

<b>Key Decision Required:</b>	<b>Yes</b>	<b>In the Forward Plan:</b>	<b>Yes</b>
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## CABINET

24 JULY 2015

### REPORT OF FINANCE AND TRANSFORMATION PORTFOLIO HOLDER

#### **A.4 FINANCIAL STRATEGY – GENERAL FUND INITIAL FINANCIAL BASELINE 2016/17**

(Report prepared by Richard Barrett)

#### **PART 1 – KEY INFORMATION**

##### **PURPOSE OF THE REPORT**

To present an initial General Fund financial baseline for 2016/17 against which the detailed estimates will be built upon over the course of the year.

##### **EXECUTIVE SUMMARY**

- The initial financial baseline for 2016/17 sets out an initial budget ‘gap’ of **£2.229m**. For the purposes of the initial estimates, this is based on a 0% increase in the level of Council Tax and a 28% reduction in the Revenue Support Grant from the Government in 2016/17.
- The above is based on the continuation of the difficult financial environment and year on year reductions in funding from the Government, which are expected to see further reductions beyond 2016/17.
- A number of savings strands are already being progressed which will be finalised as part of presenting the revised position to Cabinet in December. Work also remains in progress in consultation with Portfolio Holders to identify additional items to meet the budget ‘gap’. The Corporate Management Committee is also undertaking work to support the Council in this regard.
- A self-sufficiency approach remains as a core backdrop to the Council’s budget with the business rates retention scheme and New Homes Bonus providing an incentive for council’s to ‘grow’ their own income through maximising opportunities for housing and business growth within their areas. This in itself brings with it the associated focus on local decision making where such decisions have a greater impact on the Council’s overall financial position.
- The initial forecast does not include the final position for items such as cost pressures and potential further changes to budgets although estimates have been included where possible with further details likely to emerge over the course of the year. Therefore it is recognised that the budget ‘gap’ could increase further.
- A number of Essex Local Authorities joined a Business Rates Pool in 2015/16. Subject to the financial performance of this arrangement, which will become clearer over the course of this year, a decision to continue to remain in the pool will be required in the autumn.

- In continuing the principle of passing on the reduction in the Council's Government funding to Town and Parish Council's via the Local Council Tax Support Scheme Grant, it is proposed on reducing the grant by 5% in 2016/17.

#### **RECOMMENDATION(S)**

- (a) That Cabinet agrees the initial financial baseline for 2016/17 and requests officers to continue their work in consultation with the relevant Portfolio Holders to identify the necessary savings to deliver a balanced budget for presenting to Cabinet in December 2015;
- (b) that Corporate Management Committee be consulted on the initial financial baseline for 2016/17;
- (c) that the Local Council Tax Support Scheme grant to Town and Parish Council's be reduced by 5% in 2016/17 and;
- (d) the decision to remain in the Essex-wide pool for non-domestic rates in 2016/17 be delegated to the Finance and Transformation Portfolio Holder in consultation with the Corporate Director (Corporate Services).

## **PART 2 – IMPLICATIONS OF THE DECISION**

#### **DELIVERING PRIORITIES**

This report will have direct implications for the Council's ability to deliver on the commitments, objectives and priorities set out in the Corporate Plan, the Corporate Goals and the Community Strategy.

#### **FINANCE, OTHER RESOURCES AND RISK**

##### **Finance and other resources**

The financial implications are fully considered in the body of the report.

##### **Risk**

There are clearly risks associated with the strategy such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process.

The actual funding gap could therefore be greater than that anticipated which would require a corresponding increase in the savings etc. necessary to balance the budget.

This strategy is risk-based. There are a substantial number of areas that could lead to additional expenditure being incurred, such as: -

- Deteriorating economic environment;
- Emergence of cost pressures;
- Changes to the local authority funding mechanism;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;
- Local or national emergency;
- Income is less than that budgeted for including business rate income retained locally.

