

## APPENDIX B

### GENERAL FUND CONSIDERATIONS

#### PART 1 – APPROVING THE GENERAL FUND ESTIMATES

##### GENERAL FUND SUMMARY

1. The General Fund summary showing the cost of providing services is attached as **Appendix B1**.

##### LOCAL GOVERNMENT FINANCE SETTLEMENT

2. The provisional Local Government Finance Settlement for 2015-16 was published on 18 December 2014. The Minister for Local Government confirmed the proposals in the provisional 2015-16 settlement on 3 February 2015. Those figures have been used in compiling the draft Medium Term Financial Strategy (MTFS) and in preparing this report.
3. The settlement continues the Government's separation of the previous Formula Grant into two elements: Revenue Support Grant (RSG); and localised Retained Business Rates (RBR). The settlement forecasts RSG reducing by 31% from 2014-15 to 2015-16; this is in line with previous MTFS projections. The MTFS has modelled RSG reducing to approximately £ zero over the following four years, although it is possible that reductions might be higher and/or front-loaded so that most of the forecast reduction falls earlier.
4. The figures for RSG are:

Year	Revenue Support Grant	change year on year	
2014-15	£2.660m		
2015-16	£1.830m	- £0.830m	- 31%
2016-17	£1.378m	- £0.452m	- 25%

5. These figures are in cash terms; the % decrease is therefore greater in real terms.

##### COUNCIL TAX FREEZE GRANTS

6. Council tax freeze grants are payable to billing (i.e. districts, etc.) and major precepting authorities (i.e. counties, police and fire), but not to parish councils.
7. In 2011-12, the Government offered a freeze grant, on the condition that they did not increase their council tax in 2011-12, which all councils accepted. The grant compensated councils for foregoing an assumed 2.5% increase and was payable for the four years of the Spending Review. The settlement for 2014-15 rolled payment of that grant on into 2015-16; however, the amount of grant received is reduced in line with the Government's tapering of RSG and will be lost when the grant ends in 2016-17 unless the council tax is increased in that year by an additional 2.5%.
8. In 2012-13, the Government offered a freeze grant to all councils which did not increase their council tax in 2012-13. The grant again compensated councils for foregoing an assumed 2.5% increase, but was only payable for one year, so there would have been a

loss of income in 2013-14 unless the council tax was increased in that year by an additional 2.5%.

9. In 2013-14, the Government offered a freeze grant to all councils which did not increase their council tax in 2013-14. The grant would compensate councils for foregoing an assumed 1.0% increase. However, there would have been a loss of income in 2013-14 because the grant was based on a 1.0% increase whereas the Council was proposing a 2.0% increase and 3.5% in each subsequent year. The Council decided to not freeze council tax and accept this grant in 2013-14.
9. In 2014-15, the Government offered to pay a freeze grant, payable for two years, to all councils which did not increase their council tax in 2014-15. The proposed grant would compensate councils for foregoing an assumed 1.0% increase. However, there would have been a loss of income in 2014-15 because the grant was based on a 1.0% increase whereas the Council was proposing a 1.99% increase and 3.5% in each subsequent year. The Council decided to not freeze council tax and accept this grant.
10. In 2015-16, the Government is proposing to pay a freeze grant to all councils which do not increase their council tax in 2015-16. The proposed grant will compensate councils for foregoing an assumed 1.0% increase. The grant is calculated as:
  - council tax for 2014-15 £122.86
  - multiplied by number of band D dwellings for 2015-16 \* 63,219
  - equals council tax income of £7,767,100
  - multiplied by 1.0%
  - equals council tax freeze grant of £77,671
  - \* not taking into account the reduction in the tax base due to the council tax reduction scheme
11. However, there will be a loss of income in 2015-16 because the grant is based on a 1.0% increase, whereas the Council's MTFS noted by Cabinet in November 2014 modelled an increase in council tax of 1.99% in 2015-16:

		Reject grant Increase council tax by 1.99% in 2015-16 and then by 3.5% thereafter		Accept grant in 2015-16, then increase by 3.5% thereafter		Loss of income from accepting grant
Year	Tax base	Council tax	Council tax income	Council tax	Council tax income	
2015-16	59,680	£125.31	£7,478,550	£122.86	£7,332,330	£146,220
				grant	£77,670	- £77,670
2016-17	60,400	£129.69	£7,833,330	£127.16	£7,680,520	£152,810
2017-18	61,345	£134.22	£8,233,790	£131.61	£8,073,680	£160,110
2018-19	62,314	£138.91	£8,656,040	£136.21	£8,487,790	£168,250
2019-20	63,309	£143.77	£9,101,990	£140.97	£8,924,730	£177,260
					Total	£726,980

12. The total loss of income over the period of the MTFS from accepting the council tax freeze grant in 2015-16 would be £726,980, which is over £12 per Band D equivalent property.

