

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
<b>Cabinet</b>	<b>12 February 2014</b>

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<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
<b>Financial Strategy, Budget and Council Tax 2014/15</b>	<b>Finance &amp; Resources</b>	<b>Susan Guinness</b>	<b>10(b)</b>

## **SUMMARY AND LINK TO CORPORATE PRIORITIES**

This report provides background information that will need to be taken into consideration in determining the Council's forward financial strategy and, specifically, budget and council tax setting for 2014/15. The Medium Term Financial Strategy (MTFS) recognises the priorities set out in the Corporate Plan and risks identified through the corporate risk assessment processes – both the subject of accompanying reports elsewhere on the agenda for this meeting. The MTFS recognises the continued and significant uncertainty surrounding core government grant funding.

## **RECOMMENDATIONS**

### **Revenue Estimates**

1. Cabinet consider for approval the council's revised estimates for 2013/14, the original estimate for 2014/15 and indicative original estimates for 2015/16 through to 2017/18, summarised at Appendix A to this report.
2. Cabinet endorse the assessment on the level of reserves and thus the proposed one-off transfer of funds in 2013/14 from the General Reserve to Earmarked Reserves as set out in Section C in this report.
3. Cabinet consider Appendix E and the proposals designed to further improve efficiency/increase income and reduce the forecast budget deficit.
4. Cabinet recommend to Council that the forecast residual revenue funding deficit in 2014/15 (£0.092 million) be addressed through making appropriate contributions from the General Fund Reserve, whilst recognising that this figure may need to be revised when the Government announces the final Local Government Finance Settlement figures for 2014/15 in advance of the Council meeting on 5<sup>th</sup> March 2014.
5. Subject to any amendments proposed in considering recommendations 1 – 4 above, Cabinet recommend a Borough Council Net Expenditure requirement for 2014/15 (including parish/town council precepts) for approval at the Council meeting on 5<sup>th</sup> March adequate to support the delivery of the MTFS.
6. The Chief Executive be authorised to deal with all staffing issues arising from the report within the agreed budget and in accordance with the council's human resources policies. This will be done in consultation with the Leader, and in her absence the Deputy Leader, and the Cabinet member with responsibility for Finance and Resources and, as appropriate, other relevant Cabinet Members.

## **Council Tax**

7. Subject to consideration of recommendations 1-6 above, Cabinet recommend the Borough Council's Band D equivalent Council Tax for 2014/15, for approval at the council meeting on 5th March 2014, remains at the same level as for 2013/14 being £208.38. This will entitle the Council to receive an estimated Council Tax Freezing Grant in the sum of £70,000. This amount will be received in 2014/15 and 2015/16 making a total receipt of £140,000 over these two years only.
8. That the Council determine the reduction in Council Tax support applicable to working age claimants with effect from 1 April 2014.

## **Capital Programme and Budget**

9. Cabinet approve the Capital Programme as set out at Appendix F and its proposed funding.

## **DETAILS AND REASONING**

This report sets out the Council's budget and Medium Term Financial Strategy (MTFS) to 2017/18 which includes the following:-

- A. The anticipated out-turn financial performance against the current year's approved budget (2013/14).
- B. Revenue Budget Forecasts 2014/15 through to 2017/18.
- C. Balancing the budget and Budget Efficiency Programme.
- D. Budget Consultation.
- E. Prudential Code and Capital Budget.
- F. Reserves.
- G. Council Tax.

### **A. Forecasted Out-turn Position 2013/14**

The budget for the current year was set at £13.263 million (excluding parish precepts). It incorporated substantial proposals to improve efficiency totalling £0.515m (Appendix D) to be achieved by reducing expenditure and generating additional income. It was therefore anticipated at the time the budget was approved that a budgeted contribution of £0.607 million would also be required from the General Reserve to balance the overall forecast budget gap of £1.122 million.

The projected out-turn for the current year is summarised in Appendix A. It is currently forecasted that the Council will achieve a net underspend against the 2013/14 budget in the sum of £0.651m. This is made up of recurring budgetary savings of £0.390m secured during the year to address the budget gap position in 2014/15 and one off items totalling £0.261m. A summary of the key budget variations for 2013/14 is presented in Appendix C below and are in line with those reported throughout the year to the Governance Committee. The main variations in expenditure are in respect of employee costs and supplies and services. The authority has experienced a reduction in the net cost of providing Housing Benefits off-set by reductions in income predominantly in investment returns and also Building Control which is a service that has been impacted upon nationally as a result of the general economic climate.

During the budget setting process, which updates the budget forecasts for the forthcoming year (2014/15) and the Medium Term Financial Strategy (MTFS) through to 2017/18, the impact on the forecasted level of reserves has been assessed. As a result it is proposed that in 2013/14 a one-off transfer of £1.0m is made from the General Reserve to Earmarked Reserves.

This proposal is made to plan appropriately in financial terms for future commitments and, by making compensating reductions to these two earmarked reserves over the next three years, will also assist in profiling the Council's budget efficiency agenda to make it more deliverable whilst sustaining service standards. The Authority's MTFs forecasts an increasing budget deficit position caused by Central Government's continued austerity measures and local government funding cuts, whilst acknowledging the uncertainty surrounding future government funding beyond the General Election in 2015 and the current Spending Review period. At the same time economic growth in the Borough, through the building of additional business premises and house building, will place additional demands on our services whilst generating extra income. This proposed adjustment to reserves would allow us time to properly assess the likely impact of developments and for some of the uncertainty around the various funding streams to be clarified. Therefore, it is proposed to transfer £1.0m between the General Reserve in 2013/14 to the Asset Management (£0.625m) and ICT (£0.375m) earmarked reserves in 2013/14. This proposal is included in the information presented within Appendices A and C.

Managing financial performance against the approved budget is key to ensuring we remain on top of the overall performance of the Council, including both financial and operational matters. It is integral to the Council's performance management framework, which provides the basis through which the overall performance of the Council is regularly monitored, managed and reviewed. Financial performance reporting is specifically considered by Cabinet Members and officers alongside key performance indicator data on a monthly basis. The Governance Committee provides member oversight and scrutiny of the Council's financial arrangements and performance. The Committee has received financial monitoring reports on a quarterly basis during 2013/14.

It is worth noting that the Council has a considerable and consistent track record in meeting its financial targets. This was acknowledged by the External Auditor in The Annual Audit Letter that a key challenge facing the Council going forward is that ***"The need for robust governance and financial planning and management in local government is greater than ever."*** It states that, ***"South Ribble Borough Council has robust arrangements in place to face these challenges."***

**B. Future Years' – Revenue Budget 2014/15 to 2017/18**

The Revenue Budget forecasts for 2014/15 and beyond are set out in Appendix A and in more operational detail in Appendix B. The Council's budget and the forecasted budget deficit contained in the previous MTFs has been updated for the information provided within the Provisional Local Government Finance Settlement published in December 2013. The reductions made to core funding by Central Government, as part of the national austerity measures, mean that the Council needs to address a continued and increasing budget gap from 2014/15 onwards with a forecasted overall budget gap in 2017/18 of £2.512m.

Forecasted budget gap 2014/15 to 2017/18

	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>
Total Budget Requirement	13,396	13,812	14,051	14,188
Total Funding	(12,694)	(12,038)	(11,736)	(11,676)
<b>Forecast Budget Shortfall</b>	<b>702</b>	<b>1,774</b>	<b>2,315</b>	<b>2,512</b>

On an annual basis the Council has been faced with significant financial challenges and budgetary pressures in ensuring it is able to balance its budget both in the short and longer term. This is due to a number of national external influencing factors:

- A continued pressured economic climate and the national austerity measures implemented by Central Government resulting in substantial reductions in core grant as the Coalition Government addresses the national public spending deficit.
- Increased uncertainty and risk with regard to Core Funding levels received from Central Government. This is twofold, in terms of a reduced settlement period and also changes in the component funding regimes that transfers the risk of in-year variations and fluctuations in funding levels locally.
- Other key issues such as changes and reforms within the public sector, for example, housing benefit, welfare, pensions scheme.

The Medium Term Financial Strategy forecasts make no assumptions about the possible impact of the initiatives referred to in the final point (above). This is because there is currently a high amount of uncertainty as the Government continues to explore various implementation scenarios. These areas will be kept under review as further information on their impact becomes available.