It is important that the Council continues to maintain a sufficient level of reserves to support the strategy's risk-based approach. A risk reserve (the general balance) of

**£4.000m** (including the **£1.600m** minimum working balance) remains in place to ensure against the eventuality that some of the events listed above actually occur.

The Council also maintains a NDR Resilience Reserve and Benefits Reserve of **£1.585m** and **£0.679m** respectively to act as a 'buffer' if associated risks arise during the year.

## **LEGAL**

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The new arrangements mean that there are now lower tax bases for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation around the right of veto for residents on excessive council tax increases.

## **OTHER IMPLICATIONS**

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

There are no other implications that significantly impact on the financial baseline. However, the ability of the Council to appropriately address these issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

## **PART 3 – SUPPORTING INFORMATION**

### **BACKGROUND**

Before looking ahead to 2016/17 it is worth looking at some current key financial information about the Council as follows:

- Tendring District Council's Band D Council Tax for 2015/16 is **£147.64**, the second lowest in Essex. The highest District Council Band D Council Tax in Essex is **£263.02**
- The Council Tax base for 2014/15 is **44,290.1** with a total Council Tax requirement of **£6.539m** which represents 44% of the Council's overall funding.
- The Council's Revenue Support Grant from the Government for 2015/16 is **£3.561m**. This represents 24% of the Council's overall funding.
- Business Rate Income for 2015/16 is budgeted at **£4.358m**, which represents 29% of the Council's overall funding.

- The Council's net budget for 2015/16 is **£14.835m**, which includes savings of over **£10.000m** that have been delivered since 2011/12.
- New Homes Bonus funding receivable in 2015/16 is **£1.779m**. The Government have stated that the scheme is subject to review but no outcomes from this review are known at the present time.
- The Austerity Reserve stands at **£3.043m** at the end of 2014/15, which is available to support transformational and invest to save initiatives going into 2016/17.

The Government continues to 'front' load the cuts in RSG, giving limited opportunity for the Council to 'backfill' this gap through growth in Council Tax and Business Rates. This Council remains committed to embracing a self-sufficiency approach such as through a number of regeneration activities which include the SME Growth Fund and Development Fund. The longer term aim is therefore to 'grow' locally raised income from Council Tax and Business Rates to make self-sufficiency at some point in the future. However during the interim period some challenging decisions are required to deliver a balanced budget in the short term to match the Government's 'front loading' approach to grant reductions.

Financial Resilience forms a key area of the work of the Council's External Auditor with the risk of balancing the budget in the short to medium term being raised by them as a key risk that they will keep under review. To date the Council has delivered on this challenge and through the on-going work of Officers, Portfolio Holders and Committee's, a balanced and sustainable budget will be presented to Cabinet in December 2015, which will aim, wherever possible, to limit the use of one-off reserves to support the underlying and on-going revenue budget.

#### FINANCIAL FORECAST 2016/17 – GENERAL FUND

The following table sets out the initial financial baseline for 2016/17. Although this will be subject to revisions and updates as the year progresses, it does set out the estimated initial funding 'gap' for the year.

##### Initial Financial Baseline 2016/17

	<b>2015/16 Original</b>	<b>2016/17 Initial Forecast</b>
	<b>£m</b>	<b>£m</b>
Net Cost of Services	15.435	16.295
Revenue support for capital investment	3.237	0.149
Financing items	(0.692)	(0.692)
<b>Net Expenditure</b>	<b>17.980</b>	<b>15.752</b>
Contribution to /(from) Reserves	(3.145)	(0.335)
<b>Total Net Budget</b>	<b>14.835</b>	<b>15.417</b>
Locally retained share of Business Rates	(4.358)	(4.358)
Formula Grant / Revenue Support Grant	(3.561)	(2.141)
Collection Fund Surplus	(0.377)	(0.150)
<b>Council Tax Requirement (for Tendring District Council)</b>	<b>6.539</b>	<b>8.768</b>

