


Agenda Item No:	10	
Committee:	Council	
Date:	26 February 2015	
Report Title:	General Fund Budget 2015/16 and Capital Programme 2015-18	

## Cover sheet:

### 1 Purpose / Summary

To consider the Cabinet recommendations in relation to the General Fund Revenue Budget 2015/16 and Capital Programme 2015-18.

### 2 Key issues

- Funding for the corporate priorities;
- Projected Outturn for 2014/15;
- Details of the Medium Term Financial Strategy and Capital Programme;
- All the required savings, £1.005m for 2015/16 have been identified and implemented;
- Further significant savings of around £1.8m are required over the medium term;
- Details of the Treasury Management and Investment Strategy 2015/16;
- No increase in Council Tax in 2015/16, for the second consecutive year.

### 3 Recommendations

- **It is recommended by Cabinet that:-**
  - (i) the General Fund revenue budget for 2015/16 as set out in paragraphs 8 and Appendix A be approved;
  - (ii) the Capital Programme and provisional funding statement as set out in Appendix C be approved;
  - (iii) the Medium Term Financial Strategy as outlined in this report be adopted;
  - (iv) the Treasury Management, Minimum Revenue Provision, Investment Strategy, Prudential and Treasury Indicators for 2015/16 as set out in paragraph 13 and Appendix D be approved;
  - (v) the expenses detailed in paragraph 10 be treated as general expenses for 2015/16;
  - (vi) the Port Health levy for 2015/16 be set as shown in paragraph 11;
  - (vii) the Band D Council Tax level for Fenland District Council Services for 2015/16 be set at £245.61, no increase on the current year.

<b>Wards Affected</b>	All
<b>Forward Plan Reference</b>	
<b>Portfolio Holder(s)</b>	Cllr John Clark, Leader Cllr Chris Seaton, Portfolio Holder, Finance
<b>Report Originator(s)</b>	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
<b>Contact Officer(s)</b>	Paul Medd, Chief Executive Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
<b>Background Paper(s)</b>	Finance settlement – Department for Communities and Local Government (DCLG). Medium Term Financial Forecasts working papers.

The structure of the report is as follows:-

**Section      Content**

1. Corporate Plan and Introduction
2. Projected Outturn 2014/15
3. Consultation
4. Local Government Finance Settlement
5. New Homes Bonus
6. Business Rates
7. Council Tax Increase 2015/16
8. Budget 2015/16 and Medium Term Financial Strategy
9. Fees and Charges 2015/16
10. Special and General Expenses
11. Port Health
12. Capital Programme
13. Treasury Management and Investment Strategy 2015/16
14. Review of General Fund Balance and Specific Reserves
15. Council Tax – Overall Levels 2015/16

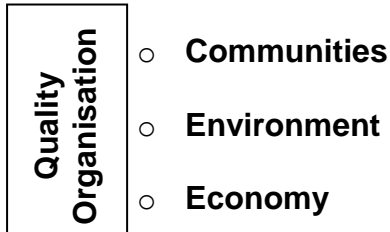
**Appendices**

- A. (i) General Fund Revenue Estimates - Summary  
(ii) General Fund Revenue Estimates – Individual Services
- B. Medium Term Financial Forecasts
- C. Capital Programme
- D. Treasury Management Strategy, Minimum Revenue Provision Strategy, Investment Strategy and Prudential Indicators
- E. Parish Precepts
- F. Earmarked Reserves
- G. Robustness of Estimates and Adequacy of Reserves

