Cabinet
10 November 2015 **APPENDIX F**

BUDGET PLANNING 2016/17

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1 Purpose

1.1 This report sets out the high level issues facing the Council when developing budget proposals for 2016/17 and in terms of updating its Medium Term Financial Plan (MTFP).

1.2 The report also sets out a proposed timetable in order to agree the budget and set the Council Tax prior to the end of February 2016.

2 Recommendations/for decision

2.1 Cabinet is requested to consider the report and agree the approach proposed for developing the 2016/17 budget and the Medium Term Financial Plan.

3 Supporting information

3.1 The current Medium Term Financial Plan (MTFP) for 2016/17 was agreed by Council in February 2015. This predicted the need to identify £0.7 million of savings in order to balance the budget for 2016/17 based upon the information available at that time and a set of assumptions around key variables within the budget.

3.2 These key assumptions will need to be revisited and reviewed as part of the budget planning and preparation process for 2016/17 and for the 4 years thereafter, which make up the Medium Term Planning period.

3.3 The previous 5 years have been categorised by the Government's balancing of the public sector funding equation and for local government this has meant dealing with large reductions in funding support whilst managing the expectations of the Vale's residents.

3.4 In terms of the Government's financial agenda, most of this period was framed within two significant spending review periods.

3.5 Post the Election in May, the Country is now waiting on the Government to produce a new Spending Review in order to give direction and provide the shape of the funding landscape over the next 5 year Parliamentary term period.

3.6 Even without this, there is clarity over the fact that the Government is still committed to its objective of balancing the budget within this 5 year planning period and, therefore, continued efficiency, income generation and potentially cut backs for local government will be the main messages.

3.7 The Chancellor is expected to give the results of his Spending Review on the 25th November 2015. This will provide headline numbers for each Government department. It is, therefore, expected that we will not receive grant allocation numbers until late in December.

3.8 Given that this is a pivotal point for the Government in determining its policy for the next 5 years, much depends on the outcome and much may change as a consequence. An announcement of the detail for individual councils in late December, after the point by which the Cabinet must publish its initial proposals, therefore presents a considerable headache in terms of financial planning.

3.9 Not only will the Spending Review be relevant for the Grant allocation numbers, but it will also determine the Government's policy intention towards other areas, such as housing, welfare and council tax strategy, which in turn may well have significant implications for the way in which the Council organises itself and the way in which it allocates its resources.

3.10 This report proposes a strategy for resolving the budget within this wider uncertainty, provides an update on the key assumptions / risks and also considers the options and alternative approaches which are available for resolving these.

4 Government Grant

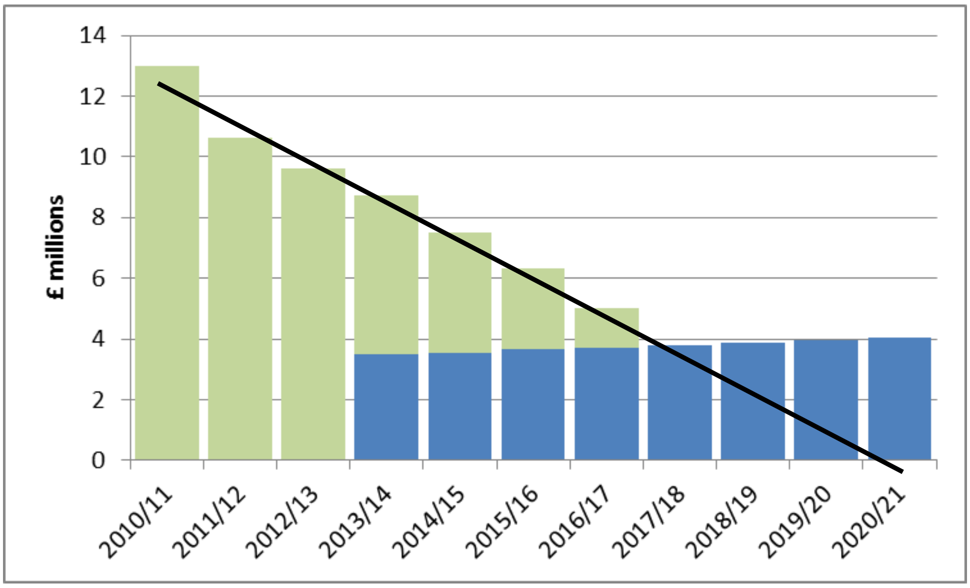
4.1 The Government has been dealing with the inherited public sector deficit since the banking sector collapse in 2009/10. The Government's objective has been to return the economy from an annual deficit to a surplus. The scale of this challenge was vast and the impact on public services has been far reaching.

