Agenda Item No:		**Report No:**	
Report Title:	**General Fund Revenue Budget 2014/2015**		
Report To:	**Cabinet**	**Date:**	**13 February 2014**
Cabinet Member:	**Councillor Andy Smith**		
Ward(s) Affected:	**All**		
Report By:	**Director of Finance**		

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Purpose of Report:

To present the Medium Term Budget Outlook and the 2014/2015 General Fund Revenue Budget which delivers a council tax freeze.

Officers Recommendation(s):

That Cabinet:

1. Reviews the detailed contributions to reserves and use of reserves as set out in Appendices D, F, G, H and I.
2. Considers the recommendations of the budget Scrutiny Committee.
3. Notes the Collection Fund balance to be returned to taxpayers in 2014/2015.
4. Considers the implications of the public sector funding outlook and impact upon the Council's Medium Term Budget Outlook through to 2019/2020.
5. Considers the statutory report of the Director of Finance as required by section 25(1) of the Local Government Act 2003, set out in section 14.

That Cabinet recommends to Council

6. The Council Tax Freeze and associated budget for 2014/2015 as set out in Appendix B.

Reasons for Recommendations

1 Cabinet is required to approve the estimates in accordance with the Council's Constitution. This budget report sets out the level of General Fund revenue resources needed to support the Council's priorities and services.

2 The Council has a statutory duty to determine its level of budget requirement and Council Tax for the coming year. Cabinet makes a recommendation to Council on this matter having taken account of the Director of Finance's statutory report on the adequacy of reserves and balances.

1 National Background

1.1 Delivering the Deficit Reduction Plan remains a national priority.

1.2 Financial sustainability is the greatest challenge facing local public services. In the period of the current Parliament, Local government's core funding will fall by 40 per cent and the Audit Commission's *Tough Times 2013* report independently verifies the huge financial challenge faced across local government.

1.3 In addition, the local government finance settlement for 2014/2015 and provisional settlement for 2015/2016 confirmed that the central government core grant to run local services will fall (nationally) by 15.9 per cent each year for district councils. The central grant comprises Revenue Support Grant and Business Rates Baseline funding.

1.4 The 15.9 per cent reduction excludes the availability of the New Homes Bonus Funding Stream which is reflected within each Council's overall "Spending Power" figures. The reduction is lower when taking this into account.

1.5 Taking into account "Spending Power" there is an overall reduction for district councils of 2.5% in 2014/2015 (Lewes District Council's reduction is 2%) and 3.0% in 2015/2016. Across all types of authorities (excluding income from council tax) there is a reduction of 5.3% in 2014/2015 and a further 5% per cent in 2015/2016.

1.6 Many councils including Lewes District are rebalancing budgets to reflect the drop in core funding. Some councils (not including Lewes District) have needed to use New Homes Bonus income in order to produce a balanced budget. More are expected to do so in future.

2 The context for preparation of the 2014/2015 General Fund Revenue Budget

2.1 Cabinet has set Financial Principles and Objectives in its Medium Term Financial Strategy. These are used as part of the framework to guide estimate preparation and compilation of the Medium Term Budget Outlook. They are reproduced at Appendix A.

3 Council Tax Referenda

3.1 The Localism Act 2011 introduced a requirement for referenda to approve or veto council tax increases that exceed limits set out by the Secretary of State (and approved by Parliament), in "principles" defined for the following financial year.

3.2 The thresholds for 2014/2015 were expected to be similar as for 2013/2014 i.e. a 2% cap for the majority of district councils. However there has been speculation in the press that the limit could be reduced to 1.5%. Whilst the Council's stated intention to freeze council tax will not be affected by a lower limit, there will be implications if one of the preceptors upon the Council exceeds the limits.

3.3 The announcement on limits was expected on 5 February alongside the presentation of the final local government finance settlement to Parliament.

3.4 Proposed increases above these levels will require a referendum.

3.5 The arrangements provide for councils which believe that they cannot fund their expenditure without breaching the principles to be able to put a case to the Secretary of State before making the tax. If their case is accepted, the referendum rules can be suspended by the Secretary of State, for that council, for that year.

