimated at around £211k.
- 7.7 Taking all of the above into consideration, the total forecast income from business rates is expected to be around £186k higher than forecast for 2015/16 and around £300k higher in 2016/17, of which around £200k is attributable to the Treasury deal detailed above.
- 7.8 Although this is good news for the Council, business rates by their very nature are volatile and any forecast additional income in the future could be off-set by reductions from a loss of any significant business ratepayer or losses from appeals over and above what has been estimated.

8 Draft Budget 2016/17 and Medium Term Strategy

8.1 The Council's Medium Term Financial Strategy (MTFS) ensures that the commitments made in the Business Plan are funded not only in the year for which the formal approval of the budget is required (2016/17) but for forecast years as well, within a reasonable level of tolerance.

8.2 For the purposes of this report, the following table exemplifies the impact of an indicative 1.9% Council Tax increase per annum from 2016/17.

Table 3 - Medium Term Forecast - 1.9% CT increase in 2016/17 onwards

	Estimate 2016/17 £000	Subject to Spending Review		
		Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Council Tax-base	27,935	28,145	28,356	28,569
Assumed Council Tax increase	1.9%	1.9%	1.9%	1.9%
Resources (Income)				
Revenue Support Grant	1,699	925	444	0
Business Rates Baseline	3,387	3,455	3,556	3,670
	5,086	4,380	4,000	3,670
Council Tax	6,992	7,178	7,369	7,566
CT Collection Fund surplus	157			
BR Collection Fund deficit	-211			
Total Resources	12,024	11,558	11,369	11,236
Forecast Net Expenditure	12,312	12,400	13,351	13,736
<i>Original Savings Target</i>	<i>968</i>			
<i>Savings achieved to date (included above)</i>	<i>-680</i>			
<i>Savings identified but not yet implemented:</i>				
Savings identified 2016/17	-288	-288	-288	-288
Forecast Expenditure after identified savings	12,024	12,112	13,063	13,448
Funding Gap – In Year	0	554	1,140	518
Cumulative Funding Gap		554	1,694	2,212
Forecast General Fund Balance	2,386	2,386	2,386	2,386

8.3 Government grant figures for 2016/17 were announced as part of the finance settlement on the 17 December 2015. Figures for 2017/18 - 2019/20 are still the subject of speculation but will need to be consistent with the spending review announcements and the illustrative future year funding figures. For the purposes of the Medium Term Forecasts, the figures are assumed to continue to reduce year on year in line with the

Autumn Statement announcement also taking into account the illustrative future year funding figures.

- 8.4 The settlement also included reference to four year financial settlement agreements with the Department of Communities and Local Government if the Council produces an Efficiency Plan for this period. No clear details have been set out to what an Efficiency Plan should include, however the Council's statutory requirement of a Medium Term Financial Strategy and Fenland's Comprehensive Spending Review should assist in meeting these requirements.
- 8.5 Officers will await further details of the requirements to hopefully enable the Council to qualify for certainty on funding levels over the next four years.
- 8.6 Within the government grant (Settlement Funding Assessment) figures for these years, the Business Rates Baseline Funding element is assumed to increase annually by RPI, whereas the Revenue Support Grant element is reduced to zero by 2019/20 in line with government announcements. This combines to produce an assumed overall reduction of 14% per annum over the period 2016/17-2017/18, 9% in 2018/19 and a 8% reduction in 2019/20.
- 8.7 This will mean that in 2019/20, the Council will no longer receive any Revenue Support Grant. In order for Councils to continue to contribute to the financial austerity measures of Central Government, it has been proposed that an additional tariff adjustment is applied to councils who no longer receive Revenue Support Grant. This could be £90,000 for Fenland in 2019/20, however this has not been included within the figures as yet due to the pending consultation on 100% business rates retention due during 2016.
- 8.8 No further increases in Business Rates have been included at this stage to reflect the move to 100% retention as there is no information available regarding the future distribution model to be used and what impact the government's re-balancing of the available funding towards social care and upper tier authorities will have on districts generally and this Council in particular.
- 8.9 The level of net expenditure for 2016/17 is currently estimated to be £12.024 million after all identified savings are included. This includes the assumptions detailed at para. 8.15 below.
- 8.10 Clearly the forecasts show a substantial gap over the medium term and the need for significant savings to be identified to achieve a balanced budget, including a robust strategy on the use of balances. Of the revised savings target for 2016/17 of £968,000, £680,000 has been achieved to date. In addition, the remaining £143,000 of savings required for 2016/17 have been identified as well as the additional £145,000 from the settlement announcement. Progress is also being made towards the 2017/18 savings target. This leaves £2.212m of savings to be identified over the medium term without any further use of balances.
- 8.11 The forecasts are based on a proposed 1.9% Council Tax increase in 2016/17 and over the medium term. A Council Tax freeze in 2016/17 would increase the savings required over the medium term by an additional £543,000 as no additional government grant will be offered to Council's to restrict increases to 1% as in previous years.
- 8.12 The current strategy is not to use the general fund balance to fund the projected deficits in future years. This will ensure the balance is kept above the target minimum level of £2m. However, due to the uncertainties relating to future resource and expenditure forecasts, the level of reserves and the minimum level of the general fund balance will be reviewed as we progress through the budget setting process (see also section 10 below).
- 8.13 Taking into account the proposals in the above tables, the estimated level of expenditure in 2016/17 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B.

