

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

3 DECEMBER 2013

REPORT OF HEAD OF CENTRAL SERVICES

REVENUE ESTIMATES 2014/15 AND MEDIUM TERM FINANCIAL STRATEGY

1.0 PURPOSE OF REPORT

- 1.1 To report on the latest position regarding the estimates for 2013/14 and 2014/15 and the Medium Term Financial Strategy (MTFS) following the Budget and Strategic Planning Working Group (BSPWG) meeting held on 7th November 2013.
- 1.2 To seek committee approval for the proposals made by the BSPWG regarding the budget for 2014/15.

2.0 RECOMMENDATIONS

- 2.1 That Members note the estimated year end position for 2013/14 as set out in paragraph 3.2.
- 2.2 That Members note the position with regard to the 2014/15 estimates and the forward projections for 2015/16 to 2017/18 at this stage in the process and the issues yet to be resolved as set out in paragraph 3.3.
- 2.3 That the Medium Term Financial Strategy for 2014/15 to 2017/18 be approved as part of the budget for 2014/15.
- 2.4 That a recommendation be made to Full Council to increase Council Tax by 1.5% for 2014/15 in respect of General and Special Expenses (Melton Mowbray) and at a level that results in a balanced budget for special expenses Frisby and Sproxton.
- 2.5 That a recommendation be made to Full Council to transfer any surplus on the general expenses revenue budget for 2014/15 to the NHB reserve and the special expenses reserve in respect of special expenses (Melton Mowbray).
- 2.6 That delegated authority be given to the Head of Central Services in consultation with the Chief Executive and Leader of the Council to withdraw from the Leicester and Leicestershire business rates pool should the finance settlement in any year indicate that continued pooling would not be in the best interests of this Council.

3.0 KEY ISSUES

3.1 Background

- 3.1.1 The Management Team scrutinised all budget submissions prior to submission for member scrutiny. The Budget and Strategic Planning Working Group (BSPWG) met on 7th November 2013 to consider a number of matters arising from the scrutiny and to provide guidance on a number of areas for both General and Special Expenses. The Town Area Working Group met on 14th November 2013 to also consider special expense (Melton Mowbray) budgets. Amendments were made to individual draft service budgets

following these meetings. A copy of the Working Group minutes for these meetings can be obtained from Central Services.

- 3.1.2 The emphasis of these meetings was to achieve a balanced budget for 2014/15 and also to scrutinise all service growth and savings put forward, including their fit with Council priorities and to ensure only those that fit such criteria move forward through the budget process. In addition, the Members present considered the ongoing issues experienced in balancing the budget and the particular pressures and risks faced as a result of the financial implications in relation to localising support for council tax and the ongoing significant cuts in central government grants both this council and our partners are experiencing. These were discussed with a view to considering how best the Council could manage these impacts and plan for the future and by doing so minimise the likelihood of cuts in services being necessary.

3.2 Estimated Year End Position 2013/14

- 3.2.1 The position for the current financial year, 2013/14 is estimated to be as set out in the following table:

Estimated Year End Position 2013/14

	Original Estimate 2013/14 £'000	Estimated Year End Position 2013/14 £'000
General Expenses		
Net Cost of Services	7,004	7,226
Non Specific Service Items	-820	-822
	-----	-----
Total General Expenses	6,184	6,404
Special Expenses (MM)		
Net Cost of Services	615	610
Non Specific Service Costs	-132	-132
	-----	-----
Total Special Expenses (MM)	483	478
Special Expenses (Sproxtton)	5	5
Special Expenses (Frisby)	5	5

- 3.2.2 The estimated year end position for General Expenses shows an increase over the original budget of £220k. Revenue Supplementary estimates have been approved from the Corporate Priorities Reserve and the working balance as detailed below totalling £395k.

	£
Approved Revenue Carry Forwards from 2012/13	242,530
Supplementary Estimates - Corporate Priorities Reserve	44,250
Supplementary Estimates - Working Balance	108,200
Total	----- 394,980

As such the estimated year end position on general expenses is showing an under spend of £175k against in year approvals. The variances between the in year approvals and the estimated year end position primarily relate to additional income from planning and development control fees and increased subsidy on benefits paid over that budgeted for.