3.6 The system applied for the first time to council tax increases for 2012/2013 when a council tax increase of 3.5% was set as the referendum trigger point for district councils. For 2013/2014, the Government set 2% as the referendum trigger point for the majority of district councils, including this Council.

3.7 There will be implications for Billing Authorities (i.e. councils which collect the Council Tax on behalf of all precepting bodies) if one of the preceptors is required to conduct a referendum. The implications could include the cost of rebilling, interest on delayed cash flow, recalculation of entitlement to Council Tax Support plus the reissue of Council Tax Support notification letters and the general knock on effect this additional work has on day to day administration and recovery activities.

4 Council Tax Freeze

4.1 The Government is making available a further grant for councils which freeze council tax bills in England in 2014/2015. The grant is equivalent to a 1% increase in the 2013/2014 council tax and is payable for the two years 2014/2015 and 2015/2016. The grant will be included in the core funding baseline from the financial year 2016/2017.

4.2 For planning purposes, the Government has provisionally calculated the value of this Council's grant to be £76,100.

4.3 The Government 'strongly encourages' all authorities to accept the grant on offer for freezing council tax next year.

4.4 At its meeting on 6 January 2014 Cabinet announced there would be a further year's council tax freeze in 2014/2015.

5 The 2014/2015 General Fund Budget

5.1 The General Fund Budget Summary for next year is shown at Appendix B. In previous years, service budgets have been grouped on the Summary by Lead Councillor Portfolio. However, experience shows that Portfolio responsibilities are subject to change, and it is now considered to be more appropriate to present the Summary using CIPFA's standard 'Service Expenditure Analysis'. This approach will provide consistency between years and be in the statutory format in which all councils are required to present their accounts.

5.2 The following table analyses the high level movement in the budget from 2013/2014 to 2014/2015:

		2013/14 £	2014/15 £	Variation £
	Change in Net Service Expenditure (Appx B line 9)			
1	Net service expenditure	12,750,420	12,951,100	200,680
2	Less items funded from reserves	-696,390	-983,700	-287,310
3	Recurring service expenditure	12,054,030	11,967,400	-86,630
4	Recurring Savings target	-350,000	-511,000	-161,000
5	Provision for mid-year delivery of savings	175,000	255,000	80,000
6	Sub-total	11,879,030	11,711,400	-167,630
7	Other operating income & expenditure	-655,950	-697,600	-41,650
8	Town and Parish reduction grant	337,900	278,300	-59,600
9	Financing costs /investment income and expenditure	-189,570	-60,700	128,870
10	Net expenditure before contribution to Reserves	11,371,410	11,231,400	-140,010
11	Contribution to Service Priorities	500,000	500,000	0
12	Transfers to Reserves	1,980,490	2,466,600	486,110
13	Net expenditure Requirement	13,851,900	14,198,000	346,100
	Change in taxation and grant income			
14	Retained business rates	-2,109,328	-2,497,500	-388,172
15	Government grants	-4,565,731	-4,213,100	352,631
16	Council Tax income	-6,693,000	-6,738,390	-45,390
17	Total taxation and grant income	-13,368,059	-13,448,990	-80,931
18	Net use of working balance	483,841	749,010	265,169

(a) The movement in Recurring Service expenditure at line 3 reflects the impact of the Council's deficit reduction programme, inflation, variations in income and changes in demand for services. A statement showing the major variations is given at Appendix C.

(b) A balanced budget for next year requires a total savings target of £596,000 and a contribution from the Working Balance of £749,010. Of the savings target, £85,000 will have been achieved by 1 April and has been incorporated in the 2014/2015 estimates. The residual savings target for 2014/2015 is £511,000 (line 4). This is explained in more detail in section 6 of this report. A provision has been included in the budget (line 5) in recognition of the fact that the savings will be delivered progressively through the year.

