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*Background Papers, if any, are specified at the end of the Report*

**BUDGET & COUNCIL TAX REPORT 2015/16**

*Contact Officer: Jim Burness 01494 732095*

**RECOMMENDATIONS**

**Revenue Budget 2015/16**

- 1) Depending on the chosen level of council tax, approve a Revenue budget for 2015/16 as summarised in options in the table in para 13, and recommend this to Council.
- 2) Agree the following use of earmarked reserves for 2015/16  
Local Development Plan       £306k  
District Elections May 2015   £76k.
- 3) Agree the following additions to earmarked reserves for 2015/16  
Capital - Funding replacement refuse vehicles, £394k  
Capital - Funding of future capital programme, £1,247 or £1,306k,  
depending on the chosen level of council tax.
- 4) Note the advice of the Director of Resources (Appendix A), and consider whether to make any adjustments between the earmarked reserves.

**Setting the Council Tax**

- 5) Agree that this report be made available to all Members of the Council in advance of the Council Tax setting meeting on 25th February, and a final report is produced for the Council meeting incorporating the information from preceptors, and the final decisions of the Cabinet on the budget.

*Relationship to Council Objectives*

*(i) The Council's code of corporate governance highlights the importance of having in place clearly documented processes for policy development, review and implementation, decision making, and monitoring and control. Following from this is the requirement for sound financial management, being able to demonstrate resources are aligned to the corporate priorities of the Council, and that any material risks are assessed. Value for money is one of the Authority's main objectives and having a medium term financial strategy is a key element in demonstrating and achieving this.*

*(ii) The budget is essential to enabling the Council to deliver its objectives.*

*Implications*

*(i) This matter is a key decision within the forward plan.*

*(ii) This matter is within the Policy and Budgetary Framework.*

*Financial Implications*

*The report proposes a revenue budget for 2015/16.*

*Risk Implications*

*The report highlights the short and medium term key financial risks for the Authority.*

*Equalities Implications*

*Any specific service changes contained within the budget will have been subject to equalities impact assessments.*

*Sustainability Implications*

*None.*

**Purpose of Report**

- 1 This report provides information affecting the Council's revenue budget for 2015/16 in order for the Cabinet to make recommendations to Council on 25<sup>th</sup> February regarding the Council's budget and council tax for 2015/16.

**Executive Summary**

- 2 It is the responsibility of the Cabinet to prepare a revenue budget for approval by the Council which will form the basis of setting the council tax. This report sets out the main factors behind the draft budget that need to be considered. It also outlines the main issues affecting the Council's future financial position, as it is prudent to consider not just a single financial year in isolation.

**Report**

- 3 This report is divided into a number of sections, that as a whole cover the various elements that need to be considered when setting the Council's budget for the coming year and the council tax for the District. Based on consideration of the information in the report the Cabinet needs to make recommendations to the Council meeting in February where the total council tax, including the element relating to preceptors, will be decided.

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**Section A - Financial Context and Base Budget position**

- 4 On 16<sup>th</sup> December 2014 the Cabinet considered the draft service budgets and information available at that stage on the overall position related to Government funding.
- 5 On 18<sup>th</sup> December 2014 the Government announced the provisional local government financial settlement for 2015/16.
- 6 For Chiltern the following table shows the key figures for 2015/16.

	2013/14 £'000	2014/15 £'000	2015/16 £'000
Business Rate Baseline	7,908	8,062	8,216
Business Rate Tariff	-6,603	-6,732	-6,861
Baseline Need	1,304	1,330	1,355
Revenue Support Grant (Note 1)	1,961	1,506	1,125
Settlement Funding Assessment	3,265	2,836	2,480
Year on Year Change (£k)		-429	-356
Year on Year Change (%)		-13%	-13%

Note 1: The 2015/16 RSG figure incorporates the Council Tax Freeze grant that was received for freezing the council tax in 2014/15.

- 7 The table illustrates the continuing material reduction in funding to the Council that had been anticipated. Funding reductions are expected to continue until at least 2018/19. No provisional figures were issued for 2016/17 funding as this will be determined after the May 2015 General Election.
- 8 Recent clarification of the settlement detail of the position regarding council tax freeze grants has confirmed that the Revenue Support Grant figure for 2015/16 includes the funding due for freezing the council tax in 2014/15. In addition there is also a one off grant payable of £74k in 2015/16 if the council tax is frozen again, equating to a 1% council tax increase.
- 9 The Business Rate Baseline represents the Government's estimate of the amount of business rates it anticipates the Council will collect. However income from Business Rates can be materially affected by appeals lodged by businesses with the Valuation Office. Successful appeals will reduce the business rates collectable. However losses for individual authorities are limited by a safety net mechanism to 7.5% of the net business rates assumed to be retained by the Council, for Chiltern this equates to £102k.