4.2 Since 2010/11 the Council has seen its Government support (Grant) towards the cost of services reduced from an equivalent of £13 million to £6 million in 2015/16. Given that in 2010/11 Government's support funded 58% of services residents enjoyed, the impact of this reduction has been far reaching for the Council.

4.3 The Council has reacted through increased efficiency, higher charges in some areas, new money making initiatives and through the reduction and the ending of some services. However, against this backdrop the majority of services survive and in many cases the quality of service provided has improved.

4.4 From the 1st April 2013, Government Grant is now made up of two elements, Revenue Support Grant and Retained Business Rates. The system of Business Rate Retention allows councils to benefit (or lose) from changes in the amount of business rates collected in their area and thus each council will be incentivised to promote economic expansion.

4.5 The chart below shows how grant has reduced since 2010 and the black line indicates the current core Medium Term Financial Plan assumption on the future trajectory for grant allocations.



4.6 Core to the Council's financial planning is the underlying assumption that all Government Grant support, including that represented by Retained Business Rates, will end by 2020/21.

4.7 Whilst it is believed, that the Government might not actually remove the retained element of business rates, it has been assumed that they will capture value associated with it through other means, i.e. by removing another funding stream, by introducing a new charge or by passing on a new unfunded responsibility.

4.8 The Chancellor's statement to his Party's conference in October 2015, that all business rates will be retained by councils in 2020, does not directly contradict the planning assumption view held above.

5 Chancellor's Statement and its Potential Implications

5.1 In a major announcement made to the Conservative Party Conference on 5th October, Chancellor George Osborne set out plans to hand over, by 2020, 100% of business rates revenues - currently worth £26bn a year, to local government.

5.2 Entitled 'devolution revolution' the stated aim of this reform, is to ensure all income from local taxes goes on funding local services, so helping fix the current broken system of financing local government.

5.3 As part of the Chancellor's proposals, the Uniform Business Rate, established back in 1990 and set by central government, would be abolished. Instead, local authorities would have power to cut business rates to attract economic activity in their areas. As a further incentive, local areas would be allowed to keep the full benefit from growing their business rates yield as a reward for promoting growth. The announcement is, therefore, effectively about 100% retention of growth in business rates by local authorities.

5.4 However, in return for full business rates retention Revenue Support Grant would be phased out and local government will also be asked to take on new, as yet unnamed, responsibilities but which are thought to be centred around economic growth, so as to ensure the reforms are fiscally neutral.

5.5 Whilst on the face of it, this is a positive announcement for local government there is considerable detail which will need to be explained before the true nature of the announcement and its implications for individual councils can be understood.

5.6 At the centre of this are the nature of the new obligations, the allocation of growth between tiers, the baseline allocation of resources across the Country (currently Aylesbury Vale collects £46 million but only keeps £3½ million) and what safety nets might exist for areas overly dependent on a single employer.

5.7 Hand in hand with this announcement was the statement that Core Grants (Revenue Support Grant) will effectively end at the same time. Core Grants are paid from the 50% of all business rates which the Council currently retains and so its ending is a necessary part of this announcement. In practice the Medium Term Financial Plan for Aylesbury Vale assumed this would end anyway in 2017/18, as the Council effectively dropped out of the Grant system at that point.

5.8 However, other funding streams, such as New Homes Bonus, were funded by the Government from the 50% of all Business Rates that it received. Therefore, without Core funding, in all probability this announcement will also see the ending of NHB and other funding streams.

5.9 Whilst 2020 is towards the end of this Planning period and therefore might seem a relatively distant consideration, it is possible that the Treasury might work towards convergence over the intervening years and therefore the impacts of the announcement might be felt much sooner.

5.10 It is too early at this stage to speculate what the impacts might be, but they will be explored through the budget planning process as they become clearer.

6 Determination of Grant Numbers for Provisional Budget Planning

6.1 The Government pre announced indicative settlement figures for 2015/16 in 2014/15 so the Council was able to plan with a degree of certainty for the reductions in funding.

6.2 This year, because of the significant implications that might arise from the Spending Review, no pre announcement is likely.

6.3 Given the potential scale of the financial challenge facing the Government and its clear intent to consider radical solutions, which might include the fundamental redesign of the funding system and / or potentially even the structure of local government as part of its devolution agenda, the scale of any changes to the core grant funding stream are hard to predict.