The council tax requirement figure of **£8.768m** above represents an increase of **£2.229m** compared to 2015/16 and if no further actions were taken, this amount would require a **notional 34%** increase in the level of council tax to fully fund the budget. However assuming no increase in the level of council tax in 2016/17, net savings of **£2.229m** therefore need to be identified to reduce the council tax requirement down to the 2015/16 amount of **£6.539m**. (It is worth highlighting that in terms of the impact on the budget from changes in the Council Tax Levy, an increase of 1% would generate additional income of **£0.065m** per annum)

**The amount of £2.229m therefore becomes the starting point or baseline funding ‘gap’ that needs to be addressed in 2016/17 based on an initial assumption of a 0% increase in the level of council tax for TDC Services.**

### **Background to this Initial Forecast**

#### **General Economic Outlook**

The setting of local authority budgets in 2016/17 and beyond will be undertaken against the background of continued economic uncertainty although evidence continues to show that the UK is now in a period of growth. During the summer of 2015, the Government plan on undertaking a spending review to inform the Local Government Finance Settlement in 2016/17 and beyond, with outcomes from this review expected in the autumn.

The Office for Budget Responsibility have also made a number of references relating to the potential future of Local Government Funding with recent comment being as follows:

*“there will be a much sharper squeeze on real [public service] spending in 2016-17 and 2017-18 than anything seen over the past five years”.*

The above therefore sets the context for the significant reduction in the Revenue Support Grant that has been forecasted as set out later on in this report.

Although Local Government has made substantial savings over the past few years, further savings are required. Major changes in the welfare system coupled with challenging economic conditions mean that many household and businesses continue to face financial pressures. This has an impact not only on the demand for support from Local Authorities but also on income levels for both statutory and discretionary services. There is also continued uncertainty in investment markets which means that interest rates and investment income remain relatively low. Specific challenges around business rates retention and the Local Council Tax Support Scheme remain which bring significant and additional risk to the Council’s budget setting processes and financial position.

However on a positive note, 2014/15 saw an increase in a number of income streams which provides a positive outlook going into 2015/16 and 2016/17. Although not reflected in the forecast at this stage, it is expected that estimated additional income will feature in the final budget position that will be presented to Cabinet in December 2015 with work to be undertaken during the coming months to identify a prudent approach set against the performance over quarters 1 and 2 of this financial year.

Taking each line of the forecast set out in the table above, the major changes to the budget forecasted for 2016/17 are as follows:

#### **Net Cost of Services**

The initial forecast reflects a **£0.860m** increase compared to 2015/16. This is primarily due to inflation and a general allowance for cost pressures with additional details as follows:

Item	Adjustment Included	Comments
<b>INFLATION</b>		
Salaries and Increments	£0.335	A 2% general pay award has been included plus progression of staff along salary grades where appropriate. The current level of pay inflation nationally is approximately 2.0% to 2.7%
Major Contracts	£0.120m	This primarily reflects the Council's most significant contracts such as Waste, Recycling and Street Cleansing and is also based on the outturn position for 2014/15.
NNDR	£0.016m	This assumes an inflationary uplift for properties where the Council is liable for business rates.
<b>TOTAL INFLATION</b>	<b>£0.471m</b>	
<b>OTHER ADJUSTMENTS WITHIN NET COST OF SERVICES</b>		
Removal of Elections Budget that met the 2015 district election costs	(£0.120m)	This 4 yearly cost is met from an associated reserve which has also been adjusted as set out below. There is therefore no impact on the budget overall.
Residents Parking Scheme Budget	(£0.300m) 2015/16 scheme budget removed  £0.221m added to the budget to enable the scheme to continue in 2016/17	The 2015/16 scheme was funded from an amount set aside in previous years with a corresponding adjustment set out below within reserves.  £0.221m remains in an associated Parking Reserve. For the purposes of the forecast, this has been 'drawn down' from the reserve as set out below to enable this scheme to continue into 2016/17. As the amount available from this one-off reserve is lower than in 2015/16, it would be prudent to review / redesign the scheme to ensure it can be accommodated within the available funding rather than the difference in cost falling as an additional cost pressure in 2016/17.
Removal of 2015/16 One-off Additional Costs	(£0.062m)	A one-off amount was included within the 2015/16 budget to fund the Women's Cycle Tour which has been removed for the 2016/17 forecast along with an associated adjustment in reserves below.