**Section B - Investment Income and Grants**

- 10 The Council's Treasury Management Strategy for 2015/16, which is also being considered at this meeting, sets out the approach aiming to deliver investment income for 2015/16 of £110k
- 11 An important source of grant funding for the authority is the New Homes Grant that rewards authorities for each new home by providing a grant equivalent to the national average Band D council tax on the property for each of the six years following completion of the property. The cumulative funding the Council will receive in 2015/16 from this source is £734k, an increase on the current year of £12k.

**Section C - Budget Requirement and Council Tax Issues**

- 12 Since Cabinet reviewed the draft budget in December 2014 there has been one adjustment as follows:
- The proposed reduction in Housing Benefit / Council Tax Support Admin grant is higher than anticipated £4,190.
- 13 The build-up of the budget, based on two options of a 1.9% increase in the District council tax, or a 0% increase, are summarised in the following table.

<b>Revenue Budget 2015/16</b>	<b>1.9% incr £'000</b>	<b>0% incr £'000</b>
Leader	619	619
Healthy Communities	1,604	1,604
Sustainable Development	1,387	1,387
Waste & Property Services	1,260	1,260
Customer Services	979	979
Support Services	3,425	3,425
Trading Undertakings	-115	-115
Salary Reallocation	-58	-58
Net Cost of Services	9,101	9,101
Payment to Parishes	80	80
Investment Income	-110	-110
Notional Interest on Refuse Vehicles	70	70
Use of Earmarked Reserves		
- LDD	-306	-306
- District Elections May 2015	-76	-76
- Contribution to fund replacement refuse vehicles	394	394
- Contribution to fund capital programme	1,306	1,247
Budget Requirement	10,460	10,401

- 14 In 2015/16 the Council is in the position to set aside up to £1.3m to support the capital programme depending on the level of council tax set. This is proposed in order to make the Capital Programme sustainable in the medium term, as the projection of the programme is that the current level of resources will be exhausted after 2016/17. The report on the Capital Programme on this agenda illustrates the position in more detail.
- 15 The draft budget has been discussed at the Resources Overview Committee and any comments received will be made known to members at the meeting.
- 16 The latest budget monitoring information shows that the forecast level of general reserves at the end of the current financial year to be £4,213k. Section E of the report contains the Director of Resources advice on the level of reserves.

## Section D - Medium Term Financial Strategy Update

- 17 This is shown in the following tables with notes about the assumptions made. The tables show the impacts of either freezing the council tax in 2015/16, or increasing it by 1.9%. The difference between the two scenarios, is reflected in the size of the fiscal gap for 2016/17 and subsequent years, and is broadly £140k per annum.

## 2015/16 - 1.9% Council Tax Increase

	2015/16	2016/17	2017/18	2018/19	2019/20
	£k	£k	£k	£k	£k
RSG	-1,125	-655	-255	0	0
CT Freeze (15/16)					
NDR	-1,355	-1,369	-1,382	-1,396	-1,410
New Homes Bonus	-734	-734	-704	-525	-365
Total Grant	-3,214	-2,758	-2,341	-1,921	-1,775
Investment Income	-110	-60	-60	-60	-60
Collection surplus	-100				
Contribution to Parish CTS	80	50	19	0	0
Total income	-3,344	-2,768	-2,382	-1,981	-1,835
Service Expenditure	9,101	9,329	9,562	9,801	10,046
Notional interest	70	50	30	10	10
Movement in reserves (Elections)	-76				
Capital Contribution	394	394	394	394	394
LDF Fund	-306	-214			
Capital fund	1,306				
Total Expenditure	10,489	9,559	9,986	10,205	10,450
Precept required	7,145	6,791	7,604	8,224	8,615
CT Base	43144	43244	43344	43444	43544
Band D	165.62	168.77	171.97	175.24	178.57
Precept on Collection Fund / Total Collected	7,145	7,298	7,454	7,613	7,776
Surplus / (Shortfall)	0	508	-150	-611	-839