## Report:

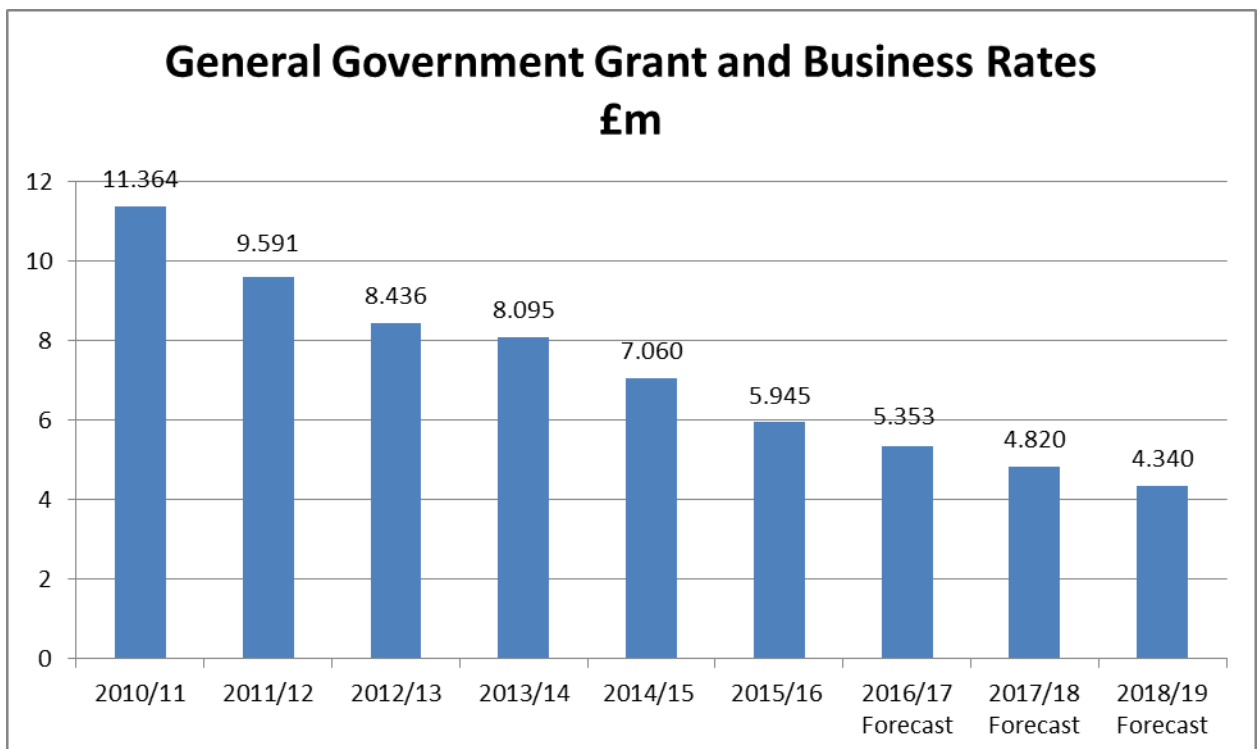
### 1 CORPORATE PLAN AND INTRODUCTION

1.1 This report is the culmination of the service and financial planning cycle for 2015/16. It brings together all general fund revenue estimates, all capital estimates, and recommends a level of Council Tax for 2015/16. The budget for 2015/16 and financial forecasts are based on the following Corporate Priorities as set out in the Corporate Plan, with an overarching focus on improving the Quality of Life for the residents of Fenland:-



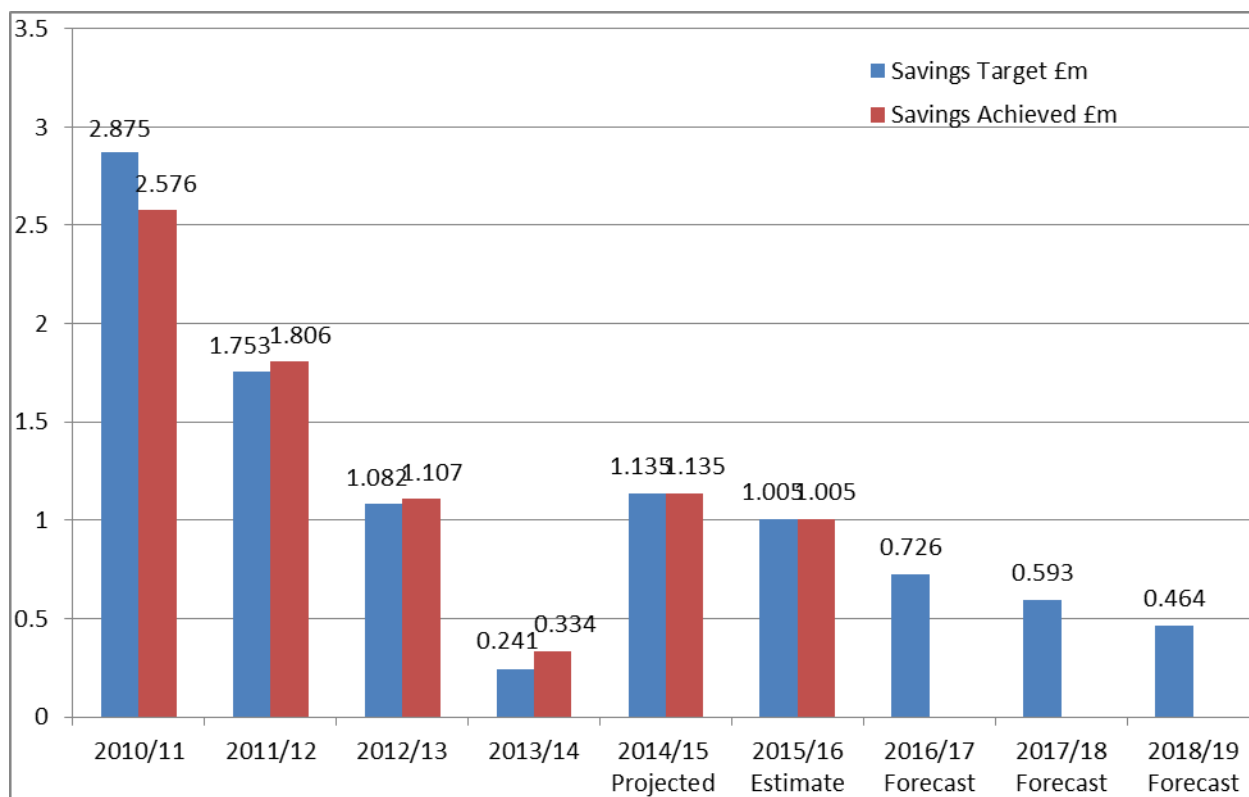
1.2 These priorities have informed the development of the Council's Corporate Plan and have led to the budget proposals set out in this report. Full details of the Council's plans to improve the Social, Economic and Environmental well-being of the District are set out in the Corporate Plan 2015-18 earlier in the agenda for this meeting.