Initial allowance for Cost Pressures	£0.650	<p>The Council continues to face a number of potential cost pressures such as:</p> <ul style="list-style-type: none"> <li>• Further Welfare Changes / Benefit Subsidy implications</li> <li>• Potential reductions in contributions from other Public Bodies who are faced with the same reductions in Government funding.</li> </ul> <p>Included in this initial allowance is £0.150m relating to the on-going need to recharge the new Clacton to Holland beaches following the completion of the scheme in 2015. Although the longer term performance of the scheme is not yet known, the modelling work undertaken as part of the design phase indicated a recharge would be required every 10 years costing approximately £1.500m.</p> <p>The above list is not exhaustive and work remains ongoing to identify the potential impact and timing of such issues. A general allowance for cost pressures has therefore been included at this stage with an updated position to be finalised for reporting to Cabinet in December as part of the presentation of a balanced budget for 2016/17.</p>
<b>TOTAL</b>	<b>£0.860m</b>	

### **Revenue Support for Capital Investment**

The initial forecast reflects a **£3.088m** reduction compared to 2015/16. This primarily relates to schemes that are being supported by revenue contributions / reserves in 2015/16 such as the Clacton to Holland Coast Protection Scheme. A related adjustment is set out below under Use of Reserves with a net saving of **£0.088m** included in the forecast for 2016/17 once the reserve adjustment has been taken into account.

**£0.150m** is currently included in the 2016/17 base forecast as a revenue contribution to the Capital Programme that reflects the IT Core Infrastructure and Investment Project that remains in progress and spans a number of financial years.

### **Financing Items**

No adjustments have been made as part of the initial forecast.

### **Use of Reserves**

The initial forecast reflects a net change **£2.810m** compared to 2015/16.

This adjustment is primarily 'the other side' of the changes mentioned above and reflects the following adjustments:

- Remove use of reserve to fund the women's cycle tour - **£0.062m**.
- Remove use of reserve to fund the Clacton to Holland Coast protection project -

### **£3.000m.**

- Net change in use of reserve to fund the residents parking scheme - **£0.079m.**
- Remove use of reserve to fund the cost of elections in 2015 – **£0.120m**
- Remove one-off contribution to the NDR Resilience Reserve in 2015/16 - (**£0.481m**)
- Remove one-off contribution from reserve to fund the living wage commitment in 2015/16 - **£0.030m** (*the cost of this on-going commitment in 2016/17 and beyond will form part of the overall salary budget that will be included in the final budget position reported to Cabinet in December 2015*)

### **Business Rates – Locally retained share of Business Rates**

The forecast currently reflects the same level of income as in 2015/16. Work will be undertaken over the coming months, which will take into account the performance over the first half of 2015/16, to identify a prudent budget that will take into account issues such as growth in the 'property base', the outcome from appeals along with any announcements by the Government such as capping the level of increase each year as was the case 2015/16. In respect of the last point, grant funding is receivable from the Government to reimburse Council's for the 'lost' income.

A significant amount of financial uncertainty and risk remain around this budget item with an associated reserve established last year to act as a 'buffer' to potential changes in income, which may be outside of the direct control of the Council.

