

BUDGETARY OUTLOOK

1. EXECUTIVE SUMMARY

- 1.1 A report on the revenue budgetary outlook covering the period 2016-17 to 2020-21 was presented to the Policy and Resources Committee on 18 December 2014. Based on the narrower range of best and worst case scenarios the budget gap was estimated to be between £28.1m and £37.5m.
- 1.2 This report provides an update on the position and further updates will be provided during the year.
- 1.3 The most significant issue affecting the budgetary outlook is the assumptions used for the local government funding position. These remain unchanged at present as there is no new information on which to base a change.
- 1.4 A number of assumptions have been updated in both the best and worst case scenarios, summarised as follows:
- Included growth in Council Tax Base of 0.25% instead of applying funding assumption to Council Tax.
 - Changes to base budget assumptions have been updated based on latest estimates – auto enrolment, contracting out rebate and loans charges.
 - Removed the Council Tax on Empty Homes expenditure budget.
 - Pay Award reduced to 0.5% in Year 1.
 - Non-Pay Inflation reduced to allow for only unavoidable/inescapable inflation.
 - Cost and Demand Pressures – allowance removed.
 - Fees and Charges – set to 3% on both scenarios.
 - Added in revenue impact of new schools.
- 1.5 No estimate has been included in the budget outlook for severance.
- 1.6 After updating the best and worst case scenarios the budget gap is estimated to be between £21.7m and £26.0m.
- 1.7 Adopting an annual incremental approach to the budget would require savings of between £7.9m and £8.8m in 2016-17 and between £7.9m and £9.6m in 2017-18, worst case £18.4m in total over the first two years.

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2. INTRODUCTION

- 2.1 A report on the revenue budgetary outlook covering the period 2016-17 to 2020-21 was presented to the Policy and Resources Committee on 18 December 2014.
- 2.2 This report provides an update on the position and further updates will be provided during the year.

3. RECOMMENDATIONS

- 3.1 Members note the assumptions as set out in the report resulting in a revised budgetary outlook.
- 3.2 Members to agree to amend the policy on Council Tax on empty homes. It was the original intention that the additional income would be allocated to Area Committees; it is now recommended that this be retained to help support overall Council spending plans.
- 3.3 Members to note the advice in paragraph 4.2.15; based on the current budgetary outlook and for planning purposes, that Members consider moving forward with overall savings targets of around £9m in both 2016-17 and 2017-18.

4. DETAIL**4.1 Budget Outlook as at December 2014**

- 4.1.1 The budgetary outlook report presented at the Policy and Resources Committee on 18 December 2014, provided information on the financial outlook and budget gap over a five year period from 2016-17 to 2020-21. It set out anticipated changes to the base budget and assumptions in relation to pay awards, non-pay inflation, cost and demand pressures, fees and charges and funding.
- 4.1.2 The assumptions were set out on the basis of best and worst case scenarios and the outcome was a fairly significant funding gap. Relatively small variations in assumptions can lead to fairly significant changes in the funding gap over 5 years so a narrower range of worst and best case scenarios was also prepared.

4.1.3 Based on the narrower range of best and worst case scenarios the budget gap was estimated to be between £28.1m and £37.5m.

4.2 Updated Budget Outlook May 2015

4.2.1 The budgetary outlook is continually monitored and updated as new information becomes available.

4.2.2 The most significant issue affecting the budgetary outlook is the assumptions used for the local government funding position. No updated funding information has been received since December that results in a change to the assumptions previously used.

4.2.3 Any further information in relation to funding will be considered. There will be a national budget announcement in July 2015 with the expectation of a spending review in the Autumn and ultimately the provisional grant settlement in December 2015.

4.2.4 Other assumptions that have been updated on both the narrower best and worst case scenarios are noted below.

4.2.5 Council Tax - the assumption for local government funding was previously used for the total funding which included Council Tax. This has been changed to reflect a 0.25% growth year on year to the Council Tax base.