1.3 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:



General Government Grant (Revenue Support Grant) and Business Rates will have reduced by 48% between 2010/11 and 2015/16, with forecast reductions of 10% per annum for the next three years.

The following graph illustrates how successful the Council has been in delivering the required savings targets over the last 5 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 2015/16 and beyond. These savings have been achieved through a number of ways, such as Management and Service reviews, shared services, procurement and income generation.

- 1.4 The scale of the challenges faced by local government over the last 5 years and in the future, are highlighted by the recent report on the 'Financial Sustainability of Local Authorities 2014' by the National Audit Office (NAO). In this report, the NAO observed that the Department of Communities and Local Government (CLG) could have a better 'understanding of the financial sustainability of local authorities and the extent to which they may be at risk of financial failure'. In addition, CLG 'expects local authorities to manage future funding reductions by transforming the way they deliver services, but has limited understanding of the size and timing of resulting savings', and 'the Department does not monitor the impact of funding reductions on services in a coordinated way'.
- 1.5 The report, however, does acknowledge that 'local authorities as a whole have coped well in financial terms with the reductions' and that 'local authorities are subject to a legal framework that makes it difficult in practice for them to fail financially'. Owing to the strength of the legal framework, CLG 'expects that stress from funding reductions will lead to service pressures rather than financial failure'.

## **2 PROJECTED OUTTURN 2014/15**

- 2.1 As part of the budget setting process for 2014/15, approved by Council on 27 February 2014, £1.135m 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 2014/15 have been identified and implemented. In addition, all of the required savings for 2015/16 have also been identified. 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, Community Support, Marine Services and Corporate Management Team. These together with other efficiency changes, for example the Revenues and Benefits service joining Anglia Revenues Partnership (ARP) and the transfer of the Building Control team to CNC, have enabled the savings target to be met for this year and for 2015/16. 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.
- 2.3 In addition, the Council has benefitted from the growth in business rates during this year. The net impact for 2014/15 is additional income of around £35,000. The growth this year has also had a positive impact on the Council's resources in 2015/16 as detailed in Section 6.
- 2.4 The latest revised estimates for 2014/15 are set out at Appendix A for approval. The current estimate for net expenditure is £13.618m, which means that the original approved contribution from balances of £50,000 is not required. This is the same position as reported to Cabinet on 18 December 2014. 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 this position is maintained at the year end.
- 2.5 Income levels overall are projected to achieve what was estimated, although there are variations between services, as detailed in the monthly monitoring reports. Expenditure also continues to be tightly controlled.
- 2.6 Consequently the General Fund Balance is forecast to remain at £2.880m at the end of 2014/15.
- 2.7 In line with the recommended budget strategy, the estimates for 2015/16 reflect the projected level of fees and charges this year and forecast investment income next year. Consideration of service financial variations for the current year is very important when considering the 2015/16 estimates, and is a requirement of Section 28 of the Local Government Act 2003. The ongoing and regular monitoring of the 2014/15 estimates undertaken during the current year has led to the preparation of detailed revised estimates shown at Appendix A. These estimates are used as the basis for the budgeting exercise undertaken to prepare the rolling 4 year revenue financial forecasts for 2015-2018.

