

BODY: CABINET

DATE: 11th December 2013

SUBJECT: Draft Budget Proposals 2014/15

REPORT OF: Chief Finance Officer

Ward(s): All

Purpose: To summarise the main elements of the emerging 2014/15 revenue budget and capital programme that have arisen from the corporate and service financial planning process to date.

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Recommendations: Members are asked to:

- i) Agree the draft budget proposals for consultation.
- ii) Agree the approach to dealing with changes in the expected resources available for the 2014/15 budget as detailed in 5.3 including the closing of a currently forecast gap of £104,000 between the recurring resources and recurring proposed budget.
- iii) Agree that as details of the Government's proposed tax freeze grant for 2014/15 are not yet available, the maximum potential council tax rise will be less than 2%.
- iv) Agree the main risks to the draft budget in 5.4

1.0 Introduction

- 1.1 Each year the Council consults with a range of stakeholders on its detailed draft budget proposals for the following financial year. This follows consultation on the corporate plan and Medium Term Financial Strategy, which is carried out over the summer and autumn. The results of the corporate plan consultation are reported elsewhere on this agenda.
- 1.2 The Cabinet will consider initial responses to the consultations at this meeting and finally on 5 February 2014 in order to recommend a final budget and additions to the existing capital programme for 2014/15 to the Council on 19th February 2014.
- 1.3 The process of service and financial planning is an integral part of the corporate planning cycle that looks over a medium term horizon. The corporate change programmes under DRIVE pick up the challenge of the MTFS.
- 1.4 The medium term financial strategy agreed in July 2013 modelled the overall

reduction in Government support by 40% in cash terms over the whole CSR period (2013/17) which equates to around 50% in real terms at past and projected levels of inflation.

- 1.5 At the time of writing this report the Chancellors autumn statement and the results of the Comprehensive Spending Review CSR 2013 are not known. However in June 2013, the Chancellor made announcements that indicated further reductions in Government support of between 10 and 20 percent (on top of the 28.4% covering the period 2011-2014)
- 1.6 In addition to changes in the amount of funding for local government, there were two significant changes that came into force in 2013/14 that give a greater volatility to local government finance over the medium term. These changes were the retention of a proportion business rates and the localisation of council tax support. The Council tax and Non Domestic rate tax bases are the subject of another report on this agenda.
- 1.7 As well as setting savings targets at a level that is in excess of current announcements, the MTFS includes the policy of not applying all of the New Homes Bonus (NHB) which is currently yielding over £540,000 and set to rise to c£800,000 to the budget over the next three years. This gives added protection against further funding reductions as well as the opportunity to invest the NHB in interventions designed to promote economic growth.

2.0 Integrated corporate planning process

- 2.1 In July 2013, the Council adopted its latest MTFS that set the platform for the service and financial planning process during the summer and autumn. The strategy set out a further 3 year rolling programme with savings targets of £2.1m recurring by 2015/16 (in addition to the £3.5m achieved in setting the 2011-2014 budgets)
- 2.2 The overarching DRIVE programme forms the basis of Councils efficiency agenda and the sustainable service delivery strategy (SSDS) is a major component of the programme, which will deliver savings over the life of the MTFS. The Council's move towards the "future operating model" is set to contribute a further £1.2m of savings over the next three years to the general fund. Together with savings from procurement and shared services this provides the main emphasis of the current corporate efficiency programme.
- 2.3 The Service and financial planning process is now a rolling three year period to reflect the MTFS and as well as providing £600,000 per annum of additional capital resource the savings programme is well developed to meet the overall target of £2.1m over the current cycle.
- 2.4 Consultation on these plans began at the same time which included Scrutiny, unions and staff as well as partner organisations and the public. A separate report is included on the agenda with an update.

- 2.5 Once the budget proposals have been adopted in February, the service plans will be updated and resource allocations reviewed in the light of any changes required by corporate plan priorities or the budget.
- 2.6 The Service plans will then be used to set service performance measures and individual staff performance and development plans.
- 2.7 Formal integrated quarterly performance monitoring against the budget and key performance indicators informs the Council and its stakeholders of progress against the plans.