Following an agreement in October 2014 by the Finance and Transformation Portfolio Holder in consultation with the Corporate Director (corporate Services), the Council joined an Essex-wide NDR Pool for 2015/16. Although indications are that this will yield a financial benefit to the Council, no adjustments have been made in the budget to date. The position is being monitored by the Essex Authorities in the pool and it is expected that the financial impact of being a member of the pool will be included in the final budget proposals when presented to Cabinet later in the year.

A number of additional risks have emerged since the Essex-wide Pool was formed for 2015/16 such as the increase in rate appeals at the end of 2014/15. These risks will need to be considered going forward into next year to determine whether it remains financially advantageous to remain in the Pool.

If all other Pool members decide not to continue in 2016/17, then by default the pool will 'close' with no decision required by the Council. However if the pool continues into 2016/17 then a member decision will be required. The recommendations above replicate the same approach last year in as much that it is proposed that the decision to remain a member of the Essex-wide NDR pool in 2016/17 be delegated to the Finance and Transformation Portfolio Holder in consultation with the Corporate Director (Corporate Services).

### **Revenue Support Grant from the Government (RSG)**

In line with the context mentioned earlier in this report, significant reductions in RSG are expected in 2016/17, 2017/18 and 2018/19. The initial forecast currently reflects a 28% reduction in RSG which reduces the amount receivable to **£2.561m** in 2016/17.

The Council also receives Council Tax Freeze grant funding from the Government and the cumulative amount included in the 2015/16 budget is **£0.420m**. No commitment was made by the Government to continue this funding stream post the General Election in May 2015. Therefore for the purposes of the forecast, the full amount has been removed from the budget. This reduces the RSG down to an estimated **£2.141m** in 2016/17.



In terms of a range of potential changes that will become clearer following the Government's spending review later in the year, the table below sets out some sensitivity testing around this important figure in the budget:

Potential RSG Change over and above what is currently included in the Forecast	Change in Grant compared to 2015/16	Forecasted Budget 'Gap' if other items remain constant
13% reduction in RSG	(£0.463m)	£1.695m
18% reduction in RSG	(£0.641m)	£1.873m
23% reduction in RSG	(£0.819m)	£2.051m
26% reduction in RSG	(£0.926m)	£2.158m
<b>28% reduction in RSG which is currently included in the forecast</b>	<b>(£0.997m)</b>	<b>£2.229m</b>
30% reduction in RSG	(£1.068m)	£2.300m
33% reduction in RSG	(£1.175m)	£2.407m
38% reduction in RSG	(£1.353m)	£2.585m

The above therefore presents a range of outcomes that could emerge from the Government's spending review with for an example a reduced budget gap of **£0.534m** if the RSG was reduced by 13% instead of the 28% currently included in the forecast.

### **Other Budget Considerations**

In 2015/16 the Council, along with other Essex Authorities, entered into a revised Council Tax Sharing agreement with the major preceptors. At this stage in the financial strategy process, it is assumed that the major preceptors will remain committed to the remaining 2 years of the 3 year agreement that expires at the end of 2017/18. It is possible that a major preceptor may wish to give notice to terminate the agreement which would need to be considered as the budget is developed over the coming months.

The potential income receivable from the current arrangements is expected to reduce in 2016/17 as there are transitional arrangements in place to spread the change in income compared to the old agreement across financial years. However this may be offset by increases in Council tax collectable with a final position being developed over the next few months as amounts collectable / collection performance for 2015/16 emerges.

A further phase of Council Tax sharing arrangements is currently being developed by Essex Authorities and the necessary decision to be a member of any revised scheme was delegated to the Finance and Transformation Portfolio Holder and the Benefits and Revenues Portfolio Holder by Cabinet on 12 June 2015 as part of the 2014/15 Outturn Report.

### **LOCAL COUNCIL TAX SUPPORT SCHEME (LCTSS)**

The Government funding to support the LCTSS has been 'rolled-in' to the Council's overall funding position (Revenue Support Grant and NDR Income) since 2013/14.