## **3 CONSULTATION**

- 3.1 The draft budget proposals for 2015/16 were approved for consultation by Cabinet on 18 December 2014. These proposals were discussed and considered at the meeting of the Overview and Scrutiny Panel on 19 January 2015. The Panel confirmed their overall support for the budget strategy.

## 4 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 4.1 The Final Finance Settlement for 2015/16 was announced on 3 February 2015 and is detailed below. There has been no change to the provisional figures announced on 18 December 2014:

**Table 1 – Final Settlement Funding Assessment – February 2015**

	<b>Actual 2014/15 £000</b>	<b>Indicative 2015/16 £000</b>	<b>2015/16 % Reduction</b>
Revenue Support Grant	3,687	2,585	
Council Tax Freeze Grant 2014/15 (now included in RSG)	76		
Business Rates Baseline Funding	3,297	3,360	
<b>Settlement Funding Assessment</b>	<b>7,060</b>	<b>5,945</b>	<b>-15.8%</b>

- 4.2 These settlement figures confirm that local government continues to bear the brunt of public spending reductions in this Spending Review period. The Autumn Statement expects that further reductions will continue until 2018. There is currently much speculation in local government finance circles that the Revenue Support Grant element of the settlement will disappear completely over the course of the next parliament. Consequently, the medium term forecasts assume an overall reduction in the Settlement Funding Assessment of 10% per annum.
- 4.3 This reduction in Revenue Support Grant (RSG) could be partly compensated by an increase in the proportion of business rates kept locally (currently 50% - Fenland 40%, County Council 9% and Fire Authority 1%). However, this has not been modelled in the medium term forecasts, as whilst there is little doubt that RSG will reduce in future years (although the percentage is yet to be determined), there is no guarantee that additional resources will be forthcoming from the proportion of business rates.

## 5 NEW HOMES BONUS

- 5.1 The government has carried out a review of the New Homes Bonus to evaluate the effectiveness of the incentive in increasing housing supply. Although there will be no changes to the system for 2015/16, the next Spending Review following next year's general election could propose changes which, like the speculation around RSG, could remove this 'Bonus' over the course of the next parliament. The New Homes Bonus is funded from a top-slice from the national funding total for local government and should this amount be re-allocated through the finance settlement this could result in a broadly neutral funding position for this Council. However, it is likely that any phased removal of the New Homes Bonus would not be compensated for by additional finance settlement funding. Therefore, there is a risk that the amounts included in the table below and within the medium term forecasts (from 2016/17 onwards) will not be achieved. Any reductions in forecast funding levels detailed in the table below will increase the savings target over the medium term by an equivalent amount.

- 5.2 Actual and forecast NHB allocations, based on the current system, included in the medium term forecasts are as follows:

**Table 2: New Homes Bonus Illustration**

		Financial Year of Payment							
		Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		£000	£000	£000	£000	£000	£000	£000	£000
<b>Year of Delivery</b>	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
	Yr 5 (Oct 2013-14)					347	347	347	347
	Yr 6 (Oct 2014-15)						350	350	350
	Yr 7 (Oct 2015-16)							350	350
	Yr 8 (Oct 2016-17)								350
<b>Total NHB allocation</b>		<b>290</b>	<b>613</b>	<b>860</b>	<b>1,216</b>	<b>1,563</b>	<b>1,913</b>	<b>1,973</b>	<b>2,000</b>

- 5.3 Confirmation of New Homes Bonus allocations for 2015/16 were announced as part of the final Local Government Finance Settlement and were the same as provisionally announced in December 2014.

## **6 BUSINESS RATES**

- 6.1 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.
- 6.2 There has been real business rates growth in Fenland over the last year due to the Council's support and approach to growth and regeneration in the district. How this impacts on the resources available to this Council, however, is complex, due to the rules surrounding the Business Rates Retention system.
- 6.3 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.
- 6.4 In addition, the government announced various measures which reduced the amount of business rates receivable in 2014/15 - 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.
- 6.5 All of the above interact with each other producing a very complex assessment of the impact on the Council's resources. Overall, there is estimated to be a slight increase in resources for 2014/15 of around £35,000. However, due to higher than anticipated business rates growth during 2014/15 together with a lower than anticipated appeals

provision, the Collection Fund is estimated to have a significant surplus at the end of this year. This Council's share of this surplus is estimated at around £350,000 and this is included in the budget for 2015/16.