In addition it is currently estimated that there will be little draw on the inflation contingency provided for other than to cover a portion of the pay award. These are offset by reduced income estimated on the cattle market and Phoenix house over that originally estimated. The figures are the best estimate based on information available at this time. As such taking into account the supplementary estimates funded through the working balance and the estimated increase in retained business rates the current position show an estimated surplus of £118k over the approved working balance.

3.2.3 The estimated year end position for Special Expenses (Melton Mowbray) is showing a £5k under spend which in addition to there no longer being a need to restore the working balance carried forward from 2012/13 as originally estimated this will increase the estimated transfer to the special expenses reserve by £7k. This contribution was approved by members to increase the reserve to provide for non recurring items of capital and revenue expenditure.

3.2.4 The estimated year end position is only an indication of the likely position at the year end and budget holders can only spend at this level if they seek approval through virements and supplementary estimates. Whilst the estimated year end position for General Expenses is showing a potential under spend there is still some pressure on increased costs which are estimated to be covered by savings elsewhere.

3.3 Proposed Budget 2014/15

3.3.1 Following amendments to the proposed budgets both during and following the BSPWG and Management Team meetings, the latest position on the General Fund and Special Expenses is summarised in the table below. At this stage in the process there are always a number of uncertainties with some budgets remaining unclear:

Latest Proposed Budget 2014/15

	General Expenses	Special Expenses (MM)
	£000	£000
Latest Proposed Budget 2014/15	5,831	468
Retained Business Rates	-1,292	0
Revenue Support Grant (RSG)	-1275	-38
Council Tax Income	-2,704	-480
Council Tax Freeze Grant	-30	-5
New Homes Bonus	-848	0
Collection Fund Deficit	30	0
Budget Shortfall/Surplus (-)	-288	-55

3.3.2 The above figures show a surplus at the present time on both the general and special expenses (Melton Mowbray) funds. With the future significant cuts expected in central government grants on general expenses this position shows the council is planning ahead with regard to its finances, enabling such cuts to be managed and planned in advance, and this is evidenced by figures later in the report when the council's finances are projected forward for the period 2015/16 to 2017/18. The balance on general expenses will be available to transfer to the New Homes Bonus Reserve to provide funds in support of generating new housing in the borough in line with the proposal by the BSPWG. With regard to special expenses (Melton Mowbray) the balance is in line with the previous decision to provide funds to support non recurring revenue and capital expenditure.

3.3.3 The following assumptions have been made with regard to the estimates set out above:

- Formula Funding used to calculate retained business rates and RSG is in line with the illustrative settlement 2014/15 announced with the final settlement for 2013/14 published on 4 February 2013 updated in line with the technical consultation paper published on 17th July 2013.
- Council tax is assumed at 1.5% with the council tax freeze grant not being taken for 2014/15 as proposed by the BSPWG.
- RSG allocated to special expenses and parish councils to compensate for the impact of localised council tax support on the tax base is reduced in line with the estimated reduction in RSG for the council. This is as proposed by the BSPWG and recommended in the report on the council tax support scheme elsewhere on this agenda.

3.3.4 It is not known when the confirmation of the Formula Grant is to be received having been received quite late in December 2012. It is anticipated that this will contain more information on the Council Tax freeze grant which is being offered again for 2014/15 and 2015/16. This is understood to be on the basis of a 1% increase in council tax on a gross taxbase prior to being adjusted for the impact of council tax support. This would be worth approximately £35k to the Council. Funding would however only be available for 2 years and of course once this ceases the Council would have to find the shortfall from its own resources. The funding currently being received for previous freeze grants all ceases in 2016/17 with 2015/16 being the last year it is received. Currently £34k is being received as a separate identifiable grant and £84k is incorporated into the Formula Funding and not separately identifiable.