## COUNCIL TAX REFERENDUM PRINCIPLES

13. On 18 December 2014, the Local Government Minister said that the Council Tax referendum threshold under which principal local authorities, Police and Crime Commissioners, Fire and Rescue Authorities and bodies raising levies will be required to seek the approval of their local electorate in a referendum would be if, compared to 2014-15, they propose to set council tax increases in 2015-16 of 2% or higher. The Minister for Local Government confirmed on 3 February 2015 that the council tax referendum principle for 2015-16 will be set at 2%.
14. For this authority, "levies" means Internal Drainage Board (IDB) levies. A 1.99% increase in council tax to £125.31 for 2015-16 would result in a council tax requirement (excluding parish precepts, but including the IDB levies of £174,500) of £7,478,550.
15. The estimates for 2015-16 therefore assume that there will be a 1.99% increase in council tax in that year and that the grant of £77,671 for freezing the council tax in 2015-16 will not be accepted.

## NEW HOMES BONUS

16. New Homes Bonus (NHB) is a grant from 2011-12 based on:
  - (a) Net additions to the number of dwellings (the main factor);
  - (b) Increases in affordable housing;
  - (c) Empty homes brought back in to use; and
  - (d) Increase in gypsy and traveller pitches.
17. Each year's grant is payable for six years and so the grant accumulates for six years and then early years' grants fall out from year seven, as shown in the table below:

Year of grant	Financial year								
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2011-12	869	869	869	869	869	869			
2012-13		878	878	878	878	878	878		
2013-14			899	899	899	899	899	899	
2014-15				547	547	547	547	547	547
2015-16					961	961	961	961	961
2016-17						792	792	792	792
2017-18							1,102	1,102	1,102
2018-19								1,459	1,459
2019-20									1,508
Total	869	1,747	2,646	3,193	4,154	4,946	5,180	5,760	6,369

18. NHB is a welcome and vital grant for this authority as Housing Planning Delivery Grant (HPDG) and housing growth funding (via Cambridgeshire Horizons) have ended. The Council received £1.841 million and £1.954 million from HPDG and housing growth funding in 2008-09 and 2009-10 respectively. Accordingly, the Council has allocated the first £1.8 million of NHB receipts in each year to offset expenditure previously covered by HPDG.
19. The Council has committed a proportion of residual NHB receipts in each year to the City Deal; 40% in 2015-16 and 50% from 2016-17 on.

## REVENUE ESTIMATES

20. The General Fund summary up to the year ending 31 March 2016 is submitted for Members' approval as **Appendix B1**.
21. The figures in Appendix B1 show the 2014-15 original estimate for Net District Council General Fund Expenditure of £16.215 million increasing to £16.828 million in the 2015-16 estimate, an increase of £0.613 million in cash terms (3.8%).
22. **Appendix B2** sets out details of "precautionary" items of expenditure totalling £412,000. These are items of expenditure over which there is some doubt as to whether they would occur in 2015-16, but if they did, the Council would be required to meet them. It has been assumed that expenditure of £75,000 will be incurred on precautionary items in 2015-16 on the basis that there has been limited use of precautionary items in previous years, with most additional demands being met by virements from other budgets.

## COLLECTION FUND BALANCE

23. The Council's Collection Fund includes transactions relating to the Council Tax.
24. Regulations provide that the balance on the Collection Fund at 31st March 2015, whether in hand or overdrawn, must be transferred to the Billing Authority and the major precepting authorities in the same ratio as their 2014-15 precepts.
25. It is estimated that the balance at 31 March 2015 will be a surplus of £1,044,197 of which £132,356 will be transferred to the District in 2015-16.

## PART 2 – SETTING THE COUNCIL TAX

### CALCULATION OF THE TAX

26. The Council Tax figures quoted in this report relate to the tax on a Band D property occupied by two or more adults unless otherwise indicated. Last year the process for setting the tax base changed following the introduction of major changes to the welfare system in April 2013. The principal change was the end of the council tax benefit system. In replacement, billing authorities were required to design and implement their own localised council tax support schemes (LCTSS).
27. Essentially, this is done through the granting of discounts to the council tax bill. Under the legislation, the council is required to grant the equivalent discount in cash terms as benefit for pensioners, so they will not notice any change to their bills. The Council also decided to fully protect other vulnerable groups and to limit the impact on remaining benefit claimants. To partially offset the impact of the new LCTSS, the Council ceased some discounts and exemptions granted to owners of second and empty homes.
28. As a consequence of the changes the District Council saw a reduction to the council tax base. This is because the granting of discounts is treated as a reduction to the amount chargeable as opposed to council tax benefit which is treated as a reduction to the amount payable by the claimant.