6.6 In addition, based on the latest forecast business rates for next year, as calculated for the annual NNDR1 return (submitted to DCLG at the end of January 2015 and certified by the Chief Finance Officer), the Council is estimated to receive additional business rates income of around £297,000 in 2015/16 and future years, over and above its' baseline funding level. This is around £47,000 higher than estimated for the draft budget in December 2014.

6.7 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. Based on the forecasts for 2015/16, a 1% variation in total business rates income would result in this Council either gaining or losing around £100,000 in resources.

## **7 COUNCIL TAX INCREASE 2015/16**

7.1 The Draft Budget for 2015/16 presented to Cabinet on 18 December 2014, proposed a Council Tax increase of 1.9% (£4.67 on a Band D property). However, following the consultation exercise and mindful of the impact of an increase on the residents of the District, it is now proposed that there be no increase in the level of Council Tax for 2015/16.

7.2 By not increasing the Council Tax in 2015/16 by 1.9%, the Council's Council Tax income will reduce by around £128,000, compared with previous forecasts. However, this will be partly off-set by receipt of the government's Council Tax Freeze Grant of around £77,000. This grant is payable to authorities who freeze or reduce their Council Tax and is the equivalent of a 1% increase in Council Tax. Therefore, the overall reduction in resources in 2015/16 as a result of not increasing Council Tax is £51,000. This loss of resources will be sustained annually and increases the level of savings required in future years.

7.3 As a result of the additional business rates income the Council is expected to receive in 2015/16, as detailed in 6.6 above, this will fund the majority of the loss of income from freezing Council Tax. The balance can be contained within the overall budget.

7.4 Over the medium term, a Council Tax freeze in 2015/16 would increase the savings required by an additional £225,000, (net of the government grant received equivalent to a 1% increase). This has largely been off-set by additional business rates received, forecast to be around £188,000 over the medium term. The difference between the reduction in resources and the forecast additional business rates from 2016/17 onwards has slightly increased the medium term savings target.

## **8 BUDGET 2015/16 AND MEDIUM TERM FINANCIAL STRATEGY**

8.1 The Council's Medium Term Financial Strategy (MTFS) ensures that the commitments made in the Corporate Plan are funded not only in the year for which the formal approval of the budget is required (2015/16) but for forecast years as well, within a reasonable level of tolerance.

8.2 The Council's Medium Term Forecasts (MTF), taking into account the above Council Tax freeze in 2015/16, are shown at Appendix B and summarised in Table 3 below. The table also exemplifies the impact of an indicative 1.9% Council Tax increase per annum from 2016/17. It also includes the proposed transfer of £500,000 from the General Fund Balance to Earmarked Reserves as detailed in paragraph 14 below.



**Table 3 - Medium Term Forecast - 0% CT increase in 2015/16 and 1.9% thereafter**

		Subject to Future Spending Review		
	Estimate 2015/16 £000	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Council Taxbase	27,368	27,573	27,780	27,988
Assumed Council Tax increase	0.0%	1.9%	1.9%	1.9%
<b>Resources (Income)</b>				
Revenue Support Grant	2,585	1,909	1,290	722
Business Rates Baseline	3,360	3,444	3,530	3,618
	<b>5,945</b>	<b>5,353</b>	<b>4,820</b>	<b>4,340</b>
Council Tax	<b>6,722</b>	<b>6,901</b>	<b>7,085</b>	<b>7,273</b>
Council Tax Collection Fund	<b>97</b>			
Business Rates Collection Fund	<b>350</b>			
Transfer of General Fund Balance to Earmarked Reserves	<b>500</b>			
<b>Total Resources</b>	<b>13,614</b>	<b>12,254</b>	<b>11,905</b>	<b>11,613</b>
<b>Forecast Net Expenditure</b> <i>(including transfer to reserves)</i>	<b>13,614</b>	<b>13,077</b>	<b>13,321</b>	<b>13,493</b>
<i>Original Savings Target</i>	<i>1,005</i>			
<i>Savings achieved to date</i> <i>(included above)</i>	<i>-1,005</i>			
<i>Savings identified but not yet implemented:</i>				
Savings identified 2016/17		-97	-97	-97
<b>Forecast Expenditure after identified savings</b>	<b>13,614</b>	<b>12,980</b>	<b>13,224</b>	<b>13,396</b>
<b>Funding Gap – In Year</b>	<b>0</b>	<b>726</b>	<b>593</b>	<b>464</b>
Cumulative Funding Gap		726	1,319	1,783
Forecast General Fund Balance	2,380	2,380	2,380	2,380

8.3 Government grant figures for 2016/17 - 2018/19 will be subject to the outcome of the next spending review following next year's general election. 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. Within the government grant figures for these years, the Business Rates Baseline Funding element is assumed to increase annually by RPI (2.5%) whereas the Revenue Support Grant element is assumed to reduce by 26% in 2016/17, a further 32% in 2017/18 and a further 44% in 2018/19. This combines to produce an assumed overall reduction of 10% per annum over those years. This is in line with the strategy of removing RSG completely by the end of the next parliament. This has changed since the assumptions used in last year's Medium Term Forecast, which

showed an overall reduction of 5% per annum. Announcements by the government during the last year has resulted in the assumptions in Table 3 being adopted.