As in previous years, the need to deliver substantial year on year efficiencies will need to be embedded into the Council's Medium Term Financial Strategy. For 2014/15, further efficiency savings are proposed in the sum of £0.410 million (Appendix E) with a forecast contribution of £0.092 million being required from the General Fund Reserve to help protect, support and sustain service delivery standards in the transition towards a balanced budget in the medium term. This strategy is expected to continue in order to address the forecast budget gap in 2015/16 and beyond. The External Auditor's report gave support to the considered approach that has been adopted by the Council in delivering efficiencies whilst making appropriate use of reserves. It stated: ***"Given the relatively healthy position of reserves and balances at the Council a more measured and considered approach to identifying efficiencies is undertaken."***

On a positive note there is the potential for additional government grant funding, through New Homes Bonus and sharing in the growth of business rates income. In this respect the updated MTFS takes a cautious approach and recommends that this is something that is closely monitored throughout the coming year. In compiling the budget forecasts, a number of specific and key issues and assumptions have been considered, as follows:-

- Key assumptions made in preparing the estimates as set out at **Appendix G**.
- Provisional Local Government Finance Settlement 2014/15.
- New Homes Bonus grant 2014/15.
- Triennial Pension Fund Review.
- The Capital Programme and its revenue implications.
- Nationally set budget and council tax increase rules/guidelines.
- The need to maintain an adequate level of reserves.
- Impact of known budget decisions taken by partner organisations.
- Issues identified through the preparation of the draft risk register.

### **Provisional Local Government Finance Settlement**

Central Government's current Comprehensive Spending Review 2010 (CSR 2010) determined the Local Government Finance Settlements over the four year period starting 2011/12 with 2014/15 being the final year. CSR 2010 brought with it transformational change with regard to a number of key elements of core funding, being: (1) the frequency of funding announcements; (2) the funding regimes by which core grant is allocated between public sector organisations and local authorities; and (3) large scale reductions in the amounts received.

Such funding cuts resulted in the Council's MTFs forecasting a significant budget deficit. The funding received over the four year period is set out below:

Core funding received CSR 2010

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Business Rates	6.579	4.115	4.555	New Business Rates Retention Scheme introduced		
Revenue Support Grant	0.955	1.272	0.092			
Formula Grant	-	-	-	4.117	4.192	3.504
Council Tax Support Grant	-	-	-	*0.767	-	-
Re-basing of 2010/12 Grant	**(-1.106)					
<b>Sub Total</b>	<b>6.428</b>	<b>5.387</b>	<b>4.647</b>	<b>4.884</b>	<b>4.192</b>	<b>3.504</b>
Council Tax Freeze Compensation	-	0.189	0.189	0.268	0.266	0.266
Homelessness Prevention Grant	-	0.057	0.057	0.057	0.056	0.056
<b>Total Formula Grant</b>	<b>6.428</b>	<b>5.576</b>	<b>4.893</b>	<b>5.209</b>	<b>4.514</b>	<b>3.826</b>

\* The Council Tax Support Grant is rolled into and included in the Formula Grant settlement in 2014/15. Therefore it cannot be separately identified and tracked in terms of value.

\*\* 2010/11 formula grant re-based mainly due to transfer of Concessionary Travel to Lancashire County Council.

The total reduction over the period 2010/11 to 2015/16 is forecasted to be £2.924m which equates to a 45% reduction in core government grant funding (excluding council tax freeze compensation). As previously documented the change in funding regimes has also introduced year on year fluctuations which impacts greatly on the accuracy of budgetary forecasted and planning over the longer term. The Chancellor of the Exchequer also recently announced that a further £25.0 billion needed to be saved from public sector budgets therefore it is very likely that core funding will be subject to additional cuts as part of the CSR 2014.

### Impact of 2013/14 Funding Changes on the MTFs

Business Rates Retention (BRR) - The current year is the first year with regard to the implementation of the new Business Rates Retention funding regime. Local authorities are now allowed to retain a proportion of any additional income generated from growing the tax base for businesses in their area. This new system is one of two large scale changes to the way in which authorities are funded bringing with it significant uncertainty and year on year annual fluctuations to core funding levels. Within these new arrangements it is important to note that, although we continue to collect the business rates for this area (circa £36million), the Government still continues to determine the annual rate poundage and the Valuation Office Agency (VOA) will remain responsible for setting the rateable value for business premises.

As part of this new grant regime the Government determined our Start Up Funding Assessment level for 2013/14 with reference to previous actual performance. This being £5.131m comprising of

Revenue Support Grant - £3.081m and Baseline Funding Level - £2.050m. As an incentive to local authorities any additional income generated as a result of net growth in business rates will be retained according to the proportionate shares of the precepting authorities (with the exception of Police and Crime Commissioners) and by reference to the Baseline Funding Level.

Although this new scheme means that some of the financial benefit of net tax base growth is realised by the authority it also results in some of the risks of collection also transferring to local authorities. There are three variable factors that may arise during the year that directly impact on the level of funding actually received in year, (a) net movement in the business rate yield (determined by central Government), (b) losses on collection (impacted upon by the national economic environment) and (c) reductions due to appeals (determined by the VOA). Taking into account the current degree of uncertainty caused by these external factors, at this stage no provision has been made within the budgetary forecasts in the proposed MTFS over the longer term. However, within the MTFS BRR growth of £200,000 per annum, generated by growth in 2013/14 has been included. Determining this key assumption, however, has been problematic as the technical detail regarding the scheme's application remains outstanding and is unlikely to become totally clear until the year end accounts for 2013/14 are finalised.

Council Tax Support Scheme. The second large scale change to core funding in 2013/14 is the Council Tax Support Scheme which replaced Council Tax Benefit with a localised Council Tax Support charge in response to reductions in government grant subsidy. South Ribble Council resolved this time last year to recover the reduction in funding by reducing the level of entitlement to Council Tax support for working age claimants. In 2013/14 this meant a reduction of £2.95 per week. The Council agreed its council tax support scheme, to take effect from 2014/15, at the meeting on 22 January 2014. Parish and Town councils are expected to take account of the revised basis of calculating the council tax base during their budget setting processes for 2014/15 onwards. Once the council tax levels for the other precepting authorities have been determined for 2014/15 the Council will be required to determine the reduction in Council Tax support applicable to working age claimants from 1 April 2014.

### **Council Tax “Freeze” Grant**

This report proposes that the Council's share of the Council Tax be frozen in 2014/15 at the same level set in 2013/14. This proposal entitles the authority to claim the Council Tax Freeze grant made available from Central Government. This will be the second consecutive year that the Council has frozen its Council Tax and similarly the fourth time in the last five years. The grant received will equate to a 1% increase in total Council Tax income of c. £70,000, paid for a period of two years in 2014/15 and also 2015/16. Acceptance of this funding does not prevent local authorities from approving council tax increases for future years after 2014/15.

### **New Homes Bonus (NHB) Grant**

The Government introduced NHB in 2011/12 as an incentive for house building across the country. NHB is based on the average national Band D council tax for each new property built, with an additional top-up payable for affordable properties constructed. The funding is not ring-fenced and therefore can be used for wider service provision or specific amenities needed to support any new development. The New Homes Bonus allocation for 2011/12 was £0.165 million and increased by £0.170 million in 2012/13 and by a further £0.176m to £0.511m in 2013/14. The allocations from 2012/13 incorporated the affordable homes premium.

The DCLG reduced Revenue Support Grant allocations to pay for the New Homes Bonus Scheme. An unallocated element was then refunded to local authorities in 2013/14 as New Homes Bonus Adjustment Grant. South Ribble received a refund of £0.017m bringing the total New Homes Bonus received in 2013/14 to £0.528m. The NHB awarded for 2014/15 is £0.114m and has been built into the base budget funding in the current MTFS period up to and including 2017/18.

It is important to note that, whilst the annual NHB allocations are made to councils as aggregated payments, the NHB allocations for each year are separate and discrete. This becomes important for financial planning as each discrete annual allocation is only payable for 6 years and therefore introduces an element of risk in relying on this to fund recurring expenditure .

#### New Homes Bonus in MTFS

	<b>2011/12 Year 1 £000</b>	<b>2012/13 Year 2 £000</b>	<b>2013/14 Year 3 £000</b>	<b>2014/15 Year 4 £000</b>	<b>2015/16 Year 5 £000</b>	<b>2016/17 Year 6 £000</b>	<b>2016/17 Year 6 £000</b>
NHB 2011/12	165	165	165	165	165	165	
NHB 2012/13		170	170	170	170	170	170
NHB 2013/14			176	176	176	176	176
NHB 2013/14 only			17				
NHB 2014/15				114	114	114	114
<b>Total</b>	<b>165</b>	<b>335</b>	<b>528</b>	<b>625</b>	<b>625</b>	<b>625</b>	<b>460</b>

#### **Triennial Review of the Pension Fund.**

The triennial review of the Pension Fund will impact on the budget with effect from 2014/15. The impact is complex with two applicable factors within the review impacting on the budget. Firstly, the fund's valuation has suffered negatively due to the current valuation criteria meaning progress in making up the fund's deficit position has not been as effective as originally expected.