3.3.5 The estimates are still being checked and refined and this will result in a number of changes in service costs as the Council progresses through the process. The key areas to note are in addition to those set out in para 3.3.2 are:

- The balance on the collection fund will not be determined until January 2014 following the calculation of the council tax base and is therefore based on estimates.
- The taxbase will need to be refined following the decision made regarding the council tax support scheme covered in a separate item on the agenda and requiring Full Council approval.
- The impact of the staffing structure changes covered elsewhere on this agenda will need to be incorporated.
- The outcome of the triennial valuation on the pension scheme is awaited from Leicestershire County Council which is likely to impact on the employer's superannuation rate, although an allowance has been made in the estimates for an increase.
- Support cost recharges to the HRA and between funds are based on current year's estimates and will be subject to change.
- A contingency has been provided in the estimates for general prices and pay award inflation but where information is available budget holders have provided for known increases or contractual increases in the estimates. The contingency is based on an assumption of a 1% pay increase and a 2% increase on other items.
- Assumptions have been made relating to externally funded services where the continuation of funding remains uncertain at the present time.
- An adjustment is still to be made to reflect the decision made by the Community and Social Affairs Committee relating to the supporting people tender.

3.3.6 Figures will continue to be refined until the Full Council meeting in February 2014 when the budget and Council Tax are formally set.

3.3.7 One saving is being proposed for member consideration (Appendix A) and two growth items (Appendix B). The IT growth item is still awaiting further details from the IT partnership and if available in time for the budget will be put before members formally at the Full Council meeting, however should this not be the case then it will have to be considered in year for funding outside of the budget setting process.

3.3.8 The Medium Term Financial Strategy is being developed as part of the budget this year as proposed by the BSPWG. As with the budget for 2014/15 the figures are still being refined as the process progresses and more information is received. The latest estimates show the following projected position.

Financial Year	Expected Position Surplus (-)/Deficit	Best Case Scenario Surplus (-)/Deficit	Worse Case Scenario Surplus (-)/Deficit
	£000	£000	£000
2015/16	-30	-164	498
2016/17	181	-166	1,047
2017/18	119	-350	1,103

3.3.9 The key factors impacting on these forward projections are:

- Income projections
- Anticipated service changes
- Formula Funding projections
- Level of top slicing of the NHB i.e. 20% or 35%
- Changes to employer NI and pension contributions
- Profile of Waterfield Leisure Pool Management Fees
- Inflation assumptions and actual cost increases
- Council tax levels
- Transformation programme savings

3.3.10 The figures show that despite large reductions anticipated in Formula Funding the current surplus estimated for 2014/15 has enabled the Council to largely address the deficit that otherwise would have arisen in 2015/16 in advance. This is subject to the achievement of efficiencies planned for that year and the level of government funding being in line with that projected. Whilst estimates currently anticipate a deficit in 2016/17 and 2017/18 this gives the Council time to manage the finances in advance in a planned way thereby ensuring adequate time for the impact of any service efficiencies and reductions to be assessed and managed accordingly. The estimates do still emphasize the reliance that the Council has like many others on the receipt of NHB.

3.3.11 The expected position has been subject to sensitivity analysis resulting in the best and worse cases set out in the table above. The key reasons for such large variations are as follows:

- Large variations arising from the impact of the options relating to the top slicing of NHB
- Large variations in Formula Funding projected due to the lack of information at this time
- Variations in the need for inflationary increases due to economic uncertainty and the low use of the contingency in 2013/14
- Risk associated with achieving transformation savings

- Lack of information surrounding the impact of NI changes and the increase in membership of the pension scheme due to the implementation of auto enrolment.

3.3.12 As approved in 2012 the Council is currently a member of a business rates pool consisting of all Leicestershire districts, Leicestershire County Council, Leicester City Council and Leicester, Leicestershire and Rutland Combined Fire Authority. In summary the pooling agreement allows for increases in business rates that would otherwise have been paid over to central government in the form of a levy to be retained within the pool area. Surpluses up to £400k will be retained within the pool as a contingency sum to cover safety net payments and monies retained above this level will be available to support priority economic projects within the whole Leicestershire/Leicester area and distributed by the LLEP. The financial position of the pool is monitored on a monthly basis across the area however the final position will not be known until after the end of the financial year. There remains some uncertainty around the treatment of appeals outcomes and guidance is awaited from central government on the accounting treatment of these and how this will affect individual authorities and pooling arrangements. The estimated levy the pool would retain is based on Formula Funding for each authority as well as forward projections of business rates income. As such it is difficult to finalise these estimates for each financial year until the provisional settlement is received in approximately December each year. As such authorities are given 28 days following the release of the provisional finance settlements to withdraw from a pool should they wish to do so. Any member of the pool withdrawing would cause the pool as a whole to cease. For 2013/14 delegated authority was given to the Chief Executive and Head of Central Services in consultation with the Leader and Solicitor to the Council to agree the pooling governance arrangements, including the legal agreement, and to withdraw from the pool if information in the Local Government Finance settlement in December indicated that continued pooling would not be in the best interest of the Council. The legal agreement has now been finalised and signed. As such it is recommended that delegated authority be given to the Head of Central Services in consultation with the Chief Executive and Leader of the Council to withdraw from the pool should the finance settlement in any year indicate that continued pooling would not be in the best interests of this Council.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The process followed with regard to the setting of the Council's budget is in line with the Service and Financial Planning timetable.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The council does hold good reserves which if required could be used to balance the budget in any financial year whilst plans are put in place to reduce expenditure. However whilst these balances are healthy the size of the potential future funding cuts and the risks associated with some of the grants and partnership funding received would mean that these balances could quickly be depleted.