- 8.4 The level of net expenditure for 2015/16 is currently estimated to be £13.114 million. This includes the assumptions detailed at para. 8.13 below.
- 8.5 Clearly the forecasts show a substantial gap and the need for significant savings to be identified to achieve a balanced budget, including a robust strategy on the use of balances. All of the original savings target for 2015/16 of £1.005 million has been identified, and progress is being made towards the 2016/17 savings target. This leaves £1.783m of savings to be identified over the medium term without any further use of balances.
- 8.6 The forecasts are based on a proposed 0% Council Tax increase in 2015/16 with a 1.9% increase from 2016/17 and over the medium term. A Council Tax freeze in 2015/16 would increase the savings required over the medium term by an additional £225,000, (net of the government grant received equivalent to a 1% increase). This has largely been off-set by additional business rates received, forecast to be around £188,000 over the medium term. However, as detailed in section 6 above, business rates income is volatile and there remains considerable risks associated with forecasting future income.
- 8.7 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 14 below).
- 8.8 Taking into account the proposals in the above tables, the estimated level of expenditure in 2015/16 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.
- 8.9 The forecasts for the years 2016/17 – 2018/19 are particularly volatile and should be treated with extreme caution. No provisional announcements regarding government grant for these years have been made and therefore, the figures could be better or worse than forecast. The outcome of the next spending review, due in the Autumn of 2015 together with a potential emergency budget following the General Election in May 2015, will determine government funding for these years.
- 8.10 At this stage, CMT and Cabinet are progressing with several savings initiatives which will generate savings in future years. However, the achievement of further efficiencies in future years whilst maintaining excellent services will present considerable challenges for the authority.
- 8.11 The Corporate Plan for 2015 – 18 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.
- 8.12 These financial forecasts are based on the following strategic objectives and guidelines:-
- that the Council's expenditure plans will follow the medium term priorities set by the Council (as shown at paragraph 1.1.) and contained in the corporate plan,
  - that the level of the general fund reserve will be reduced if necessary, over the period of the MTF to provide the resources necessary to deliver priority services,
  - that the level of the general fund reserve will be kept above a target minimum level of £2 million during the current uncertain economic conditions. This minimum level will be kept under review over the next few years.

## **Assumptions built into Budget and Medium Term Forecasts**

8.13 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 8.14 – 8.15. The main assumptions are as follows:

- 0% Council Tax increase for 2015/16 and 1.9% p.a. thereafter;
- 1.32% increase in Council Tax base in 2015/16 and 0.75% thereafter;
- 2.2% pay award for the period 1 January 2015 - 31 March 2016. 1% per annum for 2016/17 and thereafter;
- Allowance for pay increments;
- 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. During 2016/17, the next triennial valuation of the fund will determine the future contribution rate and lump sum payments, which may impact on the forecasts for 2017/18 onwards;
- 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;
- Investment interest rates to stay at current rates until first quarter of 2016 when market rates are forecast to begin rising slowly;
- Continuing impact of 2014/15 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;
- Additional income of £297,000 per annum due to growth (above inflation) for retained business rates for 2015/16 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 2015/16 onwards has been included as detailed in Table 2 above.

## **Risk Assessment**

8.14 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.
- 8.15 2015/16 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 impact of any emergency budget after next year's general election and 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 8.14 above together with robust in-year monitoring systems.
- 8.16 These assumptions are made with all available information, but are necessarily calculated based on some broad criteria. In the current economic climate, some of these assumptions are particularly volatile. The MTFs will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and consideration can be given to any action or changes in direction that may be required.
- 8.17 Appendix G sets out the Chief Finance Officer's statutory report on the robustness of the estimates and adequacy of reserves.

### **Council Tax Referendum**

- 8.18 As part of the 2015/16 final Local Government Finance Settlement announcement on 3 February 2015, the government has confirmed that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases in 2015/16 of 2% or higher.