Secondly the Employers' Contribution, which is a budgeted cost to the Council, is to be calculated in a different way. Up until now it has been calculated as a straightforward percentage applied to the pay bill of pension fund members. The contribution paid has been a consolidation of both elements due to be paid that is, (i) the contribution for current members (future year's contribution) and (ii) a contribution to make up the fund's deficit and achieve a fully funded position over a period of 19 years. Due to widespread reductions in public sector pay bills, deficit contributions have by default been eroded slowing down the deficit's rate of recovery. To overcome this issue the deficit element of the contribution will now be paid as a pre-determined cash amount that will not fluctuate in accordance with pension fund membership numbers and will total £1.933m over the next three years.

In summary, the Budget Assumptions in the current year's MTFS contained a Pensions Fund Employers' Contribution rate of 22.3% of salaries, this rate will reduce to 12.7%, however, it will now be coupled with a cash payment towards the deficit initially budgeted at £0.619m for 2014/15. Despite this significant change in approach the overall cost over the triennial review period is broadly in line with that already brought into the Council's MTFS.

#### **Preston, South Ribble and Lancashire City Deal**

The Council is a partner to the Preston, South Ribble and Lancashire City Deal the principles of which were agreed by Government in September 2013. Since then work has been ongoing to put in place the governance and detailed arrangements to support the City Deal and a report will be presented to a future Council to agree these. Therefore, the budget proposals in this report do not take account of the City Deal other than to adopt an approach that allows us time to properly assess the implications. This acknowledges the financial commitment from the Council will be from funding generated by new development accelerated by the City Deal and not from our core government grant funding.

## Waste Management – Cost Sharing Agreement

Along with other Lancashire district councils, the Council works in partnership with the County Council to deliver the countywide waste management strategy aimed at increasing recycling rates and reducing the volume of waste being disposed of in landfill sites. As part of the existing agreement, due to expire in March 2014, the County Council pays to the Council a cost sharing payment which generates additional income for the Council of around £1.058m per annum. As part of its budget reduction programme the County Council has been reviewing this arrangement in advance of its expiry next year and has tabled a proposal for consideration by the district councils. This proposal is still being discussed with the County Council and is explained in greater detail elsewhere on this Cabinet agenda.

## Community Safety

This time last year, during the setting of the budget, there was still a lack of clarity around the funding and service provision for Domestic Abuse services. The Council therefore built £5,000 into the base budget going forward to cover the expected contribution to the IDVA service. During the year the Council has contributed its share of the funding for IDVA which was confirmed as £3,260.

The County Council, through the Lancashire Community Safety Strategy Group, has put forward a countywide proposal for the commissioning of wider Domestic Abuse services which includes IDVA. The County Council has asked the Council for a recurrent financial commitment for three years of £9,000 per annum which includes the IDVA service. LCC is commencing the commissioning process during February 2014. The Council has built £9,000 into the base budget going forward to cover its contribution.

The Police and Crime Commissioner (PCC) has given an assurance that he will maintain the funding for PCSOs in 2014/15 where match funding continues to be provided by local authorities and other partners. Therefore the budget proposals appended to this report include for the continuation of our funding (£44,000) at current levels to match the commitment given by the PCC. This supports 4 of the PCSOs deployed in the Borough.

## C. Balancing the budget and Budget Efficiency Programme

The update of the MTFs to 2017/18 forecasted the following budget deficit position resulting from the changes to core funding such as significant grants cuts by Central Government and the impact of the new regimes implemented in 2013/14 being Business Rates Retention and Council Tax Support Scheme.

### Summary of General Fund (Appendix A)

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Total Budget Requirement	13,396	13,812	14,051	14,188
Total Funding	(12,694)	(12,038)	(11,736)	(11,676)
<b>Forecast Budget Shortfall</b>	<b>702</b>	<b>1,774</b>	<b>2,315</b>	<b>2,512</b>



The Council has been successful in implementing year on year budget efficiency programmes to bridge the budget gap and deliver a balanced budget. The efficiency programme undertaken in 2013/14 is summarised in Appendix D. Further recurring budget efficiencies were also achieved throughout the year as summarised in Appendix C.

### **Budget Efficiency Targets**

The budget summary at Appendix A to this report suggests that the Council will need to deliver recurring revenue budget savings of approximately £1.5 million over the next three years, albeit contributions from the General Reserve will be required to balance the budget over this period. That said, there is still some uncertainty in predicting the impact of the new Business Rates Retention funding system. Forecasting Government grant income after 2015/16 is also challenging given it is beyond the next General Election and into the period of the next Spending Review.

Appendix E to this report summarises the revenue budget efficiencies required over the next three years with more specific detail of the proposals for the forthcoming financial year.

As can be seen the efficiency proposals for 2014/15 are prompted by a review of the council's senior management structure which is the subject of a separate report on the Cabinet agenda. Subject to this being approved, further savings are anticipated as a consequence of the subsequent rationalisation and realignment of services, with several targets included within these budget proposals. As part of this, it is acknowledged that there may be a need to reinvest some of the overall budgetary savings to ensure we have the capacity and skills in place to deliver the Council's key corporate priorities. A contingency sum of £100,000 has been allowed for this purpose.

Reductions in Government grant funding are expected to continue for the foreseeable future and it is therefore important that the Council continues to be proactive in developing proposals to deliver further efficiency and/or additional income. This proactive approach has served us well to date. Given the need to deliver savings of around £1.5 million over the next three years this budget proposes the establishment of a temporary resource (£50,000p.a.), for the next two years, to help deliver a series of structured service reviews (Business Transformation Programme). Initially the Business Transformation Programme will consist of Planning; Housing; Legal Services; Democratic Services and Neighbourhood Services.

<b>Budget Efficiency Targets</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>
Proposed 2014/15	(570)	(520)	(520)	(520)
Business Transformation – Temporary additional capacity to deliver efficiency programme	50	50		
Supplement to lower graded posts – subject to consideration of a Cabinet report	10	10	10	10
Contingency to address skills capacity following senior management review	100	100	100	100
Proposed 2015/16		(500)	(500)	(500)
Proposed 2016/17			(500)	(500)
<b>Total Savings</b>	<b>(410)</b>	<b>(860)</b>	<b>(1,410)</b>	<b>(1,410)</b>

## **Assessing the Level of Reserves**

As part of setting the budget and determining the Council's Medium Term Financial Strategy, incorporating commitments within the Corporate Plan, the level of reserves is assessed. It is proposed that a transfer in 2013/14 in the sum of £1.0m is made from the General Fund Reserve to the Asset Management (£0.625m) and ICT (£0.375m) earmarked reserves in 2013/14. This proposal would allow the Council to plan appropriately in financial terms for future commitments and, by making compensating reductions in the planned contributions to these two earmarked reserves over the next three years, will also assist in profiling the Council's budget efficiency agenda to make it more deliverable whilst sustaining service standards and manage the challenges and uncertainties facing us.

## **Delivering a Balanced Budget**

Delivering the priorities set in the Corporate Plan and protecting front line services are key priorities for the Council and the measures described above allow a phased approach to be taken. The overall budget forecasts are detailed in Appendix A and summarised below:-

	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>
<b>Forecast Budget Shortfall</b>	<b>702</b>	<b>1,774</b>	<b>2,315</b>	<b>2,512</b>
Budget Efficiency Programme (net)	(410)	(860)	(1,410)	(1,410)
Reduction in planned contributions to earmarked Reserves	(200)	(400)	(600)	-
Contribution from General Reserve	(92)	-	-	-
<b>Updated Forecast Budget Shortfall – MTFS (Appendix A)</b>	<b>0</b>	<b>514</b>	<b>305</b>	<b>1,102</b>

## **D. Budget Consultation**

The Council's Corporate Plan was agreed by the Council in September 2011 following extensive engagement with councillors after the last council elections. On an annual basis the Corporate Plan is re-freshed to ensure it remains fit for purpose and includes all the key actions and measures to ensure the Council achieves its vision and priorities and continues to improve. Feedback from our residents, councillors, employees, Cabinet and the Scrutiny Committee has been used in re-freshing the Corporate Plan. The budget proposals included within this report are designed to support those corporate priorities and local area plans, prepared for each of the five My Neighbourhood Forums. These Forums were established by the Council to improve the engagement of communities in influencing what happens around them and how the Council and partners allocate resources. An update of the corporate plan and the My Neighbourhood plans is also being considered on this Cabinet agenda. The budget proposals do however recognise the financial constraints that have now been imposed on all local authorities. The budget proposals will be made available for local people and businesses to comment on and any feedback received will be taken into consideration before the budget is finalised at the Council meeting on 5 March 2014.

