FOR PUBLICATION

2014/15 BUDGET AND MEDIUM TERM FINANCIAL PLAN – J050

MEETING:	COUNCIL CABINET LEADER IN CONSULTATION WITH THE DEPUTY LEADER
DATE:	27TH FEBRUARY 2014 18TH FEBRUARY 2014 11TH FEBRUARY 2014
REPORT BY:	CHIEF EXECUTIVE & HEAD OF FINANCE
WARD:	ALL
COMMUNITY FORUM:	ALL
KEY DECISION REFERENCE:	362

FOR PUBLICATION

1.0 PURPOSE OF REPORT

1.1 To approve the General Fund budget for 2014/15.

2.0 RECOMMENDATIONS

2.1 Cabinet recommended to Council:

2.1.1 That the revised budget for 2013/14 be approved (Section 5).

2.1.2 That the Local Government Finance Settlement be noted (Section 8).

2.1.3 That the Collection Fund and the Tax Base forecasts be noted (Section 12).

2.1.4 That the Portfolio budgets (Attachment) and the overall revenue budget summary for 2014/15 (Appendix A) be approved.

2.1.5 That the Council accepts the Government's offer of a Council Tax Freeze Grant for 2014/15.

2.1.6 That the budget forecasts for 2014/15 and 2015/16 (Section 14) and the strategy for addressing the projected deficits (Section 15) ne noted.

2.1.7 That the estimates of reserves, including maintaining the General Working Balance at £1.75m, be approved (Section 17).

2.1.8 That the budget risks and sensitivity analysis be noted (Section 20).

2.1.9 That the Government's Retail Relief Scheme as a local scheme and authority be delegated to the Head of Finance to approve the reliefs (para. 21.3 and Appendix M).

2.1.10 That the 2014/15 Council Tax Requirement and financing be approved (Appendix J).

2.1.11 That the Chief Financial Officer's assurances be noted (Section 25).

2.1.12 That the Learning and Development budget carry forward request be approved (Appendix L).

3.0 BACKGROUND

3.1 This report covers the General Fund revenue budget and is one part of a suite of budget reports which together make up the Medium Term Financial Plan. The other budget related reports include the HRA Budget and Rent Setting Report (Cabinet 28th January 2014), the General Fund Capital Programme, the HRA Capital Programme and the Treasury Management (including the Prudential Indicators) reports. The last three reports are included as separate items on today's agenda.

3.2 The Council's Budget Strategy (**Appendix D)** is to set a sustainable and affordable budget over the medium term. This report looks ahead over the coming five financial years to determine the resources available, what are the spending pressures/priorities and how a balanced budget can be achieved.

3.3 The major funding sources for the General Fund are Government grant, business rates growth, fees & charges (particularly car parking income), rental income from the Council's extensive industrial & commercial property portfolio and the council tax. In the current economic climate the first four funding sources are coming under severe pressure and the Government is tightly regulating the fifth.

3.4 At a national level the Government is committed to balancing the public finances through austerity measures with severe cuts in the funding for local government over the next two. The Chancellor's Autumn Statement in December 2013 indicated that the cuts in public expenditure are likely to continue through to the end of the decade. The Institute of Fiscal Studies recently estimated that "unprotected" departments such as DCLG face average cuts of 31.2% between 2015/16 and 2018/19.

3.5 The Local Government Finance Review has introduced major changes to the funding arrangements for Local Government from April 2013. The continuing late announcement of funding settlements and changes to the Business Rate Retention scheme have made the budget setting process very difficult again this year.

3.6 The Council Tax must be set at the Council meeting on 27th February, which means that the Cabinet must now finalise its proposals for achieving a balanced budget.

3.7 The Local Government Association recently reported that "Councils have so far largely restricted the impact of the cuts on their residents. They have worked hard to save those services that people most value and have protected spending on social care for children and the elderly, but even these areas are now facing reductions. It means 2015/16 will be a crunch year for councils and local public services".

4.0 POLICY & FINANCIAL PLANNING FRAMEWORK

4.1 A copy of the Council's Financial Strategy is attached at **Appendix C.** Its overall aim is to establish a framework for aligning the revenue and capital spending proposals with the Council's strategic priorities. This document, the Budget & Medium Term Financial Plan (MTFP), covers the application of the strategy for the next five years. The MTFP itself is supported by other financial strategies including the Capital Strategy, the Treasury Management Strategy and the Asset Management Plan.

4.2 The MTFP is just one of a number of plans and strategies that link into the overall Corporate Plan; others include the Workforce Plan, the HRA Business Plan, the Local Development Framework, etc. These are designed to help ensure that the Council provides efficient and effective services, delivers value for money and achieves continuous improvement.

4.3 The Policy and Financial Planning Framework also provides the link from the Council's priorities in the Corporate Plan through to individual service and staff performance plans. The Corporate Plan

should guide the Council's resource allocation and performance management arrangements and has been updated in tandem with the preparation of the Medium Term Financial Plan and both plans will be included on the same agenda. Both the Council and Cabinet meetings.

5.0 REVISED BUDGET 2013/14

5.1 The Council approved the original budget for 2013/14 on 28th February 2013. The original budget allowed for a reduction in Formula Grant of £361k and included a budget savings target of £635k leaving a deficit balance of £234k to be found from savings in the year. The Council Tax was increased by £5 (3.6%), taking advantage a dispensation for authorities in the lower quartile of council taxes.

5.2 Revised budgets for 2013/14 have now been prepared and were reported to the Cabinet on the 20th December as part of the first draft budget report. Since then further work has been undertaken through:

(a) budget monitoring to identify other possible variances; &