6.4 Over the past 3 or 4 years the reduction for this Council has fairly consistently averaged £1.2 to £1.3 million per annum. The reduction for 2015/16 was £1,176,380. Whist there remains enormous future uncertainty, this trend has proved to be at least fairly reliable over previous years.

6.5 Therefore, in the absence of any clearer information it is proposed to base Medium Term Financial Planning on the continuation of this trend with Grants still being completely removed from the Council by 2020.

6.6 It should be reemphasised that there is considerable potential for the actual position to be worse or better than this assumption and to combat the risks associated with either outcome it is proposed that an element of scenario planning is built into the draft budget proposals.

6.7 The actual Grant reduction numbers are not expected to be announced until December (potentially the 23rd or 24th, if the announcement follows the pattern of previous years), which will again impact upon the Council's ability to consider its budget planning proposals in good time.

7 Business Rates Growth Retention

7.1 As highlighted earlier, one of the key features of the new system of government funding was the introduction of local Business Rates Retention. More specifically, retention of a proportion of growth or losses. As is often misunderstood, it does not mean the retention of all business rates collected locally.

7.2 Growth or losses sit outside of the Grants system, although do have a relationship to it.

7.3 In practice, after levies and tariffs (needs based assessments) are applied this Council will keep only 20% of any real growth after inflation, and only 6% of the total business rates collected. This is somewhat different to the 50% nominally messaged and considerably short of the 100% often implied.

7.4 Conversely, the Council will still have to meet 40% of the cost of business rate losses or reductions. This includes 40% of the entire cost of backdated appeals (refunds) back to 2005 or 2010 where a valuation is appealed and won.

7.5 Officers have been keeping a careful eye on actual Business Rates collection performance during the first 2½ years of the scheme's operation so as to better understand the impact on the Council's finances.

7.6 Based upon this monitoring the conclusion reached is that Business Rates Retention produces volatile outcomes, but on balance does appear to be producing real growth in the Vale.

7.7 There are some significant caveats to this statement, not least of all, the outstanding appeals associated with the highest value retail properties (the large supermarkets) as these have the potential to significantly reduce the value of rates paid. It is primarily this uncertainty which leads the Council to be cautious in either forecasting, or utilising any predicted gains from the business rates retention system.

7.8 An appeals reserve has been created against this inherent volatility and an appeals provision exists within the business rates collection account. This can be drawn upon to smooth out the volatility.

7.9 For information the actual outturn for 2014/15 is set out in the table below. This information has been reproduced in order to explain the distribution of surpluses generated within the system.

Distributed as Follows:		Budget 2014/15	Actual 2014/15	Change + / -
		£M	£M	£M
Business Rates Collected		48.929	49.064	
Set aside for Appeals				
Balance Available for Distribution		48.929	49.064	
Government	(50%)	24.465	24.532	0.067
Bucks CC	(9%)	4.404	4.416	0.012
Bucks F&R	(1%)	.489	0.491	0.002
AVDC	(40%)	19.572	19.625	0.053
Minus Tariff		- 15.722	- 15.722	-
Retained Business Rates		**3.850**	**3.903**	**0.053**
Compensation for Govt. Changes		0.650	0.901	0.251
Disproportionate Growth Levy		- 0.476	- 0.629	0.153
Retained Business Rates (Loss)		**4.024**	**4.175**	**0.151**

7.10 Importantly, the Council is paid Business Rates based upon the budgeted number and so the small gain will be available for use as part of budget planning.

7.11 Looking forward, whilst 95% of all outstanding appeals have been resolved the largest and highest risk appeals are still in the 5% which has not. These supermarkets' appeals remain the issue of most concern as this has the greatest potential impact on the value of retained business rates.

7.12 Beyond their resolution, confidence in the Vale producing business rate growth is high and is therefore likely to be able to draw gain from the system.

8 Business Rate Pooling

8.1 The Government included within the legislation the option for councils to pool Business Rate income in order to reduce the amount of payments (Levies) to the national pool in the event of excess business rate growth.

8.2 Aylesbury Vale, together with partner authorities, has submitted an expression of interest in pooling in each of the previous three years, only to subsequently withdraw the application due to shared concerns over the potential downside risks linked to the outstanding appeals.

8.3 Again, the respective finance officers of the councils in Buckinghamshire have been working on the options for submitting a potential pooling application this October.