### **Parish Precepts**

- 8.19 The level of parish precepts set throughout Fenland are provided for information at Appendix E. These will be reported to Council as part of the Council Tax setting process.
- 8.20 As part of the Council Tax Support Scheme and associated government funding (albeit included within the overall settlement spending assessment) , this Council receives grant for the Parish Council element of the scheme, which will be passed on to individual Parish Council's in accordance with the calculated impact of the scheme. In total, grant of £102,360 has been paid to Parish Councils in 2014/15. As a result of changes to the taxbase in 2015/16 resulting from less than estimated Council Tax support being given, the total amount to be paid to Parish Councils will be £96,740. The reduction in grant paid is compensated for by an increase in the Council Taxbase and therefore has a nil effect on the precept. The individual grant amounts have been notified to all Parish Councils and has been taken into account by them when setting their individual precepts.

## **9 FEES AND CHARGES 2015/16**

- 9.1 The Overview and Scrutiny Panel reviewed fees and charges at their meeting on 19 January 2015. The recommended changes to fees and charges were reported to Cabinet on 22 January 2015. All of these recommendations have been included in the financial forecasts.

## 10 SPECIAL AND GENERAL EXPENSES

- 10.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.
- 10.2 If expenses are treated as special expenses then they must be charged against the parts of the Council's area to which they relate.
- 10.3 Parish precepts are special expenses and cannot be treated as general expenses.
- 10.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2015/16.
- 10.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position it is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2015/16.

## 11 PORT HEALTH

- 11.1 The Port Health levy for 2015/16, based on expected expenditure, is recommended as shown in Table 4 below.

**Table 4: Port Health Levy 2015/16**

Description	£
a) Port Health anticipated expenditure	12,360
b) Port Levy	
Fenland District Council	10,939
South Holland District Council	865
King's Lynn and West Norfolk Borough Council	556
Total	12,360

## 12 CAPITAL PROGRAMME

- 12.1 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 external grants or through the ongoing disposal of assets.
- 12.2 A fully updated Capital Programme for 2015-18 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.
- 12.3 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 £3.859 million between now and 2018 to fund the programme at Appendix C.
- 12.4 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.

- 12.5 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.
- 12.6 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.
- 12.7 The programme detailed at Appendix C includes some changes from that reported to Cabinet in December 2014, mainly as result of re-profiling of some schemes. At their meeting on 18 December 2014, Cabinet also agreed to fund the repair/replacement of all Parish Council Category 1 street lights (structurally defective with urgent action required within 12 months), pending further discussions with Parishes regarding the future funding arrangements for other categories of defective street lights.
- 12.8 In addition, three new schemes are proposed for inclusion in the current programme as follows:-
- Replacement of electricity service towers, March Market Place : £13,000
  - Land Drainage improvements, Birch Fen : £20,000
  - Fenland Renaissance – continuation of current scheme : £50,000
- 12.9 Although only the above three schemes are proposed for inclusion 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 in the future. These include maintenance and improvement of assets (mini-factories, car parks, industrial estates, open spaces, leisure centres etc.) and other potential schemes.
- 12.10 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.
- 12.11 The Local Government Act 2003 introduced a new Prudential Borrowing regime. This requires all Councils to set and monitor indicators relating to capital expenditure, external debt and impact on council tax. The recommended indicators for Fenland District Council from 2015/16 are included in the Treasury Management Strategy detailed below and in Appendix D.

### **13 TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2015/16**

13.1 Full details of the proposed Treasury Management and Annual Investment Strategy for 2015/16 are contained in Appendix D. The proposed strategy was presented to and endorsed by Corporate Governance Committee on 3 February 2015.

13.2 The key issues relating to this strategy and its impact on the Medium Term Financial Strategy are as follows:-

- Continuing compliance with CIPFA's Treasury Management Code of Practice and the CLG's Investment Guidance;
- The Prudential and Treasury indicators detailed in paragraphs 2 – 10 of Appendix D, show that the Council's capital investment plans are affordable, prudent and sustainable;
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast;
- The treasury management strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows;
- Total external interest which includes finance lease interest payments; revised estimate for 2014/15 is £497,149. The estimate for 2015/16 is £499,695;
- Levels of investments are set to decrease over the medium term forecast, from £15.15m (31.03.15) to £13.5m (31.03.18);
- Base rates are expected to hold at 0.50% until Quarter 1 2016 before increasing gradually to 2% by Quarter 1 2018;
- Limited opportunities exist to repay or reschedule debt due to the premiums that would become payable on redeeming external debt early;
- The aim of the Council's annual investment strategy is to provide security of investment whilst minimising risk; investment returns are commensurate with the Council's low risk appetite. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy;
- Note changes to the credit methodology following the removal of implied Government support given to financial institutions;
- Total investment income is estimated at £170,000 for both 2014/15 and 2015/16.