## 2015/16 - 0% Council Tax Increase

	2015/16	2016/17	2017/18	2018/19	2019/20
	£k	£k	£k	£k	£k
RSG	-1,125	-655	-255	0	0
CT Freeze (15/16)	-74				
NDR	-1,355	-1,369	-1,382	-1,396	-1,410
New Homes Bonus	-734	-734	-704	-525	-365
Total Grant	-3,288	-2,758	-2,341	-1,921	-1,775
Investment Income	-110	-60	-60	-60	-60
Collection surplus	-100				
Contribution to Parish CTS	80	50	19	0	0
Total income	-3,418	-2,768	-2,382	-1,981	-1,835
Service Expenditure	9,101	9,329	9,562	9,801	10,046
Notional interest	70	50	30	10	10
Movement in reserves (Elections)	-76				
Capital Contribution	394	394	394	394	394
LDF Fund	-306	-214			
Capital fund	1,247				
Total Expenditure	10,430	9,559	9,986	10,205	10,450
Precept required	7,012	6,791	7,604	8,224	8,615
CT Base	43144	43244	43344	43444	43544
Band D	162.53	165.62	168.77	171.97	175.24
Precept on Collection Fund / Total Collected	7,012	7,162	7,315	7,471	7,631
Surplus / (Shortfall)	0	371	-289	-753	-984

## Assumptions

- Government (RSG) funding assumed to reduce in future years in line with the general trend of recent years.
- 1% growth is assumed in retained business rates (NDR).
- No growth is assumed in New Homes Bonus funding, and income falls in future years as the earlier years funding is phased out from 2017/18.
- No surplus from the Collection Fund assumed in future years
- CTS grant related to parishes is assumed to be gradually reduced as revenue support grant reduces.
- Service expenditure assumed to increase for planning purposes by broadly 2.5% per annum approximately as a result of cost pressures.
- Council tax assumed to increase by 1.9% per annum from 2016/17, but no material growth assumed in the tax base.

- 18 The forecast tables shows the potential future funding gap for the Authority that starts to develop from 2017/18 onwards. Whilst the forecast figures are sensitive to assumptions made around cost increases, assumptions about council tax increases, or New Homes Bonus funding, the picture is clearly one that shows of a continuing need to identify means of reducing net costs in the coming years. What the Authority has achieved to date has put it in the position where it can plan towards savings over more than one year. Also as council tax becomes increasing the main source of funding for the Council that it can influence, decisions on the level of the tax become important to the Council's medium term financial strategy.
- 19 In the medium term the key financial risks facing the Authority are:
- The continuing significant reduction in Government funding, and the Council's ability to adjust its net expenditure base to cope with the reductions.
  - The cost of waste services in the context of the waste disposal arrangements for Bucks.
  - The cost of public inquiries or responding to major national infrastructure proposals affecting the District

#### **Section E - Advice of the Director of Resources**

- 20 The detailed advice of the Director of Resources as the Authority's statutory financial officer is set out in Appendix A. In summary the key points of the advice are as follows.
- The estimates for 2015/16 have been prepared in a thorough and professional manner.
  - The key budget risks have been identified.
  - The main financial risks to the Council for the coming year have been assessed as follows.
    - Shortfall on income targets.
    - The cost of major planning inquiries, enforcement actions or responding to national infrastructure proposals that impact on the area. Specific earmarked reserves exist to cover these matters.
- 21 The suggested prudent level of general reserves for 2015/16 is £780k. The Appendix also sets out the estimated level of earmarked reserves at the end of 2014/15. Members can consider whether they wish to make any adjustments between the various earmarked reserves as part of the overall decisions on the budget.
- 22 In the medium term the Authority will continue to face risks in delivering its corporate plan objectives in the context of the continuing limitation of external funding resources.

***Background Papers: None***

## CHIEF FINANCIAL OFFICER REPORT

- .1 I am making this report in compliance with the personal responsibilities placed upon me by s25 to s28 of the Local Government Act 2003. The legislation requires me to report to the Authority on two matters.
- The robustness of the estimates it makes when calculating its budget requirement.
  - The adequacy of the Authority's reserves, taking into account the experience of the previous financial year.