(c) At its meeting in December 2013, Cabinet agreed a schedule of grant payments to Town and Parish Councils, passing on Government funding in respect of the Council Tax Reduction Scheme (line 8).

(d) The net variation in Financing costs and investment income and expenditure is the result of a number of factors:

- increased provision for repayment of borrowing, £80,000, in respect of the Agile Working programme (pending use of receipts from disposal of surplus buildings)
- reduction in investment income, £16,000, as a result of falling levels of cash available for investment
- presentational change in respect of investment properties, £33,000

(e) As in 2013/2014, a budget of £500,000 is available in 2014/2015 to support the implementation of service priorities (line 11). This budget can be used to fund non-recurring items of either revenue or capital expenditure.

(f) The details of contributions to and from reserves (lines 2 and 12) are shown in Appendix D. The overall contribution into reserves for 2014/2015 has risen primarily because of increases in the amounts of New Homes Bonus and LA Error Housing Benefit Subsidy grant which are expected to be received. These grants are held in reserves pending use.

(g) Contributions to earmarked reserves are a key component of the annual budget process. These reserves are needed to support the sustainability of services. They are built up to meet specific identified future need (such as replacing refuse vehicles) and to help equalise expenditure that is recurring but over a longer time span than one year (eg elections every four years). A summary of all reserves is given in Appendix F. The Revenue Equalisation and Asset Maintenance Reserve (REAM) and the Change Management and Spending Power Reserve hold funds earmarked for specific purposes. These reserves are analysed at Appendix G and H. The Strategic Priority Fund is analysed at Appendix I.

(h) Line 14 shows the income from Business Rates retained by the Council under the retention arrangements introduced by the Government from 1 April 2012. The amount shown is net of a tariff (£7.2m in 2014/2015) payable to the Government (because the Council's assumed business rates income exceeds its assumed spending needs baseline) and a Government levy (£0.5m in 2014/2015) in respect of growth in business rates income.

(i) Details of Government grants (line 15) are shown in Appendix B. Key movements are the reduction in Revenue Support Grant (£0.62m) and Housing Benefit Administration Grant (£0.07m) and an increase in New Homes Bonus (£0.31m) generated from 236 additional homes in the District.

(j) Council Tax income (line 16) increases as a result of the change in the taxbase.

5.3 Pay and Price Assumptions

(a) The 2014/2015 draft budget has been prepared in accordance with the following framework:

Base budget:

(i) no new items to be added to the estimates except where approved by Cabinet in the year to date.

(ii) savings reported to and agreed by Cabinet to date to be incorporated within draft budgets.

Employee budgets:

(iii) a provision of 1% has been made for movements in the pay bill in line with assumption in the national Autumn Statement.

(iv) provision has been made for annual contractual salary increments.

(v) the Council's budgeted employer's pension contribution rate for 2014/2015, reflected in the cost of each service, is the same as that proposed by the actuary following the three-yearly review of the East Sussex Pension Fund finalised in December 2013. The following contributions are proposed by the actuary:

2014/2015:	20.5% plus £46,500 (equates to 21.0% in total)
2015/2016	20.5% plus £97,000 (equates to 21.5% in total)
2016/2017	20.5% plus £151,700 (equates to 22.1% in total)

Inflation:

(vi) no allowance for general price increases other than where these are unavoidable eg business rates

(vii) agreed cost indices in tendered contracts have been incorporated, for example the Wave Leisure Trust service fee at 2.5%. At the time of writing this report, new contractual arrangements in respect of Insurance, Grounds Maintenance, Public conveniences cleaning and Office cleaning were in the process of being agreed. All of these contracts will be operational in 2014/2015 and indications are that the final agreed costs will be less than provided for in the service budgets. Any difference between the budget provision and the new contract costs will form an initial contribution to the General Fund savings target.

(b) Should average price inflation (excludes pay) exceed assumptions in the budget outlook by 1%, this would add around £100,000 to the budget deficit reduction target.