## **E. Prudential Code and Capital Programme**

### **Prudential Code**

Capital expenditure incurred by the Council is controlled and governed by guidance set out in the Prudential Code for Capital Finance in Local Authorities (the Code). The professional code of practice sets out a framework for self-regulation of capital spending, in effect, allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Code allows the council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability.

Members' involvement in the decision making and monitoring process is considered essential in order that the Council can demonstrate that capital expenditure plans are affordable, external borrowing is prudent and sustainable and that treasury decisions are taken in accordance with good practice. The detail in this regard is the subject of a separate report on the Cabinet agenda in relation to the Council's Treasury Management Strategy.

### **Capital Budget 2013/14**

Appendix F to this report summarises the projected expenditure and revised phasing of capital projects already committed in the Council's Capital Programme. This is further detailed by Cabinet portfolio.

### **Capital Programme 2014/15 and future years**

The need to support the Council's corporate plan to ensure the overall priorities of the Council are achieved means that an overview of the linkages between service specific strategies and plans must be taken in determining capital investment priorities. The proposals being brought together in the Capital Programme as shown at Appendix F fall into the following categories:

- Asset Management Plan requirements (*essential to service delivery*):
  1. Land and Buildings;
  2. Vehicles & Plant renewal and replacement;
  3. Information Technology - schemes designed to continue the Council's investment in this area and replace/upgrade existing technology considered essential to support service delivery.
- Schemes that relate to regeneration projects and My Neighbourhood Plans where funding has been identified.
- Housing capital programme (incl. disabled facilities grants).
- Parks/Open Space
- Schemes with health & safety implications.

That said, the capital programme priorities have needed to be considered against the back drop of the difficult financial climate generally facing all businesses and householders, from which the Council is not immune. The current financial constraints imposed on all local authorities as a consequence of the Comprehensive Spending Review has meant that the proposed Capital Programme has been critically reviewed to ensure it is realistic in terms of affordability and our ability to deliver projects/scheme within the timescales indicated. Within this context the proposed Capital Programme is set out at Appendix F from 2014/15 to 2017/18. The programme will continue to be subjected to a fundamental annual review to ensure that expenditure plans remain relevant to corporate and service priorities prevailing at that time.

## Housing Capital Allocations

Our Housing service is the only area in which we currently receive annual capital expenditure funding support from the Government. Disabled Facilities Grants (DFGs) funding continues to be provided, although the ring-fencing of this grant was removed from 2011/12 onwards it has been assumed that it will continue to be used in full for DFG's in line with previous practice.

In December 2013, the Council received notification of the Disabled Facilities Grant funding available for 2014/15 will be £249,715. . In 2012/13 the Council received an initial allocation of £233,000 which was increased to £328,996 following receipt of a one-off payment of £95,996. An allocation of £237,717 was received in 2013/14.

Disabled Facilities Grant is currently paid by the Department for Communities and Local Government (DCLG). However it has emerged that from 2015/16 this central government funding will be provided by the Department of Health (DH) with no capital spend on DFGs by DCLG. This DH funding will be included in the new *Better Care Fund (BCF)*. This is a fund announced by the DH in the July 2013 spending review which aims to bring about integration of health and social care spending. Local housing authorities, social services, health and social housing providers have all been contributors to adaptations provision. Under this new regime, local authorities will still have to meet their legal obligations to provide DFGs but there is uncertainty about the mechanics of how the BCF will be allocated. It would appear that responsibility for the overall *Better Care Fund* will rest with Lancashire County Council.

The indicative Housing capital programme is included in Appendix F.

## Other Key Points

The proposed Capital Programme (Appendix F) is fully funded and the revenue implications have been incorporated within the Revenue Estimates summary at Appendix A.

The Capital programme includes the schemes emerging from the five My Neighbourhood Forums which are funded primarily from s106 developers' contributions as well as other sources of external funding.

An annual allocation of £100,000 has been included in the Capital Programme from 2013/14 onwards to fund essential parks and open space capital works. This is supported by a prioritised programme of proposed infrastructure works.

Finally, the practice of including a budget allowance for professional/technical fees within Capital Programme project estimates has continued. This ensures we have the capacity (people and skills) and money to deliver a realistic programme of works.

## F. Reserves

### Capital Reserves

The following table provides a detailed forecast of the capital receipts reserves for the period up to 31<sup>st</sup> March 2018. Capital receipts are used to support the Council's Capital Programme and the figures below have been adjusted to take into consideration the proposed funding of the Capital Programme in Appendix F.

Reserve	Projected Balance 31 March 2014 £000	Projected Balance 31 March 2015 £000	Projected Balance 31 March 2016 £000	Projected Balance 31 March 2017 £000	Projected Balance 31 March 2018 £000
Capital Receipts Reserve	411	411	347	347	347
Earmarked Receipts	580	560	250	20	0
Preserved Right to Buy Receipts	1,056	1,056	1,056	1,056	1,056
<b>Total</b>	<b>2,047</b>	<b>2,027</b>	<b>1,653</b>	<b>1,423</b>	<b>1,403</b>

### **Revenue Reserves**

The requirement for financial reserves is acknowledged in statute. The Local Government Act 2003 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating its budget requirement. These existing safeguards are further reinforced through the Audit Commission's audit and inspection processes, whereby the financial performance and standing of an authority is assessed and categorised. One aspect of the authority's financial standing that is assessed is the level of financial reserves. Given the financial challenges that are facing every local authority the External Auditor has been paying particular attention to the financial resilience of local authorities as part of their audit. As previously referred to, the financial challenges to Councils are increasing with a new era of Local Government core grant funding whereby significant funding streams are increasingly uncertain as they are calculated using fluctuating and variable factors on an annual basis.

**General Reserve** - This reserve is needed to deal with unplanned/unforeseen expenditure or losses in income. The level of General Reserves is kept under review as the council continues to introduce improvements to its performance monitoring and risk management systems.

**Earmarked Reserves** - The council has established earmarked reserves to meet 'known or predicted liabilities' where the impact of the expenditure would otherwise cause a significant variation to the council's annual expenditure. The reserves are as set out in the table on the previous page.

Balancing the annual budget by drawing on general reserves may be viewed as a short-term option but where reserves are deployed to finance recurrent expenditure this should be made explicit by the Council's Chief Financial Officer (Chief Executive). Members must note that the continued use of balances in this way is not sustainable.

As part of the budget setting process, the council is required to confirm the adequacy of reserves in the light of its final spending plans. The level of reserves held by the council, both general and those earmarked for specific purposes, is a decision for the council in the context of the financial risks facing it. There is no specific guidance on what constitutes a reasonable level of reserves as the circumstances facing each individual local authority will differ. It is important, however, that any decision in this regard is taken in the context of the Medium Term Financial Strategy and is not based on just a single one year view. In this regard, the council has a good track record of taking a medium to longer term view when assessing its financial position and therefore the required level of reserves. As outlined earlier in this report, this has led to consistently positive comments on the council's overall financial standing from the External Auditor.

The level and relevance of the reserves held by the council is the subject of an ongoing review. However, specifically, Members are reminded that a critical review of the level of reserves held by the Council is completed as part of the annual budget setting process and, at the end of each financial year, in preparing the Statement of Accounts. At each of these points the council is asked to approve the reserves being held.

As explained earlier in this report, as part of the review process it is proposed that £1.0m be transferred from the General Fund reserve to the Asset Management (£0.625m) and ICT (£0.375m) earmarked reserves in 2013/14. This proposal would allow the Council to plan appropriately in financial terms for future commitments and, by making compensating reductions in the planned contributions to these two earmarked reserves over the next three years, will also assist in profiling the Council's budget efficiency agenda to make it more deliverable whilst sustaining service standards and manage the challenges and uncertainties facing us. The Table below highlights the projected levels of revenue reserves, based upon *provisional* budget figures appended to this report. This is currently set out prior to Cabinet consideration and agreement of priorities. In addition to the proposal to transfer funds between reserves is also assumes that the projected out-turn surplus for 2013/14 and the deficit forecast for 2014/15 are funded through making contributions to/from the General Fund Reserve.