### Robustness of Estimates

- .2 The process for preparing the budgets started in the autumn of 2014. From the outset the budget development was influenced by a number of key factors.
- The need to keep expenditure and likely resources in balance given the limitations on increases in council tax and the continuing significant reductions in government grant.
  - The national economic picture that affects many of the Council's main income streams and levels of housing and benefits expenditure.
  - The need to resource the implications of the corporate plan to enable the Council to make progress on its corporate aims.
- .3 During 2014 the Authority has continued its working with South Bucks DC and is progressing a programme of service reviews to explore opportunities for joint working. The savings from the completed service reviews are reflected in the 2015/16 budgets. As in recent years the 2015/16 budget is integrated with the Authority's service planning process, and therefore plans reflect the resources available.
- .4 The budget process has rigorously limited new expenditure to only the unavoidable minimum.
- .5 The financial position of the Council clearly indicated the need to continue to make savings for future years, and work is in progress to identify further savings options for 2016/17 and future years, and this is expected to include the benefits from continuing joint work with South Bucks DC. The continued focus on delivering savings is important, and part of this will be having in place mechanisms to monitor and report on agreed savings.
- .6 The detailed budget preparation was overseen by an experienced qualified accountant, supported by other finance staff familiar with the requirements of the budget preparation process. The basis of the estimates included the following elements which are in my view crucial to setting realistic budgets.
- Staffing budgets are prepared on a zero base approach, and are built up based on the actual staffing establishment and its current costs. The final budgets also include a vacancy factor of 2% consistent with that used in past years which has proved to be realistic.



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- The budgets reflect as far as can be determined costs of major contracts including known or likely cost increases.
  - The budgets are informed by the results of the 2014/15 budget monitoring and recognise those issues that are unavoidable and would carry through into 2015/16.
  - The budget identified any recurring costs of Council decisions taken since March 2014.
- .7 The detailed budget have been scrutinised by:
- Officers
  - Portfolio Holders
  - Resources Overview Committee
- .8 In particular the draft budgets were very thoroughly examined by Cabinet members in an exercise led by the Portfolio Holder for Support Services. The budget does not contain any unspecified or unrealistic savings proposals or contingencies.
- .9 Investment income expectations reflect a realistic view on the level of interest rates over the next few years, and this is will be reflected within the treasury management strategy.
- .10 Finally the budgets have been assessed as part of the Authority's approach to risk management and the major financial risks identified. These will be referred to in the following section dealing with the adequacy of reserves.
- .11 Taking all these factors into account I am satisfied that the estimates have been prepared on a robust basis.

### **Adequacy of Reserves**

- .12 The Council has a policy on its reserves, and this policy accords with the guidance issued by the Chartered Institute of Finance and Accountancy (CIPFA) on local authority reserves and balances. In essence the Policy states that the minimum level should be based on 7½% of the net cost of services, plus any material financial risks identified for the coming financial year for which specific provision has not been made.
- .13 The Code of practice on local authority accounting requires the purpose, usage and basis of transactions of earmarked reserves to be identified clearly. The Council has a number of earmarked reserves where it has full control over their deployment. These need to be kept under review taking into account the current financial issues facing the Council. The following table shows the Council's reserves position estimated for 31st March 2015.

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Description	31/3/15 £k	Comment
Business Rates Equalisation Reserve	250	To offset any in year loss in retained business rates to the District not covered by the business rates safety net arrangements.
Rent Deposit/Private Leasing and Homelessness prevention reserve	228	To provide funding to assist households in accessing affordable housing and reducing temporary accommodation and avoiding homelessness
Neighbourhood Planning Reserve	17	To hold Neighbourhood Planning Grant until expenditure incurred
Housing Benefits Reserve	508	DWP funding provided in previous years for implementation of welfare reform changes. To be used in future years for service transformation to improve capacity and resilience to cope with forthcoming change.
Election Fund	96	To meet the cost of local elections as and when required
Community Safety Initiatives	107	Funding secured in previous years to be used to support community safety projects.
Waste Initiatives Reserve	294	Reserve established to provide support for delivery of waste and recycling projects across the District
Planning Reserve	661	To meet the costs of major planning appeals and enforcement actions.
Local Development Framework Reserve	163	To meet costs of the Local Development Document process, including studies and surveys.
HS2 Reserve	78	To cover potential costs involved in challenging the HS2 proposal and seeking mitigation through legal and parliamentary processes.
Transformation Reserve	116	To enable the Council to progress organisational and service delivery change including joint working
Workforce Strategy Reserve	125	To help meet costs associated with organisational change
Economic Development Reserve	250	To support projects with local business and other partners to benefit the local economy
Car Parking	100	To fund parking capacity assessments when required
Affordable Housing	425	To support the provision of affordable housing
Capital Projects Reserves	0	This reserve is held to provide further resources for capital expenditure.
Repairs & Renewals Fund	506	For the replacement of vehicles, plant, machinery and equipment as required and as a contingency for major repairs to buildings as part of the capital programme
Total Earmarked Reserves	3,924	