(c) Income from general fees and charges is largely related to usage and activity levels. The Medium Term Finance Strategy had assumed an inflationary increase of 2.5% for income. At that level, the target aggregate income for 2014/2015 is £2.644m. However, the fees and charges recommended by Cabinet to Council are estimated to generate £2.474m in 2014/2015. This means that the income component of next year's budget has fallen short by £0.170m in real terms. It leaves just £0.093m for price inflation provision on expenditure budgets. Any price inflation above this amount will translate into a further savings target.

6 Deficit Reduction Programme

6.1 The Government has clearly stated its position that the economy will grow throughout the period of the next Parliament and that public sector funding will continue to reduce.

6.2 The Council's Medium Term Finance Strategy has now been extended through to 2019/2020 and reflects a widely held expectation that core funding from Revenue Support Grant will be extinguished by the end of that period.

6.3 All Councils know their funding position for 2014/2015 and they have a good indication for 2015/2016.

6.4 Whilst the national direction of travel is fairly clear from 2016/2017 it is less so at individual Council level. Greater clarity will emerge as the 2016 Spending Review period approaches. Councils and the Local Government Association are hoping for a longer funding settlement period, commencing 2016/2017.

6.5 Even with a lack of precise detail we can still plan with the main assumption that Revenue Support Grant will taper to zero by 31 March 2020.

6.6 The Council's deficit reduction programme commenced in 2011/2012 and it has achieved each of its annual savings targets, including that for the current year 2013/2014.

6.7 The savings target for the next two years is £1.146m. £596,000 in 2014/2015 and £550,000 the year after.

6.8 The source of savings from this point forward will continue to arise from structural change rather than incremental change.

6.9 The savings target for 2014/2015 will mainly derive from efficiencies in procurement and the new Agile Working environment. Delivering the target will be a challenge and in subsequent years the position will become harder and even more challenging.

Progress on Delivering the Council's Deficit Reduction Plan

6.10 The targets set at the start of the year and achievement during the year, are shown in the table below. If savings are not in place by the start of each financial year there will be an additional drain on the General Fund Working Balance until they are delivered. An allowance for this has been made in the budget.

6.11 The targets are achieved only when they have an impact on the recurring base budget.

A	B	C	D	E (=B-D)
Year	**Savings target £**	**Potential savings identified £**	**Savings Delivered £**	**Total shortfall £**
2011/2012	824,390		824,390	0
2012/2013	735,620		735,620	0
2013/2014	757,520		757,520	0
2014/2015	596,000	250,000	85,000	511,000
2015/2016	550,000	0	0	550,000
2016/2017	670,000	0	0	670,000
2017/2018	642,000	0	0	642,000
2018/2019	500,000	0	0	500,000
2019/2020	0	0	0	0
Total	**5,275,530**	**250,000**	**2,402,530**	**2,873,000**

Note: Non recurring savings targets of £75,000 and £150,000 are included in column B 2011/2012 and 2012/2013, respectively.

6.12 When recurring targets are missed they must be made up by non-recurring savings in that year in order to avoid a further drain on the Working Balance. The missed recurring target is then carried forward into the next year.

6.13 The recurring savings target of £75,000 in 2011/2012 and a further £75,000 in 2012/2013 were met by non recurring savings, so the rolled up recurring target of £150,000 was included in the 2013/2014 savings figure.

6.14 The recurring savings target over the four year period 2011/2012 to 2014/2015 is £2,688,530, when adjusted for non recurring items. This represents a 22% reduction on the net budgeted expenditure position as at April 2011.

6.15 A further 19% percent reduction on the April 2011 base is needed to accommodate the forecast reductions of £2.362m from 2015/2016 through to 2019/2020.

7 Medium Term Budget Outlook

7.1 The Medium Term Budget Outlook is shown at Appendix E together with a detailed commentary. It builds upon the estimate for 2014/2015 and sets out the stated assumptions. It models a tax freeze for the next two years. The remainder of the period, which is subject to greater uncertainty models an indicative increase of 3% or just below for each year, less than the rate of estimated RPI inflation. In line with the objectives in the Medium Term Finance Strategy the outlook delivers a sustainable recurring base budget by 31 March 2020, with no call on the Working Balance, and with no reliance upon Revenue Support Grant. The savings target for the next six years amounts to £2.958m.