Although there has been a considerable reduction in the overall level of RSG in 2014/15 and 2015/16, with further reductions forecast in 2016/17, the Government maintain their argument that there has been no reduction in the 'element' relating to the LCTSS and so it should be assumed that a similar level of funding remains available within the overall grant settlement amount each year. However there are no ring-fencing arrangements within the

general government grant amount so it is up to the councils on a local basis to determine any such arrangements. Furthermore, the further we move away from the year when the change was made the harder it will be to argue which elements of the formula grant relate to the LCTSS and an argument that is difficult to sustain in the longer term.

The Council's LCTSS is subject to review each year and for the purposes of the initial financial forecast it has been assumed the Council will maintain the underlying principle from last year of designing a scheme that does not place additional burden on the Council's overall financial position in 2016/17. It is recognised that this will be subject to separate member review as part of developing an LCTS Scheme for 2016/17, and if this initial approach is subject to change then the financial impact will need to be considered as part of that separate review and reflected in the budget setting process as appropriate.

### **LCTSS Grant to Town and Parish Councils**

As part of the 2014/15 and 2015/16 budget, the overall reduction in funding experienced by TDC was 'passported' across to Town and Parish Councils who therefore saw corresponding reductions in the grant receivable from this Council. This resulted in the overall level of grant funding being reduced as follows:

- A reduction of **£0.030m** in 2014/15 (*from £0.202m in 2013/14 to £0.172m in 2014/15*)
- A reduction of **£0.017m** in 2015/16 (*From £0.172m in 2014/15 to £0.155m in 2015/16*)

In respect of 2015/16, the reduction in grant to Town and Parish Council's was 'capped' at 10% regardless of the net reduction in RSG / NDR Income. This approach enabled Town and Parish Council's to be certain of the grant amount when determining their own precept rather than being exposed to the potential change once the Council had received confirmation of its own RSG settlement late in the budget setting process. Given the further reduction in RSG expected in 2016/17 the option to further reduce the grant to Town and Parish Council's remains.

The individual reductions in grant funding experienced in 2014/15 ranged from £4 to £5,000 across the 27 Town and Parish areas. However it is important to note that after reflecting increases to the Council Tax base, which largely offset the reduction in grant, the final position saw net increases in some Town and Parish Council's funding positions. It is also recognised that Parish / Town Councils have the ability to consider meeting any shortfall via increases in their precept or by finding savings elsewhere within their budgets, although it is acknowledged that they may fall into the same Council tax referendum rules as the Council at some time in the future.

The Council's current funding position sees an overall reduction of 13% (RSG and Business Rates but excluding Council tax Freeze Grant), however as the final position will not become clearer until later in the year and to give Town and Parish Councils some certainty around their funding position as early as possible, it is proposed on continuing with the existing approach but reduce the grant to Town and Parish Council's by only **5%** in 2016/17. Although the Council's overall funding position may change when the final position is presented to Cabinet in December 2015, it is not proposed on further reducing this grant and therefore the proposed reduction will in effect be 'capped' at **5%** for 2016/17. This will see reductions in grant funding ranging from **£2** to **£2,280** for the year. The Council Tax base will be subject to review later in the year which may partly offset this position in 2016/17 similarly to last year although this cannot be confirmed until the Tax Base is approved in early December 2015.

## 2016/17 INITIAL FORECAST SUMMARY, CONCLUSIONS AND PROPOSED WAY FORWARD

Based on reflecting the adjustments to the base budget that the Council are currently aware of and taking into account the provisional Government grant settlement, an initial savings target of **£2.229m** for 2016/17 has been identified. This position is broadly in line with the amount identified last year that was presented to Cabinet as part of the 2015/16 budget setting process and therefore officers have been working on identifying the necessary savings as a continuation of the cyclical budget setting process.

Management Team are already overseeing work that is delivering savings, such as reduced expenditure or increased income, without impacting on front line services. The Corporate Management Committee is also supporting the Council in identifying net savings to close the budget 'gap'.