- .14 In considering the level of general reserves in addition to the cash flow requirements the following factors are considered:

Budget assumptions	Financial standing and management	Comment on CDC position
The treatment of inflation and interest rates	The overall financial standing of the Authority (level of borrowing, debt outstanding, council tax collection rates)	The budgets are based on known price increases as far as is possible. External advice has been taken on interest rate forecasts and these have been used with prudent assessments of the level of cash available for investment. This is set out in the Treasury Management Strategy.
Estimates of the level and timing of capital receipts	The Authority's track record in budget and financial management	The forecast of future capital receipts reviewed over the course of the budget process to ensure it is realistic. At present no major receipts are anticipated in the coming years.
The treatment of demand led pressures	The Authority's capacity to manage in-year budget pressures	The Authority has in place regular budget monitoring procedures to identify any in year pressures, and to consider what actions can be taken. Reports are produced monthly for Management Team and Cabinet members. The budget process has also picked up any demand led pressures that need to be built into the 2015/16 budget.
The treatment of savings/efficiency gains	The strength of financial information and reporting arrangements	The effort put into financial monitoring needs to be maintained and the Authority needs to ensure adequate resources are directed to this activity. The key strategic risk for the Authority is the limitation on resources will limit speed and scale of progress on Corporate Plan, and may impact on statutory performance and compliance issues.
The financial risks inherent in any significant new funding partnerships or major capital developments	The Authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level	The Council undertakes a risk assessment of the budget risks it faces. The major risks for 2015/16 are highlighted below.
The availability of other funds to deal with major contingencies	The adequacy of the Authority's insurance arrangements to cover major unforeseen risks.	The Authority has sufficient reserves to cover insurance liabilities. It has also the resources in general or earmarked reserves to make reasonable contingencies against matters such as HS2, major enforcement actions etc.

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- .15 From the preceding table it can be seen that the Authority takes action to reduce budget risk and therefore influence the level of reserves it needs to hold. There will always be areas of risk or uncertainty and which need to be assessed as part of the budget process.
- .16 The main financial risks to the Council for the coming year have been assessed as follows.
- Shortfall on income targets.
  - The cost of major planning inquiries, enforcement actions or responding to national infrastructure proposals that impact on the area primarily HS2. Specific earmarked reserves exist to cover these matters.
- .17 Based on the budget experience of the current year it would be prudent to allow for the possibility of some income shortfalls.
- .18 In the longer term there will be the risks of:
- Managing the gap between cost increases the Council will face year on year, and the continued significant reductions in government funding, and the limitation of council tax increases. Key to managing this risk will be identifying further savings for the years from 2017/18 onwards.
  - The costs of reaching and enforcing the Council's planning decisions, or responding to major national infrastructure proposals. This would include major issues such as HS2 and airports expansion.
  - The development of the Authority's waste collection and recycling services in the context of Bucks CC's disposal arrangements.
- .19 As a small authority the Council is always faced with the risk to achieving its objectives from capacity and reliance on a number of key staff. Therefore staffing issues will need to be kept carefully under review going forward.
- .20 Taking all these factors into account it would be advisable to plan for a level of general reserves of at least around £780k for the forthcoming financial year, exclusive of any specific contingencies for which earmarked reserves have been established (see table above). This figure is made up as follows.

	£k
7½% Net Cost of Services	680
Potential Income shortfalls	100
	<hr/>
	780

### Legal Considerations

- .21 The setting of the budget and the council tax by Members involves their consideration of choices and alternatives and Members have considered these in various earlier reports. No genuine and reasonable options should be dismissed out of hand and Members must bear in mind their fiduciary duty to the council taxpayers of Chiltern District Council. Should Members wish to make additions or reductions to the budget, on which no information is given in the report before Members, they should present sufficient information on the justification for and consequences of their proposals to enable the Cabinet (or the Council) to arrive at a reasonable decision on them.

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- .22 The report sets out relevant considerations for Members to consider during their deliberations, including the statement above from the Chief Financial Officer. Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision that no reasonable authority could come to, balancing the nature; quality and level of services that they consider should be provided, against the costs of providing such services.
- .23 Members are reminded of s106 of the Local Government and Finance Act 1992, which prohibits any Member who has not paid for at least two months his/her Council Tax when it becomes due, from voting on setting the budget and making of the Council Tax and related calculations.

**Jim Burness**  
**Director of Resources**  
**February 2015**