8.4 Whilst it appears that there is potential gain to be derived from submitting a Pooling application, as yet, the Government has not yet published a Pooling prospectus for 2016/17. In previous years this was published at the end of July for an end of October submission deadline.

8.5 The delay in publishing its intentions for 2016/17 is looking increasing unusual. When taken in context of the Party Conference announcement by the Chancellor, it is looking increasingly as if Pooling will be subsumed within the future plans for the reform of the Business Rate distribution process.

8.6 Given the timeframes, and the fall of Cabinet meeting dates, officers from across Buckinghamshire will continue to work on a submission in the event that a short window of opportunity is presented. A verbal update will be given to Cabinet at its meeting on the status of any application.

9 Council Tax Freeze Grant

9.1 Each of the previous 5 years have been marked by the offer from the government of a Council Tax Freeze Grant for those councils which do not implement a tax increase in individual years.

9.2 The extent and value of Freeze Grant on offer has varied, year on year, but ultimately any payment offered has been added to Core Grant and has therefore been eroded in proportion to the reductions of that Grant.

9.3 The Council's Medium Term Financial Plan already assumed the ending of Core Grant for this Authority by 2017/18, and with its ending the extinguishment of any benefit derived from accepting the Freeze Grant in any previous year.

9.4 The statement by the Chancellor, that all Core Grant will end by 2020, confirms this assumption and will potentially ensure the ending for all councils of any benefit derived from accepting Freeze Grant over the past 5 years.

9.5 For those that chose not to freeze tax, a cap of a 2% maximum increase has applied, above which a referendum of the electorate must be undertaken to gain agreement for a higher increase.

9.6 In all 5 years only one referendum has been held (by a Police authority) and this was heavily defeated. Given the costs of holding a referendum and difficultly in persuading a community to accept a higher increase the threshold, in all but name, effectively represents a cap on Tax increases.

9.7 With a change in Secretary of State and with a change in the make up of the Government post May's General Election, it is not known what the Government's attitude towards Council Tax will be over the next Parliamentary term.

9.8 Intrinsically, the Government is a Party of low taxation and it seems unlikely that there will be any rolling away of the control the Government has sought to exercise over this area.

9.9 By way of a pointer, the Chancellor's announcement on control over Business Rates also included a cap on the ability to increase their level, (although, did include complete freedom to reduce them by any amount), and even this freedom was restricted to those demonstrating the strongest local governance models.

9.10 Whilst this is only speculation, it seems likely that the Government will continue to exercise control over Council Tax increases in this Parliamentary term in much the same way as it did over the previous one. The only exceptions might be for those that have been handed greater devolved control by the Government.

9.11 Because of the absence of any lasting benefit from accepting Freeze Grant and the massive financial challenges presented by the reductions in Grant, the Council Tax strategy adopted has broadly been to increase Council Tax, at least in line with inflation, up to the Council Tax Referendum Threshold.

This strategy has been finessed in each year to take account of point in time issues.

9.12 Whilst the applicability of this Strategy is reviewed annually, taking into account revised assumptions around grant levels, retained business rates, the level of savings / new income generated and the anticipated impact of any reduction in service provision caused by any predicted unfunded budget gap, it is still assumed to generally hold true across the Medium Term Financial Planning period.

10 Aylesbury Vale District Council Tax Base Changes

10.1 The Tax Base is a measure of the number of household which are liable to pay Council Tax in the area in a given year. The Tax Base also takes into account the banding (size) of the property and the entitlement to discounts of the occupiers.

10.2 With the growth in the Vale over recent years the Tax Base has increased significantly above its historic growth trends, resulting in more Council Tax being payable. Whilst useful, in terms of delivering services, the reality is that the growth which has resulted in the Tax Base growth often contributes more cost, by way of demands for infrastructure and services, than the increased Council Tax income new residents will pay.

10.3 It is estimated that the combination of these factors will result in Tax Base growth in excess of 2% in 2016/17 (3% in 2015/16).

11 New Homes Bonus

11.1 The gap in funding for infrastructure and services caused by growth has in part been met by the Government through its introduction of New Homes Bonus. This is has proved to be a valuable and important resources for the Council in recent years in terms of addressing pressures faced, but also in terms of sharing the benefit with the communities impacted by growth.

11.2 The Government funds New Homes Bonus (NHB) by top slicing the amount available for Core Formula Grant to councils. All councils are therefore losing a proportion of their grant to pay for the introduction of the Bonus scheme.