7.2 Delivering council tax freezes in each subsequent year beyond 2016/2017 would require further annual average reductions in the recurring base budget of around £220,000 for each year of a freeze. The additional reduction would need to be in place by the start of the year in which a freeze applies in order to avoid using the General Fund Working Balance. The downside risk of this strategy is considerable. In the event that savings failed to materialise it would be necessary to fully utilise the New Homes Bonus spending power and even then a considerable budget gap would remain. The Council's reserves and balances would be under great pressure and the shape of the Council's service provision would be biased even more towards statutory services.

7.3 When considering further council tax freezes beyond 2015/2016, due consideration must be given each year to the progress of delivery against in year savings targets and the unused capacity within the Council's spending power.

7.4 A number of underlying risks need to be constantly monitored as referred to below:

(a) Retained Business Rates: There is likely to be a loss of retained rate income associated with regeneration projects in Lewes and Newhaven. This will be partly balanced by newly created non domestic premises and additional New Homes Bonus spending power where non domestic premises are replaced with domestic dwellings. In such cases there may be a need to use the additional New Homes Bonus spending power to cover any loss in retained business rates.

(b) General income levels: Most councils have experienced little or no growth in their overall income receipts. A flat level of receipts for the Council in any year is equal to a £47,000 real terms reduction in resources, that translates through to a higher savings target.

7.5 Throughout the coming year Cabinet will receive updated Medium Term Budget Outlooks which incorporate any significant variations arising from internal monthly budget monitoring, projections to the year end, national policy changes and Cabinet decisions.

8 Interaction of the Revenue and Capital Accounts and the Council's unallocated reserves and balances

8.1 The Prudential Code requires local authorities to plan their capital expenditure programme for at least three years ahead. This corresponds with the time scale covered by the Council's Capital Strategy. Understandably, the most detailed information is available for year 1, with the programme for years 2 and 3 liable to variation when more precise forecasting can be undertaken in terms of both the availability of capital resources and spending requirements.

8.2 Revenue contributions to capital can be made either by the provision of a non-recurring contribution in the Revenue budget when circumstances permit or by annual recurring contributions if further savings can be generated within the revenue budget. Alternatively, contributions can be made from unallocated reserves and balances, or by using balances on reserves which are no longer required.

8.3 The Capital Programme report demonstrates that a minimum programme focussed on statutory requirements and core service needs can be achieved for the next 3 years.

9 Conclusion

9.1 In light of the above commentary it is essential that Cabinet carefully controls the recurring base budget.

9.2 The Working Balance and reserves can be used as a short term measure to manage the pressures arising from lower income, rises in demand for statutory services and the time needed to deliver savings. They need to be used with great care because they can only be used once. The solution is to realign the recurring base budget in line with the Medium Term Budget Outlook at Appendix E.

9.3 Current and medium term pressures require the recurring base budget to be significantly reduced. Until the desired target is reached any calls for additional recurring resources need to be carefully considered and resisted unless there is a compelling business case that helps achieve the base budget restructuring.

9.4 Non recurring needs can be met where specific earmarked reserves have been established, or from the Working Balance. The Council needs to be reassured that the aggregate of reserves and working balances is sufficient to meet the medium term finance strategy principles and objectives.

10 Usable Reserves Estimate

10.1 Section 25 of the Local Government Act 2003 contains the statutory duty on the Chief Finance Officer to report to the authority on the robustness of the estimates it makes when calculating its budget requirement and on the adequacy of its proposed financial reserves.

10.2 The Chartered Institute of Public Finance and Accountancy issued updated guidance in November 2008 in relation to reserves and balances. This has been taken into account in this report.

