

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

2 DECEMBER 2014

REPORT OF HEAD OF CENTRAL SERVICES

REVENUE ESTIMATES 2015/16 AND MEDIUM TERM FINANCIAL STRATEGY

1.0 PURPOSE OF REPORT

- 1.1 To report on the latest position regarding the estimates for 2014/15 and 2015/16 and the Medium Term Financial Strategy (MTFS) following the Budget and Strategic Planning Working Group (BSPWG) meeting held on 12th November 2014.
- 1.2 To seek committee approval for the proposals made by the BSPWG regarding the budget for 2015/16.

2.0 RECOMMENDATIONS

- 2.1 That Members note the estimated year end position for 2014/15 as set out in paragraph 3.2.
- 2.2 That Members note the position with regard to the 2015/16 estimates and the forward projections for 2016/17 to 2018/19 at this stage in the process and the issues yet to be resolved as set out in paragraph 3.3.
- 2.3 That as part of the budget setting process The Council approve that the Council Tax Support Scheme approved for 2014/15 (Year 2) remain unaltered for 2015/16 (Year 3) and applicable amounts (e.g. Single Person Allowance) to be adjusted for inflation in line with the Government's Adjudication and Operations Circular
- 2.4 That subject to members approval of the pay award agreements the payroll element of the contingency budget is removed and the salary estimates updated accordingly as set out in paragraph 3.3.4
- 2.5 That delegated authority is given to the Head of Central Services in consultation with the Chief Executive and the Chair, Councillors Bush and Hutchison being the political groups' nominated consultees for the Policy Finance and Administration Committee, and Solicitor of the Council to sign up to the Leicestershire pool for business rates should the modelling demonstrate a financial benefit to the Melton and update the legal agreement accordingly.
- 2.6 That members recommend to Council as part of the budget proposals the creation of a Business Rates Equalisation Reserve as set out in paragraph 3.3.12

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 12th November 2014 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 12th November 2014 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 2015/16 as this was a key principle agreed by this committee at its meeting on the 30th September as part of the Budget Framework. As well as this they were also held 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 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 2014/15

3.2.1 The position for the current financial year, 2014/15 is estimated to be as set out in the following table:

Estimated Year End Position 2014/15

	Original Estimate 2014/15 £'000	Estimated Year End Position 2014/15 £'000
General Expenses		
Net Cost of Services	7,089	6,828
Non Specific Service Items*	-910	-589
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Total General Expenses	6,179	6,239
Special Expenses (MM)		
Net Cost of Services	586	586
Non Specific Service Costs	-118	-118
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Total Special Expenses (MM)	468	468
Special Expenses (Sproxtton)	5	5
Special Expenses (Frisby)	5	10

*Includes Business Rate adjustment

AGENDA ITEM 12

- 3.2.2 The estimated year end position for General Expenses shows an increase over the original budget of £60k. Revenue Supplementary estimates have been approved from the Corporate Priorities Reserve as detailed below totalling £302k.

	£	
Approved Revenue Carry Forwards from 2013/14	145,540	
Supplementary Estimates - Corporate Priorities Reserve	156,420	
Total	301,960	

- 3.2.3 As such the estimated year end position on general expenses is showing an under spend of £242k against in year approvals. The variances between the in year approvals and the estimated year end position primarily relate to additional income (planning, car parking and land charges fees), wheels to work scheme (reduction in cost and increase in funding) and unringfenced grant income received. In addition there has been a increase in the amount of interest received on the Council's investments and it is currently estimated that only part of the inflation contingency provided will be required to cover a portion of the pay award. These are offset by reduced income estimated on the cattle market, additional waste contractor costs and reduced income from comingled waste. The figures are the best estimate based on information available at this time and also include the in year impact of the Retained Business Rate levy payment due to the increase in Retained Business Rate income which the Council will receive benefit from in future years.
- 3.2.4 The estimated year end position for Special Expenses (Melton Mowbray) is expected to be in line with the original budget as with Special Expenses (Sproxtton). However, for Special Expenses (Frisby) due to some wall repairs required at the closed churchyard there is a predicted over spend of £5k which will need to be recovered through an increase in the Special Expense charge subject to discussions with the Parish Council. It is proposed to spread this increase over a 3 year period.
- 3.2.5 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 2015/16