11.3 The NHB Policy agreed by Council allows for a proportion of the Bonus received to be used in the revenue budget to compensate for the loss of grant that NHB represents, plus the unfunded costs of providing a standard level of service to the new homes built in the Vale.

11.4 Crucially, the Council's revenue budget is not dependent on NHB (or new house building) and the vast majority of it is set aside for infrastructure projects sponsored by both the District and parishes. However, this statement is predicated that if New Homes Bonus ended, the resources tied up within the scheme would be returned to local government in the proportion with which they were contributed.

11.5 The Council has always been sceptical as to the longevity of the New Homes Bonus Scheme, partly because there is considerable uncertainty over whether it achieves its policy objective, but also because of the considerable strain it places on the local government funding system. For this reason it has consistently chosen to limit its revenue exposure to the funding stream.

11.6 Given that New Homes Bonus is funded by the Government through the top slice of Core Grant, the announcement by the Chancellor of the ending of Core Grant by 2020 (replaced by the full retention of Business Rates) means the ending of New Homes Bonus within that timeframe seems much more probable.

11.7 The Medium Term Plan for 2016/17 agreed back in February assumed that a 6^{th} adjustment would be made to the revenue budget based on the New Homes Bonus associated with growth actually delivered in 2015/16.

11.8 Whilst it is considered unlikely that New Homes Bonus will be abolished completely in 2016/17, (because of the revenue budget exposure many councils have to it), the continuation of the scheme in its present form is also considered to be unlikely and this is therefore flagged as a significant risk area in the development of budget plans for 2016/17 and the Medium Term Financial Planning period.

12 Inflation, Pay and other Economic Pressures

12.1 The MTFP agreed in February made assumptions around these elements based upon a gradual improvement in economic outlook. In practice, whilst the economy has now started to show some tentative signs of recovery the rate of inflation remains low and seems likely to remain relatively constant for now.

12.2 Beyond this current low point, the predictions are that any changes are likely to be upwards, but only gradually. As a result the amounts assumed for Pay and Inflation in the MTFP are, if anything, slightly overstated but will be reviewed and refined through the budget development process.

12.3 The introduction of the Living Wage by the Chancellor is expected to impact the Council over the Medium Term Plan period. Not specifically in relation to its own workforce but through higher contract costs. Already we have been made aware by some contractors that the Living Wage will mean higher operating costs for them and that ultimately these will be passed on through contract re-tendering exercises.

12.4 The Government's Pension reforms also impact in 2016/17 as the National Insurance reduction for contracted out pension arrangements will end. This will mean higher Employer National Insurance contributions and higher costs to employees too.

12.5 The date for the ending of the arrangement and the higher costs associated with the change have been known for a number of years and the Medium Term Financial Plan has already factored this change in.

12.6 The 31^{st} March 2016 sees the next tri-annual pension fund revaluation. Whilst any changes in pension costs associated with this will not impact the budget in 2016/17, it may have implications for 2017/18.

12.7 At this stage, it is too premature to say what the implications might be, but members will be kept informed as the picture develops.

13 Financial Impacts of Major Capital Investment Decisions

13.1 The revenue financing implications arising from the decision taken by Council to construct the Aylesbury Vale University Campus were factored into the budget for 2015/16.

13.2 The rental income becomes payable upon occupation and this has been factored into the Medium Term Financial Plan.

13.3 In terms of new impacts, the Capital Programme is to be considered in a broadly parallel process to that of revenue budget development and the revenue impacts of any funding decisions taken will need to be considered and built into revenue planning as part of the approval process.

13.4 Where the Council has had spare cash balances available, it has used these in lieu of borrowing. This reduces the need to take long term borrowing and also the Council gets the lender's return, thus it is financially advantageous to do so.

13.5 Utilising spare cash in this way is especially advantageous during periods of low interest rates. It is generally predicted that the Bank of England will begin to increase base rates in 2016, but this is still heavily dependent on external and global factors and any increase, when it comes, is likely to small and gradual.

13.6 The impact on investment income, the costs of borrowing and the returns or savings from investment decision must therefore all be considered together in order to understand the actual impacts of these decisions.

13.7 The final impact of completed and planned investment decisions are still being modelled and will be set out in more detail in subsequent reports.

14 Aylesbury Vale Estates

14.1 Cabinet and Scrutiny has yet to examine and approve the annual Business Plan for Aylesbury Vale Estates. This is largely due to a change of Board membership and the use of the opportunity this presented to re-evaluate the objectives and performance of the vehicle

14.2 Whilst officers are engaged in this challenge process it is premature to bring forward a final business plan for consideration.