10.3 The Council's reserves and balances need to cover all significant identified risks and operational service needs. As part of the annual budget and closing of accounts processes, the Council reviews and approves the position on its reserves. This is a mandatory requirement for all councils.

10.4 Where it is known in advance of a financial year that a reserve will be used, the expenditure is budgeted for and included in the draft budget and a contribution is made from that reserve. The Leader can authorise additional uses up to £100,000 during the year in accordance with the Council's Constitution and Council above that amount. The Director of Finance can authorise purchase of vehicles in the approved renewals fund programme up to one year ahead of requirement.

10.5 Savings can be achieved by reducing the annual level of contributions to reserves, but reserves are essential to ensure the financial sustainability of services. Making short term cuts to annual contributions is not a sustainable course of action but reviewing the level of contribution in parallel with service reviews and realignment exercises may enable reductions to be achieved. Reviews are made at least twice a year, during the budget cycle and as part of the accounts closure process.

10.6 A statement of the Council's General Fund Revenue Reserves projected through to 31 March 2015 is shown at Appendix F.

10.7 Last year Cabinet identified a need to review at this meeting whether a retained business rates equalisation reserve might be needed to mitigate fluctuations in business rates income receipts. The position still requires consideration but with a revised timescale to coincide with the 2013/2014 accounts closure programme. At this future point the position on the Non Domestic Rates Collection Fund will be clearer.

10.8 The Revenue Equalisation and Asset Maintenance Reserve (REAM) helps even out budget increases that would otherwise result from cyclical expenditure. The estimated position of this reserve at 31 March 2015 is shown at Appendix G.

10.9 The Change Management and Spending Power Reserve has supported the establishment of Programme Nexus and provided time limited resources to innovate solutions that will address the deficit reduction programme. It is the repository for receipts from the New Homes Bonus funding stream and their use and also provides spending power for the Strategic Priority Fund and the Council's general needs. Appendix H sets out the position on this reserve and its two sub elements.

10.10 The Strategic Priority Fund was established last year to support existing and developing projects that have the potential to develop permanent ongoing income or expenditure reductions for the Council. A statement of use is shown at Appendix I.

11 Collection Fund Balance

11.1 The Collection Fund Balance is a key component of the Council Tax setting process. A principle of the Medium Term Financial Strategy is to achieve a zero balance (or as close as possible) each year. A review of the likely Collection Fund position at 31 March 2014 including a review of the provision for doubtful debts means that a surplus of £401,000 can be utilised during the 2014/2015 budget setting process.

The surplus would be redistributed to preceptors as follows:

	£
East Sussex County Council	282,320
Lewes District Council	64,990
Sussex Police and Crime Commissioner	33,738
East Sussex Fire and Rescue	19,952
Total	401,000

12 General Fund Working Balance

12.1 The Council uses a risk-based approach to setting the level of General Fund Working Balance. This requires consideration of service risks as well as providing for the Council's day to day cash flow requirements.

12.2 As a guideline the Council has aimed for a minimum overall level of Working Balance of £500,000 but this needs to reflect the economic climate and the extent to which earmarked service reserves exist. In recent years the Council has sought to extend the service sustainability concept into the management of its finances. Part of this approach has been to establish earmarked service reserves.

12.3 Using this approach and taking into account the extent to which the balance will be used over the next four years to rebalance the budget I would recommend the following components are provided for:

Basic provision to cover	£
Unforeseen emergencies not covered by the Bellwin Scheme, a 5% capital programme overrun and general requirements.	500,000
General provision for service risks	50,000
Working balance needed to support the realignment process through to 2019/2020 with tax freezes for each year through to 2015/2016	1,325,260
Provision for delivery delays in the deficit reduction programme	490,340
Provision for contingencies to be used in accordance with Financial Procedure Rules	50,000
Total Estimated Working Balance at 1 April 2014	2,415,600

12.4 I would recommend that the level of working balance set out above be approved. This level of Working Balance together with reserves will provide a sufficient buffer to support delivery of the Council's core services and key priorities over the next six financial years and provide resilience during the current economic climate. This balance is reflected in the Medium Term Budget Outlook.

