

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

7 OCTOBER 2013

REPORT OF HEAD OF CENTRAL SERVICES

BUDGET FRAMEWORK 2014/15

1.0 PURPOSE OF REPORT

- 1.1 To consider a number of key items which will feed into the Council's Medium-Term Financial Strategy (MTFS) and the 2014/15 budget and service planning preparation process.

2.0 RECOMMENDATIONS

- 2.1 That Committee approve the proposed corporate planning and budget framework timetable for 2013/14, in respect of the 2014/15 financial year, set out at Appendix A.
- 2.2 That no inflation be provided for in the 2014/15 budget at service budget level, other than fees and charges which has been provided for at the rate of 3%, unless adjusted for known prices by budget holders. Instead a contingency budget for inflation be determined at an inflation rate of 2% for costs and 1% for pay and reported to Members as part of the budget setting process for 2014/15.
- 2.3 The Council retains its objective of setting a balanced budget for 2014/15.
- 2.4 The target working balance on general expenses remains at £820,000 with existing levels also retained for special expenses (Melton Mowbray) at £50,000 and the Housing Reserve Account (HRA) at £750,000.
- 2.5 The Programme Board continue to determine the relative priority of schemes for members to consider and allocate funding based on the information set out in the project mandates.
- 2.6 The key dates for the budget process be noted.

3.0 KEY ISSUES

Background

- 3.1 An updated timetable for the corporate planning and budget framework process is attached as Appendix A. There are no significant changes from the process approved last year except for the inclusion of draft estimates being submitted to individual policy committees to enable them to input early into the process.

Local Government Finance Settlement

- 3.2 Traditionally the Government has conducted Comprehensive Spending Reviews (CSR's) every two years and their purpose is to set out for the forthcoming three-year period, how much the Government is going to spend in cash terms and in which policy areas. The CSR2010 was announced in October 2010 and covered a 4 year period 2011-15. The review sets departmental spending limits and defines the key areas of improvement the public can expect from this expenditure. The CSR contained a range of proposals for the public sector and local government, the most significant financial impact was the reduction in funding over the 4 year period.

3.3 The Government published the illustrative 2014-15 Local Government Finance Settlement on 4 February 2013, since its publication the government announced in the 2013 budget a further 1% reduction would be made from the local government spending total. A technical consultation on the local government finance settlement for 2014-15 and 2015-16 was published on 17 July 2013 with responses required by 24 September 2013. The council has responded as this settlement has a significant impact on the council's finances. More information and the outcome of the consultation should be available for the MTFs, in the meantime the headlines in the consultation are:

3.4 2014-15

Melton Borough Council's Revenue Support Grant (RSG) will reduce by an additional £29k or 2.15% on the illustrative settlement. The Business Rates Retention baseline will increase by £2k or 0.19% on the illustrative settlement. This results in a total settlement of £2.511m which is £392k, or 13.5%, less than the 2013-14 settlement. The RSG reduction from 2013-14 is 24.6%.

3.5 2015-16

The council's RSG will reduce by £417k and our business rates baseline will increase by £34k compared to our 2014-15 settlement. This will be an overall reduction of £383k or 15.3%. The RSG reduction from 2014-15 is 31.7%.

In addition there is a second consultation paper which proposes to "top slice" the authority's New Homes Bonus (NHB) by 20-35% and the funds given to the lead authority for the area's LEP. If implemented this would see a reduction in retained NHB of between £193k and £339k of the originally expected 2015/16 grant.

3.6 Council Tax Freeze Grant

Compensation for the council tax freeze grants for the periods 2011-12 and 2013-14 will continue to be paid to 2015-16 and from 2015-16 they will be built into the RSG as a single element. These two grants currently total £118k per year and the Council should be aware that in 2016-17 this amount could drop out of the RSG.

Council Tax Freeze Grant is again being offered for 2014-15 and 2015-16 at the equivalent of a 1% increase in council tax. Full details are as yet unclear but are expected to be contained in the final settlement.

Inflation Forecast

3.7 The Government's target for inflation is 2% CPI (Consumer Prices Index). Actual CPI hit a peak of 2.9% in June and is expected to remain around 3% in the near term, falling back to its 2% target over the period of the MTFs. Pay increases have continued to be weak and are likely to remain low with the government again proposing average 1% pay increases in local government in 2014-15 and 2015-16.

3.8 A contingency is proposed to be set up for inflation for 2014-15 at the level of 2% for costs and 1% for pay and will be reported to members as part of the budget setting exercise for 2014-15. On this basis no inflation has been set at service budget level other than 3% for fees and charges as already provided for in the fees and charges reports considered by committees in the September committee cycle. However, where budget holders have knowledge of price rises, adjustments can be made to these budgets to reflect actual price changes.

Working Balance

3.9 The Council's budget strategy for a number of years has been to set a balanced budget. This ensures that the net revenue expenditure, with the exception of funding for capital/new initiatives, is met from Council tax and Government grants. This strategy was

also based on ensuring that working balances were retained at a sufficient level to meet any unforeseen expenditure that could not reasonably be budgeted for.