- 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 2015/16

	General Expenses	Special Expenses (MM)
	£000	£000
Latest Proposed Budget 2015/16	6,188	463
Retained Business Rates	-1,415	0
Revenue Support Grant (RSG)	-930	-35
Council Tax Income	-2,698	-479
Council Tax Freeze Grant	-59	-10
New Homes Bonus	-879	0
Collection Fund Deficit	-26	0
Corporate Priorities Reserve	-80	0

AGENDA ITEM 12

Budget Shortfall/Surplus (-)	101	-61
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- 3.3.2 The above figures show a budget shortfall at the present time on general expenses which reflects the challenging economic environment the council is operating with the significant cuts being applied to grants from central government. This also takes into account some of the funding withdrawals LCC are needing to make in order to tackle their own budget gap which starts to impact from the 2015/16 budget onwards. The Head of Central Services will continue to work with Management Team to review the budget estimates in order to identify further savings or potential budget reductions which could contribute to reducing the current shortfall. Any budget reductions would be presented to members for consideration at the Strategic Planning away day in January 2015.

With regard to special expenses (Melton Mowbray) there is an expected surplus for 2015/16 which is in line with the previous decision to provide funds to support non recurring revenue and capital expenditure. However, a new Play Equipment Renewal and Replacement Policy has recently been approved by the Community and Social Affairs Committee at its meeting on the 12th November 2014 which is seeking to establish a sinking fund to meet future costs. Once the level of funding required has been established this will impact and reduce the current surplus on the special expenses (Melton Mowbray) account. Consequently, if the surplus reduces there will be less funding available to support capital expenditure items.

- 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 2015/16 announced with the final settlement for 2014/15 published on 12 February 2014 updated in line with the technical consultation paper published on 22nd July 2014.
- The Council tax freeze grant will be taken for 2015/16 as discussed with 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 as previously agreed.
- The structure of the Council Tax Support Scheme approved for 2014/15 (Year 2) will not be changed for 2015/16 (Year 3). Applicable amounts (e.g. Single Person Allowance) will be adjusted for inflation in line with the Government's Adjudication and Operations Circular. This will need the approval of full council and will therefore be included within the budget setting report.

It is not known when the confirmation of the Formula Grant is to be received having been received quite late in December 2014 with the preceding Autumn Statement being announced on the 3rd December 2014. It is anticipated that this will contain more information on the Council Tax freeze grant which is being offered again for 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 £34k and would be in addition to the Local Government settlement and is expected to be available for 2 years and of course once this ceases the Council would have to find the shortfall from its own resources. Ministers have agreed that the funding for both 2014-15 and 2015-16 freeze grant should be built into the spending review baseline which gives as much certainty as possible that this funding will remain available.

- 3.3.4 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 the above paragraphs:

- 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.

AGENDA ITEM 12

- Business Rates estimates including any pooling arrangements and establishment of an equalisation reserve as referred to in para 3.3.11 and 3.3.12
- The taxbase will need to be refined taking into account any changes relating to council tax support.
- The impact of the pay award changes which is covered elsewhere on this agenda will need to be incorporated.
- 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. However, if the pay award changes are agreed as referred to above then it is proposed the contingency fund be reduced and salary estimates updated accordingly
- Support cost recharges to the HRA and between funds are based on current year's estimates and will be subject to change although an allowance has been made for anticipated transfer between funds.
- Assumptions have been made relating to externally funded services where the continuation of funding remains uncertain at the present time and a prudent approach has been taken to remove some of these specifically those relating to LCC.
- Revenue impact of the Leisure vision and Cattle Market Projects
- An adjustment is still to be made to reflect a potential decisions to be made by the Community and Social Affairs Committee relating to the following items:
 - Play Equipment Renewal and Replacement Policy sinking fund
 - Lifeline fees and charges review
 - Homelessness fees and charges review

3.3.5 Figures will continue to be refined until the Full Council meeting in February 2015 when the budget and Council Tax are formally set.