3.0 Background to the Budget Proposals

- 3.1 The MTFS set out the principles for the budget of the following three years and models the financial impact of the strategy.
- 3.2 The main backdrop to the MTFS is the requirement to set a balanced budget and dealing with the effects on the Councils finances of the current economic downturn.
- 3.3 The current strategy set out a rolling three year plan to:
- Deal with the anticipated reduction in the Government support of around 50% from the 2010/11 level.
 - Integrate fully the service and financial planning process with the main change programmes under DRIVE
 - Work with clearly defined medium term efficiency targets to the corporate transformation programmes and allow services to put forward savings proposals in addition.
 - Deal with the continued economic downturn and unavoidable growth in service demands
 - Maintain front line services to the public
 - Make further recurring savings of £2.1m per annum by 2016/17
 - Maintain at least a minimum level of reserves of £2m
 - Use surplus reserves in the medium term for:
 - Invest to save projects
 - Smooth the requirement for savings over the cycle of the MTFS
 - Invest in one off service developments in line with the corporate plan
 - Benchmark fees & charges against the service standard
 - Reinvest in value adding priority services when headroom is created
 - Set council tax rises at or below the level of inflation
 - Maintain a Strategic Change Fund to finance the DRIVE programme in order to increase efficiency
 - Maintain an Economic Regeneration Reserve to finance external interventions that promote economic activity
 - Finance capital expenditure from identified resources
 - Use borrowing only on a business case basis
 - Continue the process of priority based budgeting to target investment and differential levels of savings targets at services according to priority
 - Zero base volatile grant budgets

- Look for new income streams to supplement diminishing resources

3.4 Whilst at the time of writing the final settlement in respect of revenue support grant (RSG) and retained business rates for 2014/15 as well as numerous other grant announcements have not yet been made, the following are assumed in the draft budget.

Year	2013/14	2014/15
	£m actual	£m
RSG	(3.4)	(3.3)
Retained business rates	(3.5)	(3.5)
Council Tax freeze grant	(0.1)	(0.1)
New Homes Bonus	(0.5)	(0.6)
Council Tax Benefit grant	(1.2)	(1.2)
Council Tax	(7.3)	(7.2)

4 The Emerging Budget Proposals 2014/15

4.1 The service and financial planning process started in July and has culminated in the four service areas presenting their plans to the Cabinet and shadow cabinet in November.

4.2 In response the challenge set out in the MTFs, the service and financial planning process has identified proposed savings of £0.846m (5% of net spend) shown in **(appendix 1)**

These are categorised as:

	<u>£m</u>
Efficiency savings	(0.607)
Increases in income	(0.209)
Other changes	<u>(0.030)</u>
Total	<u>(0.846)</u>

4.3 A total of £0.851m of service growth is proposed categorised as follows **(appendix 2):**

	<u>£m</u>
Corporate inflation	0.430
Reduced income targets	0.059
Other Growth	<u>0.362</u>
Total	<u>0.851</u>

4.4 The draft budget assumes no rise in Council Tax for 2014/15 as the Council may take advantage a special grant available for Councils not increasing council tax (assumed to be 1% or £70,000). However the scheme for 2014/15 has not yet been set out. The MTFs allowed for a tax rise at the target rate of inflation (2%) There therefore remains a choice depending on

the announcement of the tax freeze scheme. A referendum might apply if any proposed tax rise were 2% or greater.

4.5 The proposal also includes £447,000 of non-recurring service investment to be financed directly from reserves (**Appendix 2**).

4.6 The Council has been successful in attracting over £2.6m of additional grant for the retention of weekly waste collection and enhanced recycling (for five years) payable over three years. The final instalment of £1.3m will be paid in 2014/15. It is intended that contributions to reserves of this amount will be made in order to replenish the strategic change fund and general reserves.