- 3.10 When calculating budget requirements, relevant authorities are required (by The Local Government Finance Act 1992) to have regard to the level of reserves needed for meeting estimated future expenditure (e.g. for emergencies), or as specific (i.e. "earmarked") funds. A clear protocol (covering purposes, utilisation, management, and review) exists for each reserve held in line with the guidance. The level of working balance an authority agrees is an individual matter for them based on their own unique circumstances, risk profile and risk appetite. It is not appropriate to compare/benchmark against other authorities in order to assess an appropriate level.
- 3.11 The current projection for the level of working balances is set out in the following table. Where the actual balances at the year-end for general and special expenses have differed from the target level the balance has been restored either by taking from or adding to the general reserves. This does not take any account of predicted year end over/underspends that have not been formalised through supplementary estimate requests. As members will be aware the current forecast indicates an underspend of around £100k, however, this position is subject to regular updates and change. As the budgets and spend are proactively managed every effort is being made to manage costs within budget.

	General Fund General Expenses £	General Fund Special Expenses £	Housing Revenue Account £
1 April 2013	820,000	50,000	1,037,343
Latest budgeted Increase/reduction (-) 2013/14	0	0	224,510
Supplementary estimates approved to date	-108,200	0	0
Estimated Balance 31 March 2014	£711,800	£50,000	£1,261,853

- 3.12 The target working balance for general expenses was increased in 2012-13 to its current level of £820k. The calculation has been updated for any changes in assumptions and is set out in Appendix B. It can be seen that the revised figures produce a mid-point of £565k. This is a substantial reduction due to the extreme event (fire at the Council Offices) year of 2008-09 dropping out of the calculations. However, budgets in future years will require reduced costs following the reduction in grant and the Council should consider the implications if the expenditure reductions are not achieved. Members are also aware of the recent fraudulent payment which may have to be wholly or partially written off. Therefore it is recommended at this time that the current working balance of £820k is retained to provide additional flexibility to the Council during this period.
- 3.13 With regard to the £50k working balance for special expenses (Melton Mowbray) there is no justification for amending this amount based on previous years supplementary estimate history. As shown above the current and projected balance at this target.
- 3.14 The Housing Revenue Account (HRA) working balance was last increased from £500k to £750k by this committee in a meeting held on 23 January 2013 with a requirement to review annually. The increase was needed to address the risks associated with running the HRA as a going concern and ensure the sustainable and continuous maintenance and improvement of the housing stock. A further change is not proposed.
- 3.15 It has been previously agreed that, should there be a surplus over the HRA working balance then this is available to support the requirements of the HRA business plan.

Programme Board

- 3.16 The Programme Board was allocated responsibility in 2008/09 to determine the relative priority of schemes submitted for funding as part of the budget setting process for member's consideration and final approval for funding by Full Council at the budget setting meeting. No issues were encountered from this approach and therefore it is recommended that this procedure continue.

Key Dates

- 3.17 For Members information the key dates in the budget process are as follows:-

Budget and Strategic Planning Working Group meet to consider draft MTFS and budget submissions	7 November 2013
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PFA Committee consider first draft of revenue estimates	3 December 2013
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Strategic Planning Away Day (All Councillors)	16 January 2014
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Full Council determines the budget	5 February 2014
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Full Council sets Council Tax and approves the budget book and the MTFS	20 February 2014
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4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 The key items considered as part of this report will inform the Council's MTFS. The MTFS is an overarching strategy within the Council's Corporate Policy Framework and draws together the financial consequences of all the Council's strategies and policies.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 The financial implications of each of these key decisions will feed into the MTFS along with the detail around the Council's reserves and balances which will be submitted for approval to the December meeting of this Committee.

6.0 LEGAL IMPLICATIONS/POWERS

- 6.1 There are no specific legal implications as a result of these proposals.

7.0 COMMUNITY SAFETY

- 7.1 There are no specific community safety issues as a result of these proposals however as a corporate priority specific funding will be allocated as part of the service and budget setting process to this area.

8.0 EQUALITIES

- 8.1 There are no direct links to equalities as a result of these proposals.

- 8.2 As in all our service areas and in supporting our corporate priorities ensuring equality of access for all sections of the community and in particular those that are vulnerable is a key factor for all officers to consider and improve.

9.0 RISKS

9.1 Probability

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Very High A				
High B			1	
Significant C				
Low D		2		
Very Low E			3	
Almost Impossible F				
	IV Neg- ligible	III Marg- inal	II Critical	I Catast- rophic

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Impact

Risk No.	Description
1	Uncertainty and risks over the future of government funding following the spending review 2013 and the resultant impact on the Council's finances
2	Budget overspend
3	Depletion in level of working balances

9.2 There are a number of uncertainties surrounding local government finance and the Council's financial position. The budget is the best estimate of likely income and expenditure for the year that it covers. The proposals contained within this report attempt to quantify some of these unknowns in order to produce a best estimate. To mitigate some of these risks the working balance is provided which itself is based on a risk assessment of likely need.

10.0 CLIMATE CHANGE

10.1 There are no direct links to climate change.

11.0 CONSULTATION

11.1 As part of the Corporate Planning and Budget Framework provision is made to undertake consultation on budget disinvestment. This helps inform the budget setting process and allocation of resources.

11.2 All Heads of Service and the Budget and Strategic Planning Working Group are involved in finalising the document.

12.0 WARDS AFFECTED

12.1 As these proposals inform the MTFS then potentially all wards are affected.

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Date: 16 September 2013

Appendices: A – Service and Financial Planning Timetable
B– Level of Working Balance from MTFS

Background Papers: MTFS working papers

Reference: X: C'tees, Council & Sub-C'tees/PFA/2013-14/07-10-13/Budget Framework 2014/15