<b>Reserve</b>	<b>Projected Balance 31 March 2014 £'000</b>	<b>Projected Balance 31 March 2015 £'000</b>	<b>Projected Balance 31 March 2016 £'000</b>	<b>Projected Balance 31 March 2017 £'000</b>	<b>Projected Balance 31 March 2018 £'000</b>
<b>General Fund</b>	3,902	3,810	3,810	3,810	3,810
ICT Strategy	2,082	1,819	1,630	1,225	975
Elections	104	134	44	44	44
Asset Management	2,207	1,527	1,428	578	928
Public Open Space Commuted Sums	1,712	1,653	1,594	1,535	1,476
Vehicles, Plant & Equipment	112	112	112	112	112
Local Plans	211	211	211	211	211
Building Control	0	0	0	0	0
Housing needs survey	45	65	85	105	125
Leisure Sites Repair and maintenance	243	243	243	243	243
Icelandic Impairment	120	120	120	120	120
Performance Reward Grant	203	137	68	0	0
VAT	105	105	105	105	105
Organisational Restructure costs	522	522	522	522	522
Business Rates Retention Reserve	150	150	150	150	150
Other	834	719	689	655	617
<b>Total</b>	<b>12,552</b>	<b>11,327</b>	<b>10,811</b>	<b>9,415</b>	<b>9,438</b>

## **Robustness of the Budget/Budget Sustainability**

The Local Government Act 2003 requires the Chief Financial Officer (Chief Executive) to report upon the robustness of the estimates made for the purposes of the budget and council tax setting calculations. Spending plans ultimately impact on the level of council tax although, as explained below, the extent of any increase is also externally influenced by the provisions within the Localism Act (council tax referendum requirements). The Medium Term Financial Strategy assesses the affordability of revenue and capital plans and the adequacy of reserves. As with all plans the further the estimate is in the future there is a higher risk with regard to its accuracy. This is now additionally problematic given the variable factors and uncertainty when dealing with the current, variable funding regimes.

As with previous years' budget reports, the council's financial strategy continues to be aimed at addressing the longer term sustainability issues surrounding capital investment and the contributions that may be required to earmarked reserves. To address the longer term sustainability of the council's finances the council considers appropriate asset disposals coupled with the fact that additional funds have been included in the revenue budget in recent years to address longer term maintenance issues and significant non-cyclical expenditure.

As explained above, the Capital Programme is fully funded. Any additional schemes currently being prioritised and approved by the My Neighbourhood Forums are brought forward as and when funding is identified.

On current financial forecasts, given the substantial reductions in government grant and future revenue budget funding remains a cause for concern - especially given that funding levels beyond 2015/16 are uncertain. It therefore remains vitally important for the council to continue addressing the future years' forecast funding gap by developing plans to seek further efficiencies in service delivery. This acknowledges the lead time often required to deliver substantial changes to services. As previously referred to, however, the council has a good track record of delivering efficiencies and the programme of continuous efficiency reviews has an important part to play in this respect. Additionally the retention and appropriate use of revenue reserves will help sustain service standards and fund any one-off costs in the transition towards a balanced budget in the medium term.

At this stage, and subject to the on-going scrutiny processes, the Chief Financial Officer's opinion is that the continuation estimates process has taken all practical steps to identify and make provision for the commitments to which the council will be exposed. This process remains a vital part of ensuring the robustness and financial integrity of the budget. It is important to continue to ensure that all decisions made regarding resource allocation are made with full knowledge of both current and future costs. Having assessed the significance and likelihood of the risks associated with the budget assumptions, the reserves detailed in this report are also considered adequate to support the delivery of the council's current Corporate Plan. The Chief Financial Officer will keep the position of balances and reserves under review during the budget process and provide further advice as appropriate.

## G. Council Tax

The following table provides details of the Council Tax collected by the Borough Council, in its role as billing authority. The table also shows the component parts of the current year's council tax payable by the occupiers of a Band D property in the Borough together with the dates on which each of the precepting authorities are currently expected to agree their budgets and council tax for 2014/15.

Precepting Authority	2013/14 Band D Equivalent £	2014/15 Band D Equivalent £	Meeting Date
Police & Crime Commissioner	152.92	tba	19 <sup>th</sup> February 2014
Lancashire Combined Fire Authority	63.65	tba	10 <sup>th</sup> February 2014
Lancashire County Council	1,086.13	tba	20 <sup>th</sup> February 2014
South Ribble Borough Council	208.38	208.38	5 <sup>th</sup> March 2014
<b>Total</b>	<b>1,511.08</b>		

Residents living in a property located within the boundaries of a Parish/Town Council will have to pay an additional amount of council tax (i.e. added to the amounts in the previous table) to pay for the services of the respective Parish/Town Council. The Parish/Town Councils have each agreed and confirmed their precepts. The table below compares each of the precepts notified for 2014/15 with that for the current year.

Parish/ Town Council	2013/14					2014/15	
	Precept £	Grant from South Ribble Borough Council £	Balance to be collected £	Tax Base Band D Equivalent Properties	Band D Equiva- lent £	Precept £	Band D Equiva- lent £
Farington	50,000	4,312.11	45,687.89	1,994.91	22.90	50,000	<b>24.70</b>
Hutton	21,000	1,081.96	19,918.04	871.45	22.86	21,000	<b>24.38</b>
Longton	21,100	528.00	20,572.00	2,949.30	6.98	23,200	<b>7.90</b>
Penwortham	127,600	11,497.59	116,102.41	7,298.80	15.91	127,600	<b>17.54</b>
Much Hoole	9,000	690.01	8,309.99	678.75	12.24	9,000	<b>13.18</b>
Little Hoole	16,000	596.99	15,403.01	714.73	21.55	17,500	<b>24.10</b>
Samlesbury & Cuerdale	4,350	191.89	4,158.11	482.97	8.61	5,000	<b>10.33</b>
<b>Total</b>	<b>249,050</b>	<b>18,898.55</b>	<b>230,151.45</b>	<b>14,990.91</b>		<b>253,300</b>	



## **Council Tax - South Ribble Borough Council**

The current Band D equivalent tax for the council, excluding parish/town council precepts is £208.38. Council tax increases in recent years have been held below inflation with no increase being applied in 2010/11, 2011/12 and 2013/14.. Subject to Government rules regarding a Council Tax referendum (explained earlier in this report) the council has discretion over the level of Council Tax it needs to levy to deliver local services. Council Tax should not be levied, however, unnecessarily and be justifiable in terms of the services it is being used to fund. With these caveats in mind, the Cabinet is required to determine the 2014/15 Band D equivalent Council Tax that will be recommended to the Council meeting scheduled for 5 March 2014.

The net expenditure of the Borough Council, excluding parish/town Council precepts and after contributions to/from reserves has to be met from funding from the Formula Grant, with the balance being met by Council Tax. The *provisional* amounts of Formula Grant for 2014/15 have been announced by Central Government and are shown in the table below, along with the equivalent figures for the previous two years.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Business Rates	4.115	4.555	New Business Rates Retention Scheme introduced		
Revenue Support Grant	1.272	0.092			
Formula Grant	0	0	4.117	4.192	3.504
Council Tax Support Grant	0	0	*0.767	0	0
<b>Total</b>	<b>5.387</b>	<b>4.647</b>	<b>4.884</b>	<b>4.192</b>	<b>3.504</b>
Council Tax Freeze Compensation Grant (temporary funding for 2011/12 & 2013/14)	0.189	0.189	0.268	0.266	0.266
Homelessness Prevention Grant (included in formula grant from 13/14)	0.057	0.057	0.057	0.056	0.056
<b>Total Formula Grant</b>	<b>5.633</b>	<b>4.893</b>	<b>5.209</b>	<b>4.514</b>	<b>3.826</b>

\* The Council Tax Support Grant is rolled into and included in the Formula Grant settlement in 2014/15. Therefore it cannot be separately identified and tracked in terms of value.

The Borough Council's Council Tax base for 2014/15 has been determined as 33,560.5 Band D equivalent properties (2013/14 - 33,377.67).

In-year collection rates for Council Tax do not currently appear to have been adversely affected beyond that predicted last year. Therefore in calculating the tax base applicable for 2014/15 the allowance for estimated losses on collection has been maintained at 2.00%. This is to reflect the significant impact of continued re-bandings of properties. That said, every effort will continue to be made to maximise collection rates and minimise any amounts that may ultimately prove to be irrecoverable.