4.2.6 Base Budget - the adjustments to the base budget include the loan charges profile, cost of increased employers superannuation contributions due to auto enrolment into the scheme from 2017-18 and the increased cost of employers national insurance contributions due to the loss of the rebate for staff within the superannuation scheme. These assumptions have been updated based on the latest information available.

4.2.7 Council Tax on Empty Homes – an expenditure budget of £500k is included within the base budget with the original intention that this would be allocated to Area Committees. It is now recommended that this be retained to help support overall Council spending plans.

4.2.8 Pay Award - in both the narrower best and worst scenarios, the pay award for 2016-17 was assumed to be 1%. There is a two year pay award for 2015-16 and 2016-17 of 2.5%; 2% has already been provided for within 2015-16, therefore, only 0.5% is required in 2016-17.

4.2.9 Non-Pay Inflation – this has been reduced to allow for only unavoidable/inescapable inflation which has been the position over the last few years. An estimate of £1m per year has been assumed, which is in line with the sum approved as part of the 2015-16 budget for non-pay inflation.

4.2.10 Cost and Demand Pressures – provision for cost and demand pressures has been removed. If any new cost and demand pressures are identified, a process will be put in place for these to be considered, with regard to their

priority, alongside other savings options.

- 4.2.11 Fees and Charges – a 3% increase to fees and charges, in line with previous years, has been assumed for both the best and worst case scenarios.
- 4.2.12 New Schools Revenue Impact – the revenue impact of the new schools has now been added into the budget outlook.
- 4.2.13 After updating the best and worst case scenarios the budget gap is estimated to be between £21.7m and £26.0m. Further detail on the budget outlook for the best and worst scenarios is included in Appendix 1 and 2.
- 4.2.14 The budget gap phased across the 5 years is summarised in the table below.

Year	Updated Narrower Best Case		Updated Narrower Worst Case	
	Year on year £m	Cumulative Gap £m	Year on Year Gap £m	Cumulative Gap £m
2016-17	-7.8	-7.8	-8.8	-8.8
2017-18	-7.9	-15.7	-9.6	-18.4
2018-19	-5.6	-21.3	-6.4	-24.8
2019-20	-0.8	-22.1	-1.5	-26.3
2020-21	0.4	-21.7	+0.3	-26.0

- 4.2.15 Adopting an annual incremental approach to the budget would require savings of between £7.9m and £8.8m in 2016-17 and between £7.9m and £9.6m in 2017-18, worst case £18.4m in total over the first two years. Strategic Finance would advise, based on the current budgetary outlook and for planning purposes that Members consider moving forward within savings options of around £9m in both 2016-17 and 2017-18.
- 4.2.16 There will inevitably be staff reductions in order to achieve the level of savings required over the next 5 years. At this stage, no estimate has been included in the budget outlook for severance.

5. CONCLUSION

- 5.1 The budget outlook from 2016-17 remains very challenging even with the updates outlined in this report and small changes in assumptions over a 5 year period can have a significant effect on the budget gap.
- 5.2 The funding gap over the 5 year period to 2020-21 is estimated to be between £21.7m and £26.0m.

6. IMPLICATIONS

- 6.1 Policy – Sets out financial outlook which will provide the financial envelope

- for policy decisions.
- 6.2 Financial – Sets out a best and worst case range of future financial positions and funding gaps.
 - 6.3 Legal – None directly from this report but the Council will need to balance the budget.
 - 6.4 HR – None at this stage but there is a strong link between HR and budgets.
 - 6.5 Equalities – None directly from this report but any proposals to address the budgetary outlook will need to consider equalities.
 - 6.6 Risk – None directly from this report but any proposals to address the budgetary outlook will need to consider risk.
 - 6.7 Customer Service – None directly from this report but any proposal to address the budgetary outlook will need to consider customer service.

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Attachments:

- Appendix 1 – Updated Budget Outlook – Best Case
- Appendix 2 – Updated Budget Outlook – Worst Case