

# AGENDA ITEM 9

## POLICY, FINANCE AND ADMINISTRATION COMMITTEE

30 SEPTEMBER 2014

### REPORT OF HEAD OF CENTRAL SERVICES

#### BUDGET FRAMEWORK 2015/16

#### 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 2015/16 budget and service planning preparation process.

#### 2.0 RECOMMENDATIONS

- 2.1 That Committee approve the proposed corporate planning and budget framework timetable for 2014/15, in respect of the 2015/16 financial year, set out at Appendix A.
- 2.2 That delegated authority is given to the Chief Executive and Head of Central Services in consultation with 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.
- 2.2 That no inflation be provided for in the 2015/16 budget at service budget level, other than fees and charges which has been provided for at the rate of 2.5%, 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 2015/16.
- 2.3 The Council retains its objective of setting a balanced budget for 2015/16.
- 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.

##### Local Government Finance Settlement

- 3.2 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 2015-16 Local Government Finance Settlement on 12 February 2014, and a further technical consultation on the local government finance settlement for 2015-16 was published on 22 July 2014 with responses required by 25 September 2014. As in previous years the council has responded to the consultation and more information including the outcome of the consultation should be available for the MTFS. In the meantime the headlines in the consultation are the Governments intention to:

- Fund the continuing impact of the 2% cap on rates through a s31 grant in 2015-16 (as in 2014-15). There may be a further cap announced in the autumn for 2015-16 which may result in a further grant.
- Rolling the Council tax freeze grant funding for 2014-15 into the same element from previous year freezes.
- The 'efficiency support grant' to be rolled into the settlement subject to performance in the small number of shire districts which it applies to.
- Adding £2m rural services top-up from 2014-15 into the previous element and rolling this into the settlement.
- Holdbacks of £1bn to fund New Homes Bonus and £50m for the rates retention safety net

### 3.5 2015-16

The council's RSG will reduce by £420k and our business rates baseline will increase by £33k compared to our 2014-15 settlement. This will be an overall reduction of £388k or 15.1% in Formula Grant. The RSG element is a reduction from 2014-15 of 30.3%.

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 being submitted by Leicestershire County Council to CLG by 31<sup>st</sup> 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 reestablished. A final decision will need to be made later in the year during December 2014/January 2015.

### 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 are now 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 if this is not built into Formula Funding.

The government confirmed in a letter dated 15 January 2014 they would provide additional grant funding to support a council tax freeze in both 2014-15 and 2015-16. For 2014-15 this was equivalent to 1% of the basic amount of council tax set for 2013-14 and only be paid for two years, 2014-15 and 2015-16. This equated to £34k for Melton and is in addition to the Local Government settlement.

Ministers have agreed that the funding for 2014-15 (including 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. The MTFS currently assumes a council freeze grant will be taken in 2015-16 equivalent to 1% of council tax. However, at this time we haven't been provided with any details of the grant offer for 2015-16 which is expected to be contained within the settlement announcements.

## Inflation Forecast

- 3.7 The Government's target for inflation is 2% CPI (Consumer Prices Index). Actual CPI was 1.9% in June up from 1.5% in May and is expected to remain around 2% in the near term. 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 2015-16. On this basis no inflation has been set at service budget level other than 2.5% 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. Budgets are closely monitored throughout the year and spend is proactively managed with every effort made to manage costs within budget.

	<b>General Fund General Expenses £</b>	<b>General Fund Special Expenses £</b>	<b>Housing Revenue Account £</b>
1 April 2014	820,000	50,000	1,333,263
Budgeted Increase/reduction (-) 2014/15	0	0	(332,750)
Supplementary estimates approved to date	0	0	(58,500)
<b>Estimated Balance 31 March 2015</b>	<b>£820,000</b>	<b>£50,000</b>	<b>£942,013</b>

- 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 £555k. 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, the government is continuing with its focus on austerity measures which is likely to lead to further reductions in funding when the next settlement is announced for 2016/17. In addition to this the impact of 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 and it is therefore suggested the working balance is used in order to mitigate any potential impact which may arise. As data is collected in the future on such volatility between years the calculations can be updated accordingly to allow for this risk. Members are also reminded that the council has made a provision of only 50% in relation to the 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	12 November 2014
PFA Committee consider first draft of revenue estimates	2 December 2014
Strategic Planning Away Day (All Councillors)	15 January 2015
Full Council determines the budget	4 February 2015
Full Council sets Council Tax and approves the budget book and the MTFS	25 February 2015

**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**



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

→  
**Impact**

Risk No.	Description
1	Uncertainty and risks over the future of government funding following the spending review 2017 and the resultant impact on the Council’s finances
2	Budget overspend
3	Depletion in level of working balances and reserves

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: 05 September 2014

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/2014-15/30-09-14/Budget Framework 2015/16