In determining the Council Tax level legislation also requires the Council to take into account any surplus or deficit on the Collection Fund. The requisite calculations have been finalised and there is a forecast surplus on the collection fund of £269,662. The Council's share of this surplus amounts to £38,243, equivalent to £1.14 (approx.0.5%) on a Band D property.

## **Proposed Council Tax 2014/15**

Following on from last year's freeze the Council is proposing to keep the Council Tax for 2014/15 at the same amount as 2013/14 (for the fourth time in the last five years). This would enable the Council to receive the Council tax Freezing Grant that is available from Central Government which equates to a 1% increase in Council Tax. This income receipt would continue for two years and therefore will be received in 2014/15 and also 2015/16. It is estimated that the grant received will be £70,000 for each of the next two years making a total of £140,000 for the two years after which this grant will stop. Central Government have made Council Tax Freezing Grants available each year, at varying levels and terms since 2011/12, however, there is no indication that this arrangement will continue. Therefore there have been no further receipts included in the budget forecast going forward other than those formally published and known about.

## **Council Tax Increase - Limitations**

The Localism Act has introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as being excessive. This can apply to South Ribble Borough Council, Lancashire County Council, Fire, the Police and Crime Commissioner or Towns and Parish councils. In all such cases, South Ribble Borough Council has to make arrangements to hold a local referendum for residents. Costs can be recovered from the relevant precepting authority. For 2014/15 the limits have been provisionally set at 2.0% with the exception made for those shire districts, Police and Crime Commissioners and fire and rescue authorities whose Council Tax in 2013/14 was in the lower quartile of their category of authority. In these authorities, it has been provisionally indicated that a referendum must only be held where the authority increases its relevant basic amount of council tax for 2014/15 by more than 2% and there is a cash increase that is more than £5 in the relevant basic amount. No equivalent limits have been set for Town and Parish Councils for 2014-15, although the Government may determine such limits in future years. The actual referendum threshold for 2014/15 is still to be officially announced.

**Appendices attached to this report**

<b>Appendix</b>	<b>Title</b>	<b>Description</b>
A	MTFS – General Fund Summary	Latest revised estimate for the current year and future years' estimates.
B	General Fund Summary – By Service	Detail of Revenue budget projections by activity for each portfolio.
C	Summary of Key Variances	Explanation of major variances to the original budget 2013/14
D	Budget Efficiency Programme 2013/14	Schedule of efficiency targets incorporated into budget forecasts
E	Budget Efficiency Targets 2014/15	Proposed budget efficiency targets 2014/15 onwards
F1	Capital Expenditure Forecasts - Summary	Summary of the projected expenditure and revised phasing of capital projects already committed in the council's capital programme.
F2	Capital Expenditure Forecasts & Financing	Summary of the projected expenditure and revised phasing of capital projects already committed in the council's capital programme.
G	Key Budget Assumptions	Key assumptions used in compiling the revenue budget forecasts within the MTFS.
H	Key Risks to the Medium Term Financial Strategy	Potential risks to the medium term financial strategy and the mitigating action(s)
I	Glossary of Terms	Glossary of the Financial and Budgetary Terms used in the report

## WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas shown below. A risk assessment has also been carried out. The table shows the implications in respect of each of these.

<b>FINANCIAL</b>	The financial implications relating to this report are set out in the body of this report.
<b>LEGAL</b>	These are contained within the revenue and capital budgets.
<b>RISK</b>	There are no implications resulting directly from this report.
<b>OTHER (see below)</b>	<p>The budget proposals, if agreed, may result in a reduction in employee costs, which will be addressed in accordance with the Council's suite of human resource policies. The need for any compulsory redundancies will be kept to a minimum and treated as a last resort. Close liaison with the Trade Unions and employees has been and will continue to be on-going.</p> <p>There are no legal implications at this stage.</p> <p>As explained in the report the Council has an excellent track record of delivering efficiencies to balance the budget exceeding Government targets. Progress against the current year's target is progressing well with efficiencies/budget savings expected to have been delivered by the end of the financial year</p> <p>An equality impact assessment has been carried out on the budget proposals contained in this report for 2014/15, taking into account the requirements of the Equality Act 2010, and the specific public sector provisions which came into being from 1 April 2011.</p>

<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Efficiency Savings</i>	<i>Equality, Diversity and Community Cohesion</i>
<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>
<i>Respect Agenda</i>	<i>Staffing</i>	<i>Sustainability</i>	<i>Training and Development</i>

## BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement – DCLG December 2013  
 Financial Strategy, Budget and Council Tax 2014/15 - Cabinet 6 February 2013  
 Treasury Management Strategy - Cabinet 6 February 2013

**Appendix A**

<b>REVENUE ESTIMATES 2013/14 TO 2017/18</b>						
<b>MTFS - GENERAL FUND SUMMARY</b>						
	<b>Original Estimate 2013/14 £000</b>	<b>Revised Estimate 2013/14 £000</b>	<b>Original Estimate 2014/15 £000</b>	<b>Forecast Original Estimate 2015/16 £000</b>	<b>Forecast Original Estimate 2016/17 £000</b>	<b>Forecast Original Estimate 2017/18 £000</b>
<b>Portfolio</b>						
Finance & Resources	165	73	120	130	137	146
Shared Services & Corporate Support	3,220	3,054	3,078	3,213	3,121	3,099
Neighbourhoods & Street Scene	5,470	5,337	5,641	5,734	5,824	5,868
Regeneration, Leisure & Healthy Communities	3,015	2,874	2,875	2,898	2,921	2,944
Strategic Planning & Housing	1,620	1,666	1,517	1,474	1,496	1,519
<b>Grand Total</b>	<b>13,490</b>	<b>13,004</b>	<b>13,231</b>	<b>13,449</b>	<b>13,499</b>	<b>13,576</b>
External interest	(200)	(161)	(100)	(100)	(100)	(100)
Provision for Repayment of Debt	857	847	899	935	1,037	1,033
Interest Payable	121	121	121	120	120	120
Capital Expenditure Charged to General Fund	0	12	0	0	0	0
Depreciation	(1,391)	(1,391)	(1,391)	(1,391)	(1,391)	(1,391)
Cont'n (from)/to Reserves	386	1,197	183	146	33	697
Cont'n (from)/to General Fund Balances	(607)	(956)	(92)	0	0	0
<b>BOROUGH COUNCIL BUDGET REQUIREMENT</b>	<b>12,656</b>	<b>12,673</b>	<b>12,851</b>	<b>13,159</b>	<b>13,198</b>	<b>13,935</b>
Parish/Town Council Precepts	249	249	253	253	253	253
<b>TOTAL BUDGET REQUIREMENT</b>	<b>12,905</b>	<b>12,922</b>	<b>13,104</b>	<b>13,412</b>	<b>13,451</b>	<b>14,188</b>
<b>Funded By</b>						
New Homes Bonus	511	528	625	625	625	459
Council Tax freeze grant	267	267	266	266	0	0
Council Tax freeze grant 14/15 & 15/16	0	0	70	140	0	0
Homelessness Prevention Grant	57	57	56	56	56	56
Revenue Support Grant/NNDR	4,117	4,117	4,192	3,504	3,504	3,504
Additional retained business rates	0	0	200	200	200	200
Council Tax Support Grant	767	767	0	0	0	0
Parish/Town Council Precepts	230	230	253	253	253	253
Actual/Projected Borough Council Tax Income	6,956	6,956	7,032	6,994	7,098	7,204
<b>TOTAL FUNDING</b>	<b>12,905</b>	<b>12,922</b>	<b>12,694</b>	<b>12,038</b>	<b>11,736</b>	<b>11,676</b>
<b>Forecast Budget deficit</b>	<b>0</b>	<b>0</b>	<b>410</b>	<b>1,374</b>	<b>1,715</b>	<b>2,512</b>
<b>Proposed Budget savings</b>	<b>0</b>	<b>0</b>	<b>(410)</b>	<b>(860)</b>	<b>(1,410)</b>	<b>(1,410)</b>
<b>Forecast Budget Shortfall</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>514</b>	<b>305</b>	<b>1,102</b>