29. The figure for a Band D property is arrived at by dividing the amount of the council tax requirement by the tax base of band D equivalents. A tax base of 59,680.4 for 2015-16 has been approved by the Executive Director (Corporate Services).
30. If the Council approves the council tax requirement of £7,478,550 for 2015-16, then the tax on properties in Bands A- to H will be:

Valuation Band	Range of values as at 1 April 1991	Ratio to Band D	Council Tax 1.99% increase
A-		5/9	£69.62
A	Up to and including £40,000	6/9	£83.54
B	£40,001 - £52,000	7/9	£97.46
C	£52,001 - £68,000	8/9	£111.39
D	£68,001 - £88,000	-	£125.31
E	£88,001 - £120,000	11/9	£153.16
F	£120,001 - £160,000	13/9	£181.00
G	£160,001 - £320,000	15/9	£208.85
H	More than £320,000	18/9	£250.62

31. The full amount of the tax is arrived at by adding the requirements of the County Council, the Police and Crime Commissioner, the Fire Authority and the relevant Parish to the District figure and these figures, together with a full list of parish precepts, will be presented to the Council meeting on 26 February 2015.

### **PART 3 - MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

32. The MTFS has updated the projections for future years to incorporate the latest figures, which are shown in **Appendix B3**.
33. The Strategy is dependent on the assumptions that are built in to it and these include:
- being able to identify and implement ongoing savings of £670,000 per annum from 2015-16; this equates to an average cost saving of over £11 per Band D property;
  - the £50,000 for Council actions as recurring expenditure each year;
  - retaining sufficient contributions to maintain a Planning Enforcement Reserve of £500,000;
  - the first two years income from NHB is shown in the MTFS as used to meet General Fund expenditure, replacing previous income from HPDG and Cambridgeshire Horizons grant, with the remaining years being transferred to a reserve for non-recurring expenditure on infrastructure, community facilities, etc. Points to note about NHB are:
    - there may be a new government within the six year period which may change the bonus;
    - the 80% allocated to district councils may be reduced;
    - it is a replacement for Housing Planning Delivery Grant, which was capped so the NHB may also be capped in future years; and
    - the housing trajectory may be too optimistic;
  - a reduction in RSG in 2015-16 in line with the local government financial settlement and anticipated further reductions from 2016-17;

- (f) an allowance for income from 2013-14 onwards for RBR, which replaces an element of the previous general Formula Grant; parameters within scheme's calculation methodology increase each year in line with RPI;
  - (g) an increase in council tax of 3.5% each year from 2016-17 onwards; and
  - (h) an increase in the tax base (number of band D equivalent dwellings) in line with the housing trajectory in the Annual Monitoring Report that went to the Planning Portfolio Holder in November 2014.
34. The result is that by the end of the projection period, 31 March 2020, the General Fund balance is at the minimum agreed level of £2.5 million (credit balance). However, the medium term position of a £2.9 million deficit/use of balances on the General Fund in 2019-20 indicates that there can be no relaxation in the search for savings/income, or in pressing for fairer funding and more certainty over future years' New Homes Bonus.

## **OPTIONS**

35. Options for the MTFS, which can be modelled if requested, include one or a combination of the following:
- (i) finding further revenue savings and/or capital savings financed from revenue;
  - (ii) agreeing a provision for inflation which is different to the OBR's forecast. A lower provision would save money in 2015-16 and each subsequent year assuming that the saving went into balances. There would clearly be no saving if there was a corresponding reduction in formula grant from the Government;
  - (iii) using more of NHB to meet general fund expenditure instead of non-recurring expenditure;
  - (iv) anticipating higher income from RBR on the basis that an area like South Cambridgeshire should benefit more from the scheme. However, there are significant potential risks associated with outstanding valuation appeals and with the business economy, so it is difficult in these early years of the scheme to quantify such higher income with any certainty;
  - (v) increasing the council tax by less than 1.99% in 2015-16;
  - (vi) freezing the council tax in 2015-16 and accepting the council tax freeze grant;
  - (vii) increasing the council tax by more or less than 3.5% from 2016-17 onwards; and
  - (viii) running the General Fund balance down below the recommended minimum of £2.5 million.