### **14 REVIEW OF GENERAL FUND BALANCE AND SPECIFIC RESERVES**

14.1 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.

14.2 The current strategy is not to use the general fund balance to fund the projected deficits in future years from 2016/17 onwards. 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, this strategy will be reviewed as we progress through future budget setting processes.

- 14.3 Sufficient levels of reserves are necessary to provide for various and unplanned for contingencies that may include:-
- significant increased costs of providing statutory services
  - significant increased contractual costs
  - an unexpected and/or significant event or disaster, e.g. civil emergency
  - the need to make significant payments in relation to prior year adjustments under the direction of the external auditor
- 14.4 The Council's current forecast uncommitted General Fund Balance at 31 March 2015 is £2.880m. 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 12 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.
- 14.5 Consequently, it is proposed to reduce the General Fund Balance by £500,000 in 2015/16 and to increase the Capital Contribution Reserve by £250,000 and to increase the Management of Change Reserve by £250,000. To comply with relevant accounting rules, in the various tables and appendices, this proposal will show as a £500,000 contribution from Balances (income), off-set by a £500,000 contribution to Earmarked Reserves (expenditure), thereby having a nil effect on the Council Tax requirement.
- 14.6 A full analysis of earmarked reserves is shown at Appendix F.
- 14.7 Appendix G of this report sets out the Chief Finance Officer's statutory report on the adequacy of reserves.

## **15 COUNCIL TAX – OVERALL LEVELS 2015/16**

- 15.1 After the estimates of expenditure and income have been prepared, and the external sources of grant have been notified from the Government, the next step is to set the level of council tax for 2015/16 for Fenland District Council's share of services. This is the final piece of the "jigsaw" that provides the balance of the resources required to fund the Council's services.
- 15.2 When deciding the level of council tax to set for 2015/16 it is prudent to be mindful of the forecast resources available to the Council over the period of the medium term – 2015 to 2019. In order to meet the objectives and guidelines set out in the MTFs and based on the assumptions shown at Appendix B, the following council tax levels are anticipated :-

<b>YEAR</b>	<b>INCREASE FOR PLANNING PURPOSES</b>
• 2015/16	0.0%
• 2016/17	1.9%
• 2017/18	1.9%
• 2018/19	1.9%

- 15.3 It is expected that these increases together with the achievement of the identified efficiency savings, would provide the resources required to fund the current level of service provision in 2015/16. Over the period of the MTFs 'cashable' efficiency savings as detailed in Appendix B will be identified during the 2016/17 budget process.



- 15.4 Table 5 shows the Band D Council Tax for spending at the level proposed, together with provisional Council Tax levels from the major preceptors.

**Table 5: Council Tax Levels 2015/16**

COUNCIL TAX BASE	2015/16 27,368		2014/15 27,011	
	£	Band D £	£	Band D £
Fenland District Council Budget Requirement	13,113,985	479.17	13,617,860	504.16
Less Government Grants	-5,945,356	-217.23	-6,983,686	-258.55
Net cost of Fenland Services	7,168,629	261.94	6,634,174	245.61
Minus Council Tax Collection Fund surplus	-96,775	-3.54	0	0.00
Minus Business Rates Collection Fund surplus	-350,000	-12.79	0	0.00
Precept on Collection Fund	<u>6,721,854</u>		<u>6,634,174</u>	
<b>Fenland District Council Tax</b>		<b>245.61</b>		<b>245.61</b>
<i>FDC Increase</i>		<i>0.00%</i>		<i>0.00%</i>
MAJOR PRECEPTORS				
County Council - TBC	(1.99%)	1,144.26		1,121.94
Police & Crime Commissioner	(0.00%)	181.35		181.35
Fire Authority	(0.00%)	64.26		64.26
Sub Total BAND D TAX		1,635.48		1,613.16
Increase over 2014/15 (excluding Parishes)		<b>£22.32</b> <b>(1.38%)</b>		<b>£25.29</b> <b>(1.59%)</b>
Parish Councils-average (Appendix E)	<b>(10.71%)</b>	35.76		32.30
Total average Band D Tax		1,671.24		1,645.46
<b>Total average increase over 2014/15</b>		<b>£25.78 ( 1.57% )</b>		