**REVISED ESTIMATE 2013/14 - SUMMARY OF KEY VARIANCES TO ORIGINAL ESTIMATE**

Details	(Under)/over spend £000's
<b>Recurring reductions in Expenditure</b>	
Employee savings	(47)
Premises	(30)
Transport	(28)
Supplies & Services	(120)
Reduced capital financing costs	(10)
<b>Recurring increases in Income</b>	
Housing Benefit subsidy increase	(155)
<b>Net recurring budget savings</b>	<b>(390)</b>
<b>One off items</b>	
Employee Cost in-year reductions	(343)
Council Tax costs recovered	(70)
Cost Sharing income	(54)
New Homes Bonus additional funding	(17)
Other net movements	(7)
Property rental income reduction	81
Efficiency targets temporary shortfall	70
Building Control fee income reduction	40
Investments Income	39
<b>Total one-off variations</b>	<b>(261)</b>
<b>Total variation to the budget – underspend and movement in total reserves</b>	<b>(651)</b>
Proposed transfer of reserves from General Reserve to Earmarked Reserves	1,000
<b>Total Movement in General Reserve Only</b>	<b>349</b>
<b>Original Estimate – Contribution from General Reserve (Appendix A above)</b>	<b>(607)</b>
<b>Revised Estimate – Contribution from General Reserve (Appendix A above)</b>	<b>(956)</b>
<b>Total Movement in General Reserve Only</b>	<b>349</b>

**BUDGET EFFICIENCY PROGRAMME 2013/14**

<b>Directorate</b>	<b>Service</b>	<b>Savings Target £000</b>	<b>Notes</b>
Regeneration and Healthy Communities	Catering Services	110	Transformational review of the Catering service provided from the Civic Centre.
	Health & Safety Contract	34	Savings have been realised through bringing the service back in-house and delivering it on a partnership basis.
Chief Executive	Chief Finance Officer	110	Deletion of vacant post for a further two year period as the role is currently being covered by the Chief Executive as a combined role.
Neighbourhoods	Neighbourhoods Services	176	A phased full service review which ensures the protection of front line service delivery.
Planning and Housing	Property Services	20	Savings achieved by taking a shared service approach.
	Forward Planning	20	Savings achieved by taking a shared service approach.
Shared Services	Shared Financial Services	30	Transformational review to achieve efficiencies in service delivery.
	Shared Assurance Services	15	Transformational review to achieve efficiencies in service delivery.
<b>Total</b>		<b>515</b>	

**BUDGET EFFICIENCY TARGETS 2014/15**

<b>Budget Efficiency Targets</b>	<b>2014/15</b>		<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Proposed 2014/15					
Senior Management Review	(160)				
Neighbourhoods Management and technical officer support review	(100)				
Legal and Democratic	(50)				
Building Control vacancy freeze pending completion of service review (2014/15 only)	(50)				
Administrative Support	(50)				
ICT	(30)				
Housing and Planning	(50)				
Base Budget Review	(80)	(570)	(520)	(520)	(520)
Business Transformation – Temporary additional capacity to deliver efficiency programme		50	50		
Supplement to lower graded posts – subject to consideration of a Cabinet report		10	10	10	10
Contingency to address skills capacity following senior management review		100	100	100	100
Proposed 2015/16			(500)	(500)	(500)
Proposed 2016/17				(500)	(500)
<b>Net Savings</b>		<b>(410)</b>	<b>(860)</b>	<b>(1,410)</b>	<b>(1,410)</b>



<b>CAPITAL EXPENDITURE FORECASTS – SUMMARY</b>					
<b>Portfolio</b>	<b>Revised Estimate 13/14</b>	<b>Estimate 14/15</b>	<b>Estimate 15/16</b>	<b>Estimate 16/17</b>	<b>Estimate 17/18</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>SHARED SERVICES &amp; CORPORATE SUPPORT</b>	<b>297,851</b>	<b>412,726</b>	<b>340,000</b>	<b>480,000</b>	<b>550,000</b>
<b>FINANCE &amp; RESOURCES</b>	<b>617,728</b>	<b>599,500</b>	<b>249,000</b>	<b>875,000</b>	<b>150,000</b>
<b>REGENERATION, LEISURE &amp; HEALTHY COMMUNITIES</b>	<b>172,600</b>	<b>114,000</b>	<b>310,000</b>	<b>230,000</b>	<b>20,000</b>
<b>NEIGHBOURHOODS &amp; STREETSCENE</b>	<b>572,647</b>	<b>682,500</b>	<b>1,344,500</b>	<b>215,000</b>	<b>833,000</b>
<b>STRATEGIC PLANNING &amp; HOUSING</b>	<b>808,463</b>	<b>249,715</b>	<b>312,880</b>	<b>249,715</b>	<b>249,715</b>
<b><i>PERFORMANCE REWARD GRANT</i></b>	<b><i>42,134</i></b>	<b><i>24,569</i></b>	<b><i>25,041</i></b>	<b><i>25,581</i></b>	<b><i>0</i></b>
<b>TOTAL</b>	<b>2,511,423</b>	<b>2,083,010</b>	<b>2,581,421</b>	<b>2,075,296</b>	<b>1,802,715</b>



**Appendix G**

**REVENUE BUDGET – KEY BUDGET ASSUMPTIONS**

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Start- Up Funding Assessment <i>Consists of:</i> Revenue Support Grant Baseline Funding Level Specific Grants – rolled in	£4.514m  (provisional)	£3.826m  (provisional)	No change from 2015/16 level pending further Comprehensive Spending Review (CSR)	No change from 2015/16 level pending further Comprehensive Spending Review (CSR)
Council Tax Increases	0%	0%	1.5%	1.5%
Council Tax Freezing Grant 2014/15 & 2015/16	£70,000	£140,000	0	0
New Homes Bonus Funding (NHB) 2011/12 to 2013/14 allocations	£511,274	£511,274	£511,274	£346,516
New Homes Bonus Funding (NHB) 2014/15	£113,480	£113,480	£113,480	£113,480
Council Tax Base		As at 2014/15	As at 2014/15	As at 2014/15
Additional Business Rates Income Retained	£200,000	£200,000	£200,000	£200,000

	2014/15	2015/16	2016/17	2017/18
Nationally agreed employee pay award	1%	1%	1%	1%
Employer's Pension Contribution Rates	12.7%	12.7%	12.7%	12.7%
Employer's Pension Deficit Lump Sum	£619,000	£644,000	£670,000	£700,000
Employer's National Insurance Increase	Based on current rates	Based on current rates	Based on current rates	Based on current rates
Investment returns (average)	1.0%	1.0%	1.0%	1.0%
Key Income estimates	£100,000 forecast reduction in investment interest, no other significant changes	As at 2014/15 levels	As at 2014/15 levels	As at 2014/15 levels
Efficiencies (cumulative)	Target savings £410,000.	Target savings £860,000.	Target savings £1,410,000.	Target savings £1,410,000.

**Key Risks to the Medium Term Financial Strategy**

<b>Risk Area Identified</b>	<b>Potential Impact of Risk</b>	<b>Mitigation</b>
Business Rates Retention	Lack of clarity on the technical aspects of the scheme. Business Rates tax base falls.	<ul style="list-style-type: none"> <li>• Extensive modelling and scenario forward planning undertaken as part of budget process</li> <li>• Adequate level of reserves</li> </ul>
Pay Inflation	Budget provision insufficient to cover actual pay settlements for years 2014/15 and beyond	<ul style="list-style-type: none"> <li>• Maintain an adequate level of General Reserve</li> </ul>
Pension increases	Budget provision insufficient to cover the costs of implementing the results of the next triennial review.	<ul style="list-style-type: none"> <li>• Maintain an adequate level of General Reserve</li> <li>• Ensure any decisions regarding early retirement/ill health retirement are in accordance with the Council's policies.</li> </ul>
Planning fees income	Significant income budget which is demand led and significant fluctuations could lead to a shortfall in funding.	<ul style="list-style-type: none"> <li>• The income estimate has been rigorously challenged during the budget process</li> <li>• Maintain an adequate level of General Reserve</li> </ul>
Land Charges – Search fee income	Significant income budget which is demand led and significant fluctuations could lead to a shortfall in funding.	<ul style="list-style-type: none"> <li>• The income estimate has been rigorously challenged during the budget process</li> <li>• Maintain an adequate level of General Reserve</li> </ul>
Revenue Support Grant	Shortfall in actual grant funding compared with budget provision made for years 2015/16 and beyond. Volatility in retained business rate income as this will be determined by business expansion/contraction in the area.	<ul style="list-style-type: none"> <li>• Assumptions contained in MTFS</li> <li>• Adequate level of General Reserve</li> <li>• Deliver planned efficiencies</li> </ul>
New Homes Bonus (NHB)	Shortfall in actual grant funding compared with budget provision.	<ul style="list-style-type: none"> <li>• A cautious approach has been taken in anticipating additional funding from this source beyond 2014/15</li> </ul>
Government council tax capping	Government consider that budget decisions taken by the Council should be subject to capping resulting in the costs of rebilling etc. Council Tax referendum required.	<ul style="list-style-type: none"> <li>• Council considers Government guidance when setting its budget and council tax.</li> <li>• The Council Tax freeze being proposed for 2014/15 will not present any issues.</li> </ul>
Efficiency targets	Failure to deliver efficiency targets leading to a funding shortfall	<ul style="list-style-type: none"> <li>• Ensure that targets are realistic and deliverable within the timescales envisaged</li> <li>• Allocate ownership and develop an action plan(s) for delivering the efficiencies and monitor delivery</li> <li>• Maintain an adequate level of General Reserve</li> </ul>
Interest Rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest	<ul style="list-style-type: none"> <li>• Professional and specialist advice taken on interest rate forecasts</li> <li>• Cash flow modelled against anticipated financial forecasts and</li> </ul>