5.0 Summary of Revenue Proposals

5.1 The following is a summary of the effect of the proposed changes.

5.2	<u>Proposal</u> <u>£m</u>
Base Budget 2013/14	15.658
Growth (outlined in 4.3)	0.851
Savings (outlined in 4.2)	(0.846)
Savings to be identified	<u>(0.104)</u>
Net budget	<u>15.559</u>
Funded By:	
Government Grants/Retained Rates	(8.357)
Council tax (band D £224.19)	<u>(7.202)</u>
Total Resources	<u>(15.559)</u>
Forecast General Reserve 31.03.14	£4m

5.3 Should the resources allocated by way of retained business rates and RSG differ from the assumptions, the suggested strategy would be to make the additional resources available to the capital programme. Should the resources be less than the assumptions then they should first reduce the addition to the capital programme resources, then reduce the contingency by up to £100,000 and beyond that, a further review of the service and financial plans will be required to identify additional savings/reduced growth. As a last resort the MTFS allows for reserves to be used in the short term until further corrections can be made.

5.4 Principal risks:

Risk / Issue	Comments/possible mitigation
Government announcements to further restrict local government settlement	Overall reduction now projected at 50% over 2010/11 levels. Contingency (£300k) and reserve levels above the minimum to be flexed to accommodate. Potential use of some New Homes Bonus and or new burdens funding.

Government – other grants	Housing Benefit (£0.8m) already announced Council budget not dependent on ad hoc reward grants.
Increase in inflation on pay and prices	Current inflation rate built in proposal for external contracts. Negotiations with main suppliers underway to reduce contractual entitlement.
Cumulative effects of the above being uncontainable	Priority based budgeting methodology would allow some further savings proposals to be brought forward. Growth could be reviewed and reserves used in the short term.

6.0 Capital Programme 2013/17

- 6.1 The Council currently finances its capital programme from capital receipts and grants and contributions. There is currently £0.5m of internal identifiable capital resources available for the next three years.
- 6.2 It is intended that any revenue headroom created by the 2014/15 revenue budget will be reinvested in the Capital programme.
- 6.3 In addition to these resources, borrowing is permitted on a business case basis where savings or new income generated from a scheme can repay the capital costs. An example of this is the "Solarbourne" project which is now contributing approximately £75,000 per annum to the net budget after repaying the cost of capital.
- 6.4 Additional individual schemes to be added to the capital programme linked to priorities will be developed as part of the development of the corporate plan in January and contained in the final budget and capital programme proposals to be agreed by the Full Council in February.
- 6.5 It should also be noted that unlike the Council Tax, the capital programme can be varied at any time and that there are duties under certain schemes to consult with those affected before schemes are commenced. As well as schemes financed from internal resources, the corporate plan will include schemes financed from external resources.

7.0 Consultation

- 7.1 As outlined in sections 1 & 2, consultation is planned both internally and externally to supplement the comprehensive consultation programme to date which is reported elsewhere on the agenda.

8.0 Implications

- 8.1 None directly in respect of this report, the consultation with stakeholders will identify any significant implications, which will be reported alongside the final budget recommendations in February.

9.0 Conclusions

- 9.1 The Council is well placed to deal with the lasting effects of the economic downturn and subsequent reduction in support by The Government however this has restricted choice in respect of new services requiring recurring investment.
- 9.2 Due to the healthy reserves position it is possible that further one off investments in services can be considered as part of the corporate planning and budget setting process.
- 9.3 Should the budget proposals remain materially intact following consultation and further announcements, The Council will have continued to shift its basic financial position towards longer term sustainability as outlined in the MTFS.

Alan Osborne
Chief Finance Officer

Background Papers:

The Background Papers used in compiling this report were as follows:

Budget 2013-14

Cabinet Reports: – Finance Matters Each Cabinet Meeting
- Budget Setting February 2013.
- MTFS July 2013.

Audit Committee- Final Accounts- September 2013.

To inspect or obtain copies of background papers please refer to the contact officer listed above.