5.2 The position at the pool at the mid point in the financial year is still showing a positive balance with regard to retained levies however this is less than that originally estimated and below the £400k contingency. Further analysis is being undertaken to ensure estimates are being prepared on a consistent basis by all pool members. There is also a concern that some estimates may be overly prudent. The uncertainty of the outcome of outstanding appeals and the accounting treatment of these is also affecting the estimates.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no other legal implications other than those set out above.

7.0 COMMUNITY SAFETY

- 7.1 Community Safety is a key priority of the Council and the budget proposals need to take account of the requirements to support that strategy.

8.0 EQUALITIES

- 8.1 There are no direct links to Equalities, though some elements of the budget proposals will relate to Equalities issues. Any savings proposals will need to have equality impact assessments completed as appropriate by the service lead.

9.0 RISKS

- 9.1 There is always the risk that an item of income or expenditure is not adequately reflected in the budget for any financial year. The process followed as set out in the Service and Financial Planning timetable is aimed at mitigating this risk. However, the Council has a working balance which is annually reviewed and calculated on a risk based approach. This working balance is there to provide for any variations in actuals against budget that could not have been anticipated at this stage. The detailed calculations were presented to this committee as part of the budget framework report approved in September 2013. In addition, the Council has a process for enabling budgets to be moved from one area to another to help ensure the overall position is not affected. The assumptions set out in paragraphs 3.3.3 and 3.3.5 provide an indication where assumptions have been made at this stage and where there is less clarity surrounding the financial implications.

- 9.2 Risks are more fully assessed when the budget is presented to Full Council based on the position at that time.

- 9.3 The Council has a corporate risk relating to the availability of government funding and the impact on the Council's finances. An action plan is in place to support this risk as reported to the Governance Committee. This action plan has been updated to reflect the specific risk associated with partnership funding following a discussion at the BSPWG.

10.0 CLIMATE CHANGE

- 10.1 Climate change and our response to this could impact on a number of budgets and this should be considered as part of the service planning process.

11.0 CONSULTATION

- 11.1 The Service and Financial Planning timetable sets out the Council's approach to consultation and its links to the budget setting process. In addition, all Heads of Service and Members are involved in the process at various stages. Consultation with Business Ratepayers will be held via the website following advertisement.

- 11.2 Consultation on the priorities as approved by this committee at its October 2013 meeting is currently underway and the interim results will be reported at the Strategic Planning Away Day. The final outcome will feed into the review of the priorities planned for 2014.

- 11.3 Union representatives were invited to attend the BSPWG meeting held in November in order to facilitate communication with staff representatives although this offer was not taken up this year. A representative will also be invited to the Strategic Planning Away Day in January 2014 when budget proposals are discussed in more detail.

- 11.4 The Town Area Working Group was also consulted on proposals for Special Expenses Melton Mowbray.

12.0 **WARDS AFFECTED**

12.1 All wards will be affected.

Contact Officer: Dawn Garton, Head of Central Services

Date: 19 November 2013

Appendices: Appendix A – Saving Proposal
Appendix B – Growth Proposals

Background Papers: Medium Term Financial Strategy working papers
Budget Book 2013/14
Budget Working Papers
Minutes from BSPWG 7/11/13

Reference: X: C'tees, Council & Sub-C'tees/PFA/2013-14/3-12-13/DG-Revenue budget
2014/15 and medium term financial