Achieving a reduction in Council Tax by use of balances alone is not sustainable. The proposal in the Medium Term Budget Outlook is achievable and sustainable for the period 1 April 2014 through to 31 March 2020 provided that the savings targets are achieved.

13 Setting the Council Tax including the other preceptors

13.1 The calculation of the overall tax requirement will be presented to Council on 26 February 2014, when all precept details will be known. The precept details for East Sussex County Council, East Sussex Fire Authority and Sussex Police Authority should all be available before Council meets.

13.2 At the time of writing this report, not all Town and Parish Councils had notified the Council of their precept requirements.

13.3 Lewes District Council will be introducing Special Expenses for recreation grounds and open spaces from the 2014/2015 financial year. A schedule of Special Expenses is being compiled based on the new grounds maintenance contract and will be included in the "Setting the Council Tax" report to Council on 26 February.

14 Report of the Chief Finance Officer (Director of Finance)

14.1 The Chief Finance Officer is the Council's principal financial advisor and has statutory responsibilities in relation to the administration of the Council's financial affairs (Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988).

14.2 The budget proposals before Cabinet have been prepared in accordance with the Council's policy framework and reviewed by Heads of Service, Lead Councillors and the Scrutiny Committee.

14.3 The Council remains focussed on delivering its deficit reduction programme. A key income stream affecting the bottom line is that from the business rates retention scheme, introduced from April 2013. A reassessment has been undertaken to confirm the integrity of the Council's retained share of business rates income, in light of national policy decisions made in the Autumn 2013 budget statement. The income estimate has been validated and used to inform the Council's deficit reduction plan which now runs through to 31 March 2020.

14.4 The recurring budget is undergoing significant realignment to bring it back into balance over the medium term. The first three year's savings targets have been met and progress has been made on the coming year's target. It will become progressively harder to deliver targets in future years. The Council's track record demonstrates a commitment and ability to deliver the required savings. A savings plan will need to be formulated to indicate how the significant targets will be achieved through to 31 March 2020, in addition to measures already in hand.

14.5 Prudent use of reserves and balances is an appropriate short term measure to balance the budget whilst the realignment is secured (Appendix A: Principle 9 of the Medium Term Finance Strategy).

14.6 The General Fund Working Balance is finite and can only be used once. In the current climate it is less likely that the Working Balance will be replenished other than by savings from stringent budget management and earlier delivery of savings targets.

14.7 The underlying earmarked reserves will continue to be replenished from annual contributions in the base budget.

14.8 The commentary within this report provides a framework for achieving a sustainable medium term budget position. The level of the Council's reserves, balances and provisions are adequate and prudent for the commitments within the Medium Term Financial Strategy.

14.9 In my opinion the estimates presented are robust for the purpose of determining the statutory calculations required by section 32 of the Local Government Finance Act 1992.

15 Legal Implications

15.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

15.2 Chief Financial Officers also have a duty to report on the robustness of estimates and adequacy of reserves under section 25 of the Local Government Act 2003.

15.3 Section 151, of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

16 Sustainability Implications

16.1 I have not completed the Sustainability Implications Questionnaire as this Report is exempt from the requirement because it is a strategic budget report.

17 Risk Management

17.1 I have completed a risk assessment in accordance with the Council's Risk Management methodology and the following risks and mitigating factors have been identified.

(a) Revenue Budgets – these have been compiled in accordance with the approved budget preparation guidelines, mitigating the risk that the budgets do not reflect likely expenditure needs or income levels. Cabinet will consider the estimates and recommend an overall budget to Council, having assessed the position in relation to its approved Medium Term Financial Strategy.

(b) The Council has adequate Reserves and Balances established as a mechanism to support the Council through its deficit reduction programme and preparing for the future.

(c) Further drops in income – the working balance and specific service reserves provide a buffer to absorb further falls in income and property related transactions in the short to medium term.