14.3 However, the financial models for the next 3 years (including the current year) are well developed and these will be used as the basis for the Council's Medium Term Financial Planning.

14.4 The proposed Business Plan included two scenarios, a base (or central) case and an enhanced case. The enhanced case sets out higher predicted returns for the investors, but was more dependent on events not directly under AVE's control. For the purpose of Budget Planning the Base Case will be used, this being the lower risk, lower return scenario.

14.5 From the Council's perspective, returns from AVE have not grown as expected over previous years. Many of the reasons for this are outside of AVE's direct control and are a matter of record, but the Council is increasingly anxious to see AVE to move beyond these historic barriers to maximise the benefits and gains promised by the vehicle at its inception.

14.6 Officers will continue to work with the Board and the Asset Manager to develop plans which will deliver against the Council's aspirations for it in the short to medium term.

14.7 Progress in this regard will be reported to members through the budget development process.

15 Service Based Budgetary Pressures

15.1 As part of the budget development process a review of service based budget pressures will be undertaken. At this stage, and with the possible exception of waste, these are not understood to be extensive.

16 Savings and Transformational Efficiencies

16.1 The Council has been committed to savings, new income generation and transformational programmes for the past few years in recognition of the fact that the national funding position was likely to continue to deteriorate over the life of the MTFP. These programmes are known internally as ‘New Business Model’ (NBM).

16.2 These have already delivered significant contributions to savings targets and it is expected that they will continue to do so. A table of savings achieved since the Government’s reductions in Grant funding commenced are set out below. This shows savings and income realised to date are in excess of £11 Million.

Year	Savings / New Income Identified £
2011/12	2,809,700
2012/13	2,030,200
2013/14	1,339,900
2014/15	2,427,600
2015/16	2,456,500
Total	11,063,900

16.3 The NBM programmes are designed to enhance and develop new income streams, rationalise existing services and to cease some services where they are not valued by residents. Through this approach the Council has thus far been able to avoid crude cost cutting exercises. Around a third of savings are being achieved from new income sources with the remainder from efficiencies.

16.4 Officers have continued to explore transformational pieces of work under the badge of New Business Model in order to deliver the bulk of the predicted saving, with this being supplemented by opportunistic savings where these present themselves.

16.5 Whilst the NBM programme has reaped considerable efficiencies and new income sources over the last 4-5 years, there is only so far that such a programme can go before more major structural changes are needed to continue the quest to deliver the level of change and savings required by the reduction in Government Grant. We believe that we are approaching the point where the level and pace will slow dramatically as avenues for change are exhausted without wider fundamental change.

16.6 To this end the senior management team has developed a wholesale restructuring plan for the entire organisation – know as ‘Sustainable AVDC’. This programme is based upon the founding elements of the NBM programme, and applies this to the entire organisation. In short its aim is to:

- React to the increasingly challenging financial position of the council
- Deliver automated and more cost efficient forms of service delivery including self serve, aligning us with most of the other service providers that our residents use in their day to day life

- Create greater value and income from more commercial operations to cross subsidise those areas of the council which can not cover their own costs
- Focus on the customer at the heart of everything we do

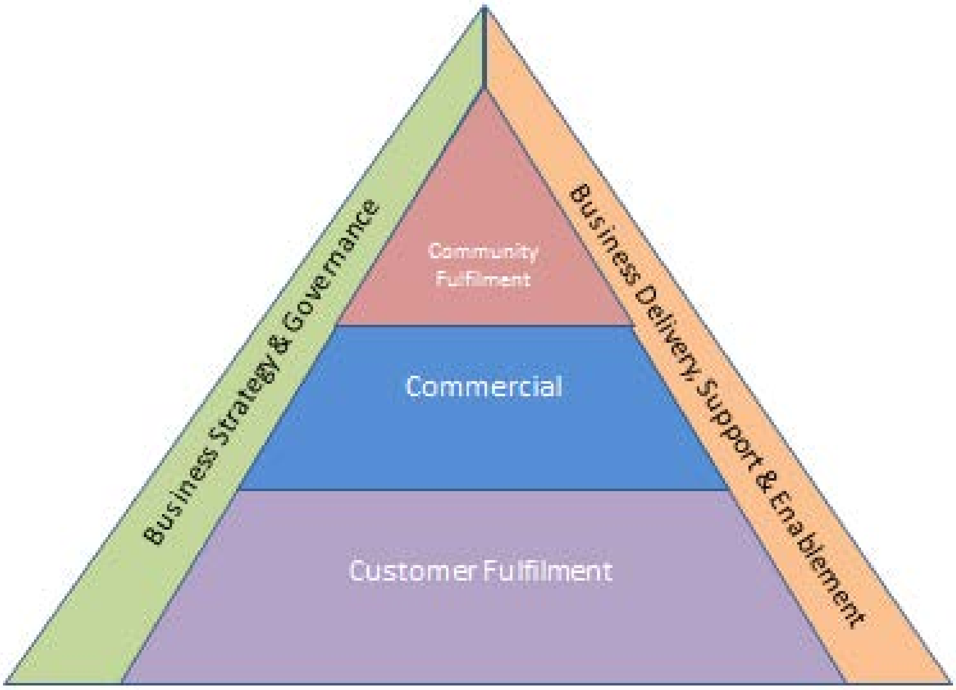
16.7 In achieving these aims there are a number of changes to the way in which we are organised, and how our staff work. In summary:

- Overall a need for a much more commercial approach and understanding of our business
- Remove the silo arrangement of staff, moving them into a more generic approach to fulfilling customers demands (without losing specialism where these are needed to meet customer demands)
- Detach management responsibility from professional expertise – recognising that good management does not always come with specific technical expertise
- Become more flexible in the way we work, and the way we serve customers, enable staff, process and structure to react to new demands from our communities
- Wider spans of responsibility for managers, and a more corporate as opposed to departmental orientation

16.8 In the simplest form, AVDC need to be:

- Orientated around the customer, fulfilling their demands – delivering what customers want
- Speedy response to customer demands, similar to commercial organisations – when customers want it
- Within a cost effective delivery model – at a cost customers will pay

16.9 To kick start and enable this change, the entire structural model of AVDC will be changing. This is in recognition of the above context and sets AVDC on a new footing to deal with the future challenges ahead. Conceptually, the new AVDC will do away with the historical departmental structure and replace it will be a five part, more flexible and universal structure. More details on the broad shape and form are set out below



Structural Element	**Summary Function**	**Example Current Functions** (not exhaustive)
Community Fulfilment	Forming and Delivery of Economic, Community and Growth Strategies to deliver the long term success of the Vale	Forward Plans Strategic Housing Economic Development
Commercial	To create value and profit to sustain the delivery of services long term	Major Capital Programmes Capital Asset Management Commercial Ventures
Customer Fulfilment	To deliver repetitive and predictable services to customer as quickly and efficiently as possible	All services that are requested by customers
Business Strategy & Governance	To strategically steer and guide the development of the AVDC and its affiliates	Legal & Monitoring officer Democratic Services Audit & Compliance Strategic Finance
Business Delivery, Support & Enablement	To operationally support the council in achieving its goals	Day to day transactional support services

16.10 The new structure will enable AVDC to be far more reactive to the changes that are required for the coming years. The approach to moving to the new structure will be a 3 stage process.

Stage 1 – ‘lift and shift’ staff to the new structure – this will in the main be simple management realignment to move whole teams or sections into the new structure. The aim of this stage is to deliver the new structural layout of the council as soon as possible. This is likely to take place in early 2016.

Stage 2 – service review and service change – this stage will consider the work that is done in each part of the new structure, assess the level of demand, the best way to service this, the level of resources required and to deliver a refined new structure within each element of the council. This stage will take some time to complete. Planning for these reviews will be undertaken between now and November but indicatively it is anticipated that to review services across the council will extend into 2017.

Stage 3 – implement the above service review changes – delivering efficiencies over the end of 2016/17 and into 2017/18. At this stage it is envisaged that this will reap somewhere in the order of £3m once fully implemented. At this stage it is envisage that this will be mainly through a combination of automation, service efficiency and staff reduction.

16.11 Members will be updated as a fuller programme becomes clear, and where changes to staff and responsibilities are known.

16.12 Whilst the above delivers against some of the short/medium term budget pressures, there is still some way to go to deliver against the level of savings required to meet the expected MTFP.

17 Beyond 2016/17

17.1 As identified at the start of this report, the issue that dwarfs all others looking forward is that of continuing to provide services whilst the resources that have historically enabled this to happen are removed.

17.2 The announcement by the Chancellor presents a glimmer of hope, but much will depend on the detail of any proposal and this may take some considerable time to materialise. In any event, the timeline presented by the Government for its introduction is beyond the date by which the Government's austerity programme is due to end.