Members and Officers need to continue to maintain this momentum to enable a balanced position to be present to Cabinet in December 2015. This work is set against a context of the Council providing a significant range of services over a large geographical area with a significant elderly population. Within our district are some of the most deprived areas in the country. The Council provides a coastal and tourism based infrastructure and is actively working on enhancing its tourist seafront areas and develop the business and economic potential within the district.

The Council must therefore ensure that its budget is sufficient to provide the wide range of services that its diversity and needs demand and also support new development and growth. Although the Council has met its savings target up to 2015/16, there are further reductions in funding and along with other pressures faced by the council it is expected that further significant savings are required beyond 2016/17.

Set against the context above the proposed actions to deliver the savings target of **£2.229m** for 2016/17 are summarised as follows:

- **2014/17 Outturn Reviews** – A review of the end of year variances for 2014/15 to identify where budget reductions can be made on an on-going basis such as areas where income continues to recover from the lows of 5 years ago following the financial crisis.
- **Efficiencies / Staff Reviews** – Departments / Services to challenge and review how their services are delivered to identify any savings that can be secured on an on-going basis.
- **Transformational Activities** – work remains in progress in areas such as ICT, printing and scanning which are expected to deliver savings over the life of the projects.

As part of the activities set out in the bullet points above, Members will be faced with some difficult and challenging decisions to secure the savings required in 2016/17 and beyond.

As part of the budget monitoring process in 2014/15, **£0.727m** was set aside in the Austerity Reserve that increased this earmarked reserve to **£3.043m** at the end of 2014/15. Where savings can be found early and therefore ahead of the 2016/17 financial year, it is proposed to continue to 'bank' such amounts as they are identified during the course of the year to support the delivery of a balanced budget in 2015/16.

It is recognised that if one-off amounts from reserves are included to balance the budget in

2016/17, they will need to be 'back filled' with savings from 2017/18. However the current aim is to limit wherever possible the use of one-off amounts from reserves to support the on-going revenue budget.

This approach will be supported via the Budget Monitoring Reports, with the first quarter's position for 2015/16 being presented to Cabinet in September.

#### **ASSESSMENT OF THE FINANCIAL POSITION FOR 2017/18 AND BEYOND**

Although this report primarily focuses on an early / initial financial baseline for 2016/17 it is worth taking the opportunity at this stage to have a brief look to 2017/18 which will be covered in more detail when financial planning updates are provided to Cabinet later in the year.

Some of the main considerations in respect of the 2017/18 and beyond position are as follows:

- New and on-going impact of Government Spending Reviews and any further announcements
- Inflation
- Reductions in grants from other public bodies
- Development and delivery of Key Council Projects
- The future of the New Homes Bonus
- New legislation / regulations such as the Housing Bill
- Impact of welfare changes
- The performance of the Business Rates Retention regime
- Building on a self-sufficiency style approach
- Other Cost Pressures and emerging new burdens

Based on the challenges and risks faced in 2016/17 including the items highlighted above, the potential magnitude of the funding gap in 2017/18 and beyond is difficult to forecast. However based on early estimates the potential funding 'gap' in 2017/18 could be as high as **£2.000m** with further savings required of **£1.500m** and **£2.000m** in 2018/19 and 2019/20 respectively.

The Council needs to continue to rise to the financial challenges it faces and build on the significant actions and activities that have already delivered savings of **£10.000m** since 2011/12. Over the coming months, further work will need to be undertaken to ensure that further savings and efficiencies are driven out of the budget, to focus on what the essential priorities of the Council are and to continue to undertake reviews of budgets and services within each Department and identify where the Council can maximise any commercial opportunities. This will put us in the best possible position in 2016/17 and going forward in to 2017/18 and beyond.

#### **BACKGROUND PAPERS FOR THE DECISION**

None

#### **APPENDICES**

None