(d) As inflation begins to rise there is every prospect that future pay settlements will follow a similar pattern. The Medium Term Budget Outlook anticipates inflation rates in line with national projections including pay and price movements through to 31 March 2020 and takes into account local circumstances.

(e) The Chancellor's budget of December 2012 heralded cessation of the employer's national insurance contracted out rebate from April 2017, where employers provide their own approved pension schemes. Based on the 2013/2014 estimates the additional cost is about £170,000 pa, of which £51,000 relates to the Housing Revenue Account and £119,000 to the General Fund. Technically this cost should be covered by the national new burdens funding protocol. We shall need to wait and see how the next spending review addresses this change. In the absence of funding to cover this cost, the mitigation is an addition to savings targets, raising council tax or a combination of the two.

(f) The Revenue Support Grant income stream is used by the government to exercise influence over local spending power allocations. Should Revenue Support Grant be extinguished by 31 March 2020 that avenue of influence would cease. A potential scenario is that existing specific grants will be transferred into the Revenue Support Grant funding stream during the next national Spending Review. This scenario could have an impact the Council's ability to deliver a sustainable budget by 31 March 2020.

18 Equality Screening

18.1 The proposals in the report have been screened for impact on equalities. As no potential negative impacts were identified, a full equality impact assessment is not required.

19 Background Papers

19.1 Information on the Provisional Local Government Finance Settlement for 2014/2015 is available from this website:
http://www.local.communities.gov.uk/finance/1415/settle.htm

20 Appendices

Appendix A – Medium Term Finance Strategy – Principles and Objectives

Appendix B – The 2014/2015 General Fund Budget Summary

Appendix C – Variations in recurring service expenditure 2013/2014 to 2014/2015

Appendix D – Statement of Contributions to Reserves and Use for Revenue Expenditure

Appendix E – Medium Term Budget Outlook 2013/2014 to 2019/2020

Appendix F – A Statement of the Council's Revenue Reserves and how they are used through to 31 March 2015

Appendix G – Reserves Analysis - The REAM Reserve

Appendix H – Reserves Analysis - The Change Management and Spending Power Reserve

Appendix I – Reserves Analysis - The Strategic Priority Fund

Appendix A

Extract From the Medium Term Finance Strategy

The Objectives of the Council's MTFS are as follows:

	Objective
1	To provide a robust framework to assist the decision making process.
2	To enable the Council to be proactive rather than reactive.
3	To act as a barometer and give early indication of need to review priorities.
4	To show how resources support the Council Plan over a four year period.
5	To support sustainable services through reserves, equalisation and renewal funds.
6	To hold a working balance at an adequate level to respond to unexpected events and opportunities.
7	To be flexible and responsive to changing needs and legislation.
8	To support the Council's service and core strategies.
9	To provide forward indications of Council Tax levels.

A number of Principles have been established to underpin the financial objectives:

	Key Principles
1	Resources will be prioritised to meet statutory (core service) obligations.
2	We will work with partners and the local community to determine priorities.
3	We will constantly review and reconcile priorities in line with the available resources.
4	Capital receipts will only be used to fund capital programmes, when banked.
5	General Fund capital receipts will be used to improve and replace existing assets.
6	Capital receipts from Council house sales will be reinvested in a housing capital programme or to improve and replace existing assets.
7	The budget for investment income will take account of specific market advice. If investment rates rise or are expected to rise, we will not use the additional income to fund items within the recurring base budget.
8	We will aim to achieve a zero balance on the Collection Fund when estimating the Council Tax collection rate each year.
9	Council Tax amounts will be transparent and sustainable. This means that the budget requirement will not be lowered through the use of one-off balances or reserves without a published intention to realign priorities with the Medium Term Financial Strategy.
10	Changes to the Council's priority programme must be reported to Cabinet and supported by a risk assessment and financial appraisal showing part year and full year costs, including the revenue consequences of any capital investment and lifetime costs.
11	Every request for capital investment must be supported by a Business Case which shows how the cost of that investment will be repaid over time.