Risk Area Identified	Potential Impact of Risk	Mitigation
	and/or additional borrowing costs.	expenditure/income profiles <ul style="list-style-type: none"> <li>• Treasury Management Strategy and Policies kept under review.</li> </ul>
Financial Market Failure	Loss of investments and interest	<ul style="list-style-type: none"> <li>• Professional and specialist advice taken to support decisions</li> <li>• Treasury Management Strategy and Policies kept under review</li> </ul>
Recovery of Icelandic banking deposits differs from previous assumptions.	Should the recovery of the deposits in Heritable and Landsbanki prove to be lower than forecast, there will be a requirement for an additional impairment charge.	<ul style="list-style-type: none"> <li>• Maintain adequate reserves</li> <li>• Monitor recovery of deposits</li> <li>• Specialist Legal support secured via the LGA to maximise recovery through the courts</li> </ul>
Capital Programme	Funding shortfall due to overspending, unforeseen circumstances etc.	<ul style="list-style-type: none"> <li>• Capital Programme fully funded</li> <li>• More detailed estimates/appraisal required before schemes are approved/ progressed</li> <li>• Earmarked revenue and capital reserves maintained to at an adequate level</li> </ul>

All the above risks will also be mitigated by rigorous and regular monitoring of the Council's financial position throughout the course of the year so that appropriate corrective can be taken as appropriate. The Governance Committee has a key role to play in this respect.

## Glossary of Terms

### **The Current System of Local Government Finance**

A new system was introduced from April 2013 which replaced the formula grant system. It has two main funding streams: the business rates retention system and the new version of the Revenue Support Grant (RSG).

#### ***Revenue Support Grant (RSG)***

Revenue Support Grant is a Government grant which can be used to finance revenue expenditure on any service.

#### ***Business Rates Retention System***

Business Rates or National Non-Domestic Rates are the means by which local businesses contribute to the cost of providing local authority services. Prior to April 2013, Business rates were paid into a central pool and the pool was divided between all authorities. The system aims to give local authorities an incentive to encourage economic development by allowing them to retain some of their business rates growth locally. A “funding baseline” was calculated for each authority. This represents the level of funding planned for each authority, taking into account formula grant and other grant funding. The system assumes that authorities will receive their business rate baseline as income. However, if an authority collects a higher or lower figure than that, it will keep a proportion of the surplus or have to deal with the deficit (subject to safety nets and levies). This is the incentive in the new system. If authorities can “grow” the business rate income in their area, their funding will increase.

#### ***Tariffs and Top-ups***

So far we have an estimate of the funding needed by each authority from the business rate scheme (the funding baseline) and the amount it will receive from business rates (the business rate baseline).

To make sure that no authority is worse off at the point of transition from the old system to the new one, each authority needs to have funding to adjust its business rates baseline to the funding baseline. The adjustments are known as tariffs and top-ups. Thus if:

- business rates baseline is more than the funding baseline – the authority will pay a **tariff** to absorb the difference
- business rates baseline is less than the funding baseline – the authority will receive a **top-up** to compensate for the shortfall.

Tariffs and top-ups are both limited so at the national level, the total of tariffs is equal to the total of top-ups.

#### ***Safety Nets***

The amount of business rates actually collected for an authority may be much less than is assumed by the business rate baseline figures. Actual funding may be a long way below the funding baseline as a result. A safety net system is being put in place to limit these losses.

An authority’s actual funding is defined as the amount of business rate it actually receives, less any tariff paid (or plus any top-up received).

#### ***Levies***

Levies are charges on authorities that experience business rate “growth” and pay a tariff. “Growth” for levy purposes broadly means growth above the business rate baseline (which will increase normally in accordance with RPI) for that authority. It can include the effects of other changes in rates collected, as specified by the regulations. One result of the levy scheme that is being proposed is that only authorities that pay a tariff will pay levies. Authorities that receive top-ups will not pay levies.

**Billing authorities**

These are the authorities that collect Council Tax - district councils, London boroughs, and unitary authorities.

**Budget requirement**

This is the amount each authority estimates as its planned spending, after deducting any funding from reserves and any income it expects to raise (other than from the Council Tax and general funding from the Government).The budget requirement is set before the beginning of the financial year.

**Capital expenditure**

Expenditure on the acquisition of fixed assets or expenditure, which adds to and does not merely maintain the value of existing fixed assets.

**Capping**

When the Government limits an authority's budget requirement and hence the council tax it sets.

**Council Tax**

A local tax on domestic property set by local authorities in order to meet their budget requirement.

***Council Tax base***

The Council Tax base of an area is equal to the number of band D equivalent properties. To work this out, the Government counts the number of properties in each band and works out an equivalent number of band D properties. For example, one band H property is equivalent to two band D properties because it pays twice as much tax. The amount of revenue which could be raised by Council Tax in an area is calculated allowing for discounts and exemptions

***Council Tax bands***

There are eight Council Tax bands. How much Council Tax each household pays depends on the value of the homes. The bands are set out below:

<b>Council Tax Band</b>	<b>Property Value</b>
Band A	Up to & including £40,000
Band B	£40,001 to £52,000
Band C	£52,001 to £68,000
Band D	£68,001 to £88,000
Band E	£88,001 to £120,000
Band F	£120,001 to £160,000
Band G	£160,001 to £320,000
Band H	More than £320,000

***Localised Support for Council Tax***

A summary of the government's arrangements for localising council tax support in England is set out below.

- Council tax support was localised from April 2013. This means that the uniform national scheme was replaced with local schemes that varied from place to place. Government funding for council tax support was reduced across England and Wales by around 10% and fixed from that date.
- Rather than being funded on the basis of actual claims/caseloads via Department for Work and Pensions subsidy (i.e. demand led) as at present, the government now provides a grant included within the local government finance settlement.



**Council Tax Freeze Grant**

Government scheme to help local authorities freeze council tax. Grant funding is based on a percentage of Council Tax income.

**Damping**

'Damping' is used to describe the way limits are applied to the effect on grant funding of changes to the distribution formulae or data used. Minimum increases, floors, on Formula Grant changes from one year to the next are now the damping mechanism.

**The Local Government Finance Settlement**

The Local Government Finance Settlement is the annual determination of formula grant distribution as made by the Government and debated by Parliament. It includes:

- the totals of formula grant;
- how that grant will be distributed between local authorities; and
- the support given to certain other local government bodies.

**Net Revenue Expenditure (NRE)**

This represents an authority's budget requirement and use of reserves.

**New Homes Bonus**

This is grant funding provided to match the council tax for each new home built or property brought back into use. The funding is equal to the national average for the council tax band on each additional property (measured according to the change in dwellings on council tax valuation lists), and is be paid as an un-ringfenced grant. There is an enhancement per year for new affordable homes.

**Precept**

This is the amount of Council Tax income county councils, police and crime commissioners, parish councils and fire and rescue authorities need to provide their services. The amounts for all local authorities providing services in an area appear on one Council Tax bill, which comes from the billing authority.

**Precepting authority**

This is an authority which sets a precept to be collected by billing authorities through the Council Tax bill. County councils, police and crime commissioners, fire and rescue authorities and parish councils are all precepting authorities.

**Reserves**

This is a council's accumulated surplus income (in excess of expenditure) which can be used to finance future spending.

**Revenue Expenditure**

Expenditure financed by Government grants, council tax and use of reserves.

**Ring-fenced grant**

A grant paid to local authorities which has conditions attached to it, which restrict the purposes for which it may be spent.

**Specific Grants**

Grants paid under various specific powers, but excluding formula grant or area based grant. Some specific grants are ring-fenced.