- 8.14 The forecasts for the years 2017/18 – 2019/20 are particularly volatile and should be treated with extreme caution. Illustrative future year funding figures have been provided for those years, however they are subject to the implementation of consultations and reforms, and therefore the figures could be better or worse than forecast. Future announcements and consultation outcomes following the spending review will determine government funding for these years.
- 8.15 At this stage, the Fenland Comprehensive Spending Review is ongoing which will help identify and deliver projects to meet the savings challenge over the period of the Medium Term Strategy. However, the achievement of further efficiencies in future years whilst maintaining excellent services will present considerable challenges for the authority.
- 8.16 The draft Business Plan for 2016 – 19 continues the Council’s successful improvement programme for all services. The funding for the majority of the priorities is included by rolling forward costs in this year’s budget without the requirement for any specific “growth” to be identified.

Assumptions built into Budget and Medium Term Forecasts

- 8.17 Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although we aim to mitigate these risks as detailed in paras 8.16 – 8.17. The main assumptions are as follows:
- 1.9% Council Tax increase for 2016/17 and thereafter;
 - 2.07% increase in Council Tax base in 2016/17 and 0.75% thereafter;
 - 1% pay award per annum for 2016/17 and thereafter;
 - Allowance for pay increments;
 - Implementation of the National Living Wage from April 2016;
 - Increase in Employer’s National Insurance Contributions as a result of the reduced contracted-out rate (for employees in the LGPS) being abolished from April 2016. This is estimated to increase the employers rate by an average of 2.25% per annum from 2016/17 onwards.
 - Increase in Employer’s Pension Contributions (as determined by the latest triennial valuation of the Cambridgeshire Pension Fund in 2013). The contribution now takes the form of a percentage of pay (17%) together with a lump sum payment which is £385,000 in 2014/15; £592,000 in 2015/16 rising to £817,000 in 2016/17 and thereafter. The next triennial valuation is due in 2016 which could increase these contributions from 2018/19 onwards. A 1% increase in contribution rate would result in an additional cost of £100,000 per annum ;
 - Inclusion of the Apprenticeship Levy from April 2017 at an annual cost of around £34,000;
 - 0% general inflation for the period of the Medium Term Forecasts;
 - Specific allowance for inflation for business rates, external contracts, energy and water, drainage board levies;
 - Increase in Insurance Premium Tax of 3.5% at a cost of £12,000 per annum;
 - Investment interest rates to stay at current rates until third quarter of 2016 when market rates are forecast to begin rising slowly;
 - Continuing impact of 2015/16 in year income pressures;
 - Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of

activity levels. This is pending the review of fees and charges by Overview & Scrutiny Panel in January 2016;

- Additional income of £300,000 per annum due to growth (above inflation) for retained business rates for 2016/17 onwards;
- Allowance has been made for higher non-collection rates for Council Tax due to the impact of the local Council Tax Support Scheme;
- The New Homes Bonus for 2016/17 onwards has been included as detailed in Table 2 above and based on the potential impact on the proposed reforms.

Risk Assessment

- 8.18 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the draft estimates:-
- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans
 - Maintaining “earmarked” reserves for potentially unbudgeted expenditure,
 - Adopting clear guidelines and control systems (revenue monitoring procedures, Financial Regulations etc.) to alert service managers, and members should variances become significant,
 - Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates,
 - Maintaining a rolling review of forecast estimates beyond the current year.
- 8.19 2016/17 will continue to see risks imposed upon the Council with the Business Rates Retention system and the Local Council Tax Support scheme. Both of these have significant risks associated with them particularly around growth forecasts and collection rates. In addition, the uncertain future of the New Homes Bonus could also pose significant risks to future resources. The Council will seek to minimise these risks by adopting the methodology detailed in 8.16 above together with robust in-year monitoring systems.