17.3 Faced with rapidly decreasing resources from Government and with on-going pressure on councils not to increase resources from taxation, or by other means, together with new financial burdens placed on local government, the financial outlook for councils, at best, remains extremely challenging.

17.4 Thus far, the Council's strategy has been effective, in that by the end of 2015/16 the cumulative annual savings, additional income and efficiency measures achieved exceeded £11 million.

17.5 The baseline target for the Medium Term Financial Plan period, prior to review, stands at £6.3 million, but there is much uncertainty over the amount and the time within which this has to be achieved. There are scenarios whereby this amount might be lower, but equally it could be greater and required much sooner than assumed within the current plan.

17.6 So, the core planning assumption remains that Government Grant will cease completely by 2020. Despite all the uncertainties surrounding this, it still seems to be a realistic central assumption.

17.7 If true, then the impacts of the continued cuts on local government may mean that it becomes unsustainable in its current form and this may either encourage much greater collaboration or hasten the need for enforced fundamental restructure of the existing approach to the provision of services.

17.8 Given that this is largely outside of the Council's direct control, it must continue to look to solve its own financial challenges.

17.9 As discussed in the earlier section the Council's approach is completely focused on being more entrepreneurial to generate new income and to rationalise and reorganise its resources in order to be the most efficient it can in the way it delivers its services.

17.10 This approach is sound and represents the one which it is embracing but ultimately, if this approach is unsuccessful then the last solution will always remain to reduce the amount or quality of service provided to the residents and businesses of the Vale.

18 Process for Resolving the Budget for 2016/17

18.1 As previously described it is hoped that the budget for 2016/17 can be resolved using the reorganisation and income generating strategies set out within this report and without the need for a crude or simplistic cuts exercise. It is believed that this should be possible but, as highlighted, there are some key uncertainties which are unlikely to be resolved until late in the process.

18.2 It is therefore proposed to work on refining the budget process making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

18.3 The Council has Working Balances in excess of its stated minimum and these are invaluable in allowing the Council to push forward with new invest to save initiatives or to flex savings targets from one year to the next in the event of unexpected funding pressures or new windfalls. Balances (adding to, or a use of) are therefore likely to form part of the strategy for concluding the balancing of the budget for 2016/17.

18.4 As identified the focus remains on restructuring and new income generation and not upon lists of potential cuts for consideration. If a specific proposal requires a Cabinet decision or scrutiny consideration it will have already been taken through the democratic process at the appropriate time, or be separately identified for debate as part of the budget development process.

18.5 This will again make the budget process lighter touch and avoids the need to take lists of potential service reductions through scrutiny committees.

18.6 An initial budget position will be presented to Cabinet in December and will be the subject of Scrutiny by Finance and Services Scrutiny Committee.

19 Timetable

19.1 An indicative timetable of reports and meetings leading to the conclusion of the process is attached as Appendix A to this report.

20 Options considered

20.1 This report sets out the current position in relation to budget planning and highlights the issues that will need to be resolved prior to agreeing a budget recommendation in January. As such there are no options to consider at this point in time with the exception of the grant to parishes.

21 Reasons for Recommendation

21.1 The report asks members to note the current position and asks them to agree the process to be adopted for concluding Budget Planning for 2016/17 and for revising the MTFP.

22 Resource implications

22.1 These are included within the report.

23 Response to Key Aims and Objectives

23.1 The Budget is the key lever in terms of delivering Corporate Plan objectives where they require additional investment or resources. The budget also articulates the costs of providing existing services and a balance has to be struck between the competing demands for resources. These issues will be explored further in subsequent reports on budget development.

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Background Documents

Appendix A

Budget Timetable 2016/17

Meeting Date	CReports	Meeting	Possible Reports
10h November	**27th October**	**Cabinet**	**Scene Setting Report / Grant Changes**
16th November	3rd November	Finance Scrutiny	Consideration of High Level Issues
18th November		Budget Seminar	Consideration of Scene Setting / Grant Changes
14th December	1st December	Finance Scrutiny	Consideration of Cabinet Report
16th December	**1st December**	**Cabinet**	Initial Budget Plan / Strategy
		No Scrutiny of Budget Proposals by Economy or Environment	At this stage there are thought to be no operational service impacts arising from the proposals which require Scrutiny consideration
11th January	**29th December**	**Cabinet**	**Budget Recommendation to Council**
21st January		2nd Budget Seminar	
3rd February	**19th January**	**Council**	**Budget Setting**
24th February	9th February	Council	Council Tax setting