3.3.6 There are some saving items currently being worked upon by Management Team in order to address the current budget gap which are summarised in the table below:

Committee	Service	Description	Amount
REEA	Christmas Lights	Aim to secure external funding towards costs. Alternatively undertake a service review to identify potential savings	£10k
REEA	Environmental Maintenance	Review of service	Up to £25k
REEA	Licencing and Enforcement	Review of service	Up to £35k
PFA	Communications	Discontinue Melton Mails and only commission these when required for a specific purpose	£10k
PFA	Communications	Review of service	£5k
PFA	Human Resources	Reduction in corporate training budget	Up to £30k
PFA	Contingency Fund	Removal of non-pay inflation element	£50k

Overall, if all the savings above are achieved this would total up to £170k which would help to balance the budget and provide members with options to fund growth of which there are four growth items totalling £54k which are outlined in Appendix B including one exempt item.

AGENDA ITEM 12

3.3.7 The Medium Term Financial Strategy is again being developed as part of the budget this year. As with the budget for 2015/16 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	Optimistic Scenario Surplus (-)/Deficit	Prudent Scenario Surplus (-)/Deficit
	£000	£000	£000
2016/17	177	-221	780
2017/18	381	-375	1,409
2018/19	644	-272	1,752

3.3.8 The key factors impacting on these forward projections are:

- Income projections
- Anticipated service changes including loss of dry recycling credits
- New waste management contract
- Formula Funding projections
- Changes to employer NI and pension contributions including auto-enrolment
- Inflation assumptions and actual cost increases
- Council tax levels
- Achievement of Transformation programme savings
- Welfare Reform and Universal Credit
- Assumptions relating to the Retained Business Rate scheme

3.3.9 The figures show that despite large reductions anticipated in Formula Funding the Council has in the main been able to meet this challenge with the current deficit predicted for 2015/16 being low in comparison. With the prospect of a new government who may instigate potential policy changes this is a relatively good position compared to other local authorities. If all the current budget concerns come to fruition then the budget gap will need to be addressed and Management Team will work on developing saving proposals in a planned approach to ensure appropriate decisions are made.

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

- 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 and predicted again in 2014/15
- 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.
- Waste services with the potential loss of dry recycling credits alongside the procurement of a new waste management contract which will have a key impact in 2017/18.

AGENDA ITEM 12

- 3.3.11 In relation to Business Rate retention there has been a proposal from a number of authorities across the County to review the potential for reforming the pooling arrangements for the 2015/16 financial year. At this point, Melton has given its support to an expression of interest which was submitted by Leicestershire County Council to CLG on 31st October 2014 with the view to restabilising a pool. However, this does not commit any authority to being part of a pool but offers the opportunity to undertake further financial modelling following the settlement announcement to fully understand the potential benefits if the pool was restabilised. A final decision will need to be made later in the year during December 2014/January 2015. Therefore as part of this report delegated authority is being requested to enable the Council to sign up to the Leicestershire pool for business rates should the modelling demonstrate a financial benefit to Melton.
- 3.3.12 One of the main impacts of the Business Rate retention scheme has identified the potential for annual fluctuations in the retained income levels. There is likely to be volatility in surpluses and deficits achieved in future years. Currently Melton is expecting to see an increase in retained business rates income for 2014/15 which will mean an additional levy will need to be paid in year for the Governments share of this resulting in an actual overspend of £58k after allowing for the offset by the Business Rate contingency fund created in 2013/14 from previous years additional s31 grants (as referred to in para 3.2.2). The overall benefit from the increased retained income will flow through the Business Rate collection fund in future years in terms of an on-going increase level of income which has been factored into the MTFs but also a one off benefit in 2015/16. It is therefore suggested an Business Rate Equalisation Reserve is established utilising this one-off benefit in order to mitigate any future potential impact which may arise from these annual fluctuations.

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.

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.

AGENDA ITEM 12

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 2014. 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 3.3.4 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 includes 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 The Council's Corporate Plan is being reviewed to develop the 2015-2020 priorities. These will be informed by extensive consultation and the initial findings will be presented to members at their Strategic Planning away day in January 2015 for comment prior to formal approval in March 2015.
- 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 2015 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.

AGENDA ITEM 12

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Date: 19 November 2014

Appendices: Appendix A – 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