Council Tax Referendum

- 8.20 As part of the forthcoming 2016/17 Local Government Finance Settlement announcement in December 2015, the government will again propose that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases in 2016/17 that exceed the government set limit. This limit has been set at 2% for 2016/17.

9 Capital Expenditure and Income

- 9.1 Capital Expenditure and Income plans have been prepared through the Council’s service and financial planning cycle. The Council’s capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.
- 9.2 A fully updated Capital Programme for 2016-19 is presented at Appendix C for approval. All known and expected levels of capital receipts have been taken into account in the resources statement. These include the net usable receipt from the stock transfer and income from land sales. This includes significant amounts from the future disposal of land at Nene Waterfront and other sites in the district.
- 9.3 The level of these capital receipts can be subject to some potential variability and risk. Officers are working on a variety of options to bring vacant sites to the market but there

remains considerable uncertainty as to when these will be realised and capital receipts have been re-profiled accordingly. Even after this re-profiling the Council is still reliant on realising capital receipts of £3.465 million between now and 2019 to fund the programme at Appendix C.

- 9.4 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure. Reviews of the programme and resources available are carried out regularly during the year. Appendix C shows that without potential future capital receipts, the programme is in deficit by £420k at the end of 2018/19. Appendix C also shows that the uncommitted balance on the Capital Contribution Reserve is £94k (included within total available resources).
- 9.5 Consequently, the future projects identified by members not currently included in the existing programme (detailed in Appendix C) will not proceed until sufficient funding is identified.
- 9.6 Alternative methods of funding the capital programme, such as prudential borrowing, may require consideration. These methods, however, will incur significant additional annual revenue costs on the Council which will need consideration in the context of the Council's forecast financial position.
- 9.7 The programme detailed at Appendix C includes some changes from that reported to Cabinet in September 2015, mainly as result of re-profiling of some schemes and the addition of one scheme, namely 24 High Street, Wisbech which is an essential part of the Heritage Lottery Funding Bid currently being compiled. As owners of this property, this Council will need to fund £150,000 of the estimated cost of renovation, with the remainder being funded by HLF. In addition, the final cost of improvement works at the George Campbell Leisure Centre is now expected to be £32,000 higher than that approved in September 2015.
- 9.8 Although only one new scheme has been included in the programme, there are a number of essential projects currently being assessed by Officers which may result in new schemes being put forward for member's consideration between now and the final budget report in February 2016. These include maintenance and improvement of assets (mini-factories, car parks, industrial estates, open spaces, leisure centres etc.).
- 9.9 Members are also reminded of the impact on the revenue account of using uncommitted capital resources. Whilst they remain uncommitted, the resources are invested and generate revenue income to the general fund. Consequently, for every £1m spent the revenue account loses around £10,000 per annum at current interest rates. This figure increases by an additional £10,000 per annum for every 1% increase in interest rates. Based on the average interest rates projected over the Medium Term Financial Strategy (1 -1.5%), this equates to a reduction in investment interest of between £10,000 - £15,000 per annum for every £1m of capital resources spent.

10 **Review of General Fund Balance and Specific Reserves**

- 10.1 An important part of any budget strategy is the review and consideration of reserves. The strategy applies a robust but prudent use of these balances to cushion the impact of the economic climate, but maintaining the minimum level of reserves for the Council over the medium term.
- 10.2 The Council's current forecast uncommitted General Fund Balance at 31 March 2016 is £2.386m. The target minimum level for this reserve is £2m and the current strategy is not to use this balance to fund the projected deficits in future years. However, paragraph 9 above highlights the potential for additional funding being required for key capital projects. In addition, the Council will need to continue its' service transformation strategy to meet the significant financial challenges over the medium term. Therefore, it is an

opportune time to consider using part of this balance to help meet these forthcoming challenges.

11 **Fees and Charges**

- 11.1 The Overview and Scrutiny Panel will consider all fees and charges at their meeting on 18 January 2016 and recommend levels to Cabinet at their meeting on 21 January 2016.

FENLAND DISTRICT COUNCIL

Summary of Revenue Estimates

	Approved Estimate 2015/16 £	Revised Estimate 2015/16 £	Estimate 2016/17 £
Service Summary			
Growth & Infrastructure	1,386,130	1,254,370	1,396,810
Housing, Environment, Leisure & Community	5,253,310	5,124,100	5,147,379
Planning, Resources & Customer Services	6,465,715	6,501,968	6,522,240
Policy & Governance	1,666,870	1,649,520	1,485,550
Capital Charges	2,475,000	2,475,000	2,475,000
NET COST OF GENERAL FUND SERVICES	17,247,025	17,004,958	17,026,979
Corporate Items			
Contributions to/ (from) Earmarked Reserves	338,660	347,250	70,800
RTB/VAT Sharing Income	-119,900	-300,000	-130,000
Capital Charges Reversal	-1,831,270	-1,791,270	-1,714,740
Investment Income	-170,000	-170,000	-170,000
New Homes Bonus	-1,563,060	-1,563,060	-2,042,320
New Homes Bonus Adjustment	-10,530	-10,530	-8,075
Council Tax Freeze Grant (2015/16 CT freeze)	-77,130	-78,370	0
Council tax Support - Payments to Parish Councils	96,740	96,740	89,260
Business Rates - net additional income from growth (after levy payable to Government)	-296,550	-482,911	-809,690
Corporate Adjustments	-3,633,040	-3,952,151	-4,714,765
Net Expenditure before savings	13,613,985	13,052,807	12,312,214
Savings target 2016/17			-968,000
Savings identified to date (included above)			680,000
Savings identified (not yet included above)			-288,000
Net Expenditure after Savings	13,613,985	13,052,807	12,024,214
Approved Contribution to/(from) Balances	-500,000	-500,000	0
Contribution to Pilots' National Pension Fund Reserve	0	561,178	0
NET EXPENDITURE after use of balances/reserves	13,113,985	13,113,985	12,024,214
Settlement Funding Assessment			
Revenue Support Grant	-2,585,458	-2,585,458	-1,698,731
Business Rates Baseline Funding	-3,359,898	-3,359,898	-3,387,897
Council Tax Collection Fund Surplus(-)	-96,775	-96,775	-156,790
Business Rates Collection Fund Surplus(-)/Deficit(+)	-350,000	-350,000	211,058
COUNCIL TAX REQUIREMENT	6,721,854	6,721,854	6,991,854
Forecast General Fund Balance - 31st March	2,386,161	2,386,161	2,386,161
Balance 1st April 2015	2,886,161		

GENERAL FUND MEDIUM TERM FINANCIAL FORECAST

RESOURCES STATEMENT	Approved Estimate 2015/16 £000	Projected Outturn 2015/16 £000	Forecast Estimate 2016/17 £000	Subject to CSR		
				Forecast Estimate 2017/18 £000	Forecast Estimate 2018/19 £000	Forecast Estimate 2019/20 £000
A Resources						
(i) Central Government						
Revenue Support Grant	2,585	2,585	1,699	925	444	0
Business Rates Baseline Funding	3,360	3,360	3,387	3,455	3,556	3,670
	5,945	5,945	5,086	4,380	4,000	3,670
			-14%	-14%	-9%	-8%
(ii) Council Tax						
Council Tax Payers	6,722	6,722	6,992	7,178	7,369	7,566
Collection Fund Surplus/Deficit(-)	97	97	157	0	0	0
(iii) Business Rates						
Collection Fund Surplus/Deficit(-)	350	350	-211	0	0	0
Use of Balances						
(iv) General Fund	500	500	0	0	0	0
(v) Contribution to PNPf Reserve	0	-561	0	0	0	0
Total Use of Resources	13,614	13,053	12,024	11,558	11,369	11,236
B Spending Levels						
(i) Budget	15,177	14,616	14,354	14,461	14,646	14,979
New Homes Bonus	-1,563	-1,563	-2,042	-2,061	-1,295	-1,243
<i>Original Savings Target 2016/17</i>			-823			
<i>Savings Achieved to date (included above)</i>			680			
Savings Identified 2016/17			-143	-143	-143	-143
Additional Savings required 2016/17			-145	-145	-145	-145
Savings Identified 2017/18				0	0	0
Savings Identified 2018/19					0	0
Budget after efficiency savings	13,614	13,053	12,024	12,112	13,063	13,448
Funding Gap in Year		0	0	554	1,140	518
Total Cumulative Funding Gap			0	554	1,694	2,212
C Council Tax Increase			1.9%	1.9%	1.9%	1.9%
D Forecast Balances						
(i) General Fund	2,386	2,386	2,386	2,386	2,386	2,386

Assumptions

- Council Tax base increase 2016/17 2.07%, 2017/18 onwards 0.75%
- Government Support - 2016/17 as per Finance Settlement
Further anticipated CSR Reductions 2017/18 onwards as per Settlement illustrations

CAPITAL PROGRAMME AND FUNDING 2016/2019

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
CURRENT FORECAST EXPENDITURE	3,014	1,623	971	784
RESOURCES AVAILABLE				
General Fund Resources				
Capital Grants	830	499	499	499
Usable Capital Receipts	660	205	135	140
Reserves used to fund Capital	342	175	0	0
Section 106's	63	0	0	0
Uncommitted Capital Reserves	94	0	0	0
Total Resources	1,989	879	634	639
In Year Funding Requirement	1,025	744	337	145
Usable Capital Receipts Reserve				
Balance B/fwd 1.4.2015	(1,831)			
Uncommitted Resources/Funding Deficit before potential future Capital Receipts	(806)	(62)	275	420
Potential Future Capital Receipts	-	(225)	(1,150)	(950)
Funding available/shortfall assuming future potential Capital Receipts received	(806)	(287)	(1,100)	(1,905)
<i>Future Potential Capital Projects</i>				<u>1,579</u>

CAPITAL PROGRAMME SUMMARY 2016 - 2019

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
Leisure Centres								
1 George Campbell Leisure Centre Improvements	479				479	404	75	£75k Sport England; £87k Capital Reserve
2 Essential Buildings Safety Improvements	17				17	17		
Regeneration Programmes								
3 Fenland Renaissance and Place Shaping	101				101	101		
4 Heritage Lottery Fund - Match Funding bid		50	100		150	150		
5 Heritage Lottery Fund - 24 High Street, Wisbech		50	100		150	150		
Cemeteries								
6 Chatteris - New Road Cemetery pathways	24				24	24		
7 Whittlesey Cemetery Roadway	10				10	10		
Parks and Open Spaces								
8 Parks and Open Spaces Pathway Improvements	39				39	39		
9 Tyllerie Park, Street Lighting	10				10	10		
10 Manor Play Area	107				107	24	83	£45k WREN; £10k WTC; £28k Section 106
11 Wenny Road, BMX Track	118				118	8	110	£75k WREN; £35k Section 106
12 Wisbech Park, Bandstand	40				40	0	40	£40k WREN
Highways								
13 Street Light Improvements - FDC	100	93			193	193		
14 Street Light Improvements - Parishes (Categories 1 & 2)	175	75			250	250		£250k Capital Reserve
15 Street Name Plates/District Facilities Signage	12	12			24	24		
16 Footbridge, High Street March	98				98	73	25	£25k Snowmountain Enterprises
17 Relocate Whittlesey Bus Terminal/Toilets	75				75	14	61	£61k Cambs County Council
Port								
18 Mooring & Fuelling Facilities, Sutton Bridge	20	185			205	205		
Vehicles and Plant								
19 Vehicles	228	265	157	170	820	820		
Office Refurbishments								
20 Channel Shift	68				68	68		£51k Management of Change Reserve
21 Fenland Hall -Accommodation Review	77				77	77		
ICT System Replacement Programme & Upgrades								
22 Replacement & Upgrade Programme	123	75	75	75	348	348		£29k Management of Change Reserve
Sub -Total	1,921	805	432	245				

CAPITAL PROGRAMME SUMMARY 2016 - 2019

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
B/FWD	1,921	805	432	245				
Improvement of Assets								
23 Sewage Treatment Works Refurbishment	220				220	220		
24 Energy Plan - Invest to Save Projects	33	26			59	59		
25 Land Drainage Improvements - Birch Fen	20				20	20		
Markets								
26 Service Tower Replacements	13				13	13		
Economic Estates								
27 Mini-Factories Refurbishment		45			45	45		
Community Fund								
28 March Athletics Club		8			8	8		
29 Estover Playing Field Sports Provision, March		100			100	100		£100k Management of Change Reserve
Rural Community Fund								
30 Christchurch Parish Council - Sports Pavilion	100				100	100		
31 Thorney Toll Village Hall Cttee - Village Hall Renovations	3				3	3		
32 Coates Athletic Football Club - Changing Facilities	14				14	14		
33 Tydd St Giles Parish Council - Play Area	15				15	15		
34 Manea Parish Council - Pavilion		100			100	100		
Private Sector Housing Support								
35 Private Sector Renewal Grants	58	40	40	40	178	178		
36 Disabled Facilities Grants	617	499	499	499	2,114	118	1,996	£1,996k Govt Grant
Total - Current Approved Programme	3,014	1,623	971	784	6,392	4,002	2,390	

CAPITAL PROGRAMME SUMMARY 2016 - 2019

	£000
Leisure Centres	
1 Chatteris Leisure Facilities - contingency	900
2 George Campbell Leisure Centre - Improvements	221
Regeneration Programmes	
3 Tourism Initiatives	75
Port	
4 Moorings & Fuelling Facilities, Sutton Bridge - Contingency	200
Rural Community Fund	
5 Contingency	103
Market Towns Fund	
6 Contingency	80
TOTAL - Future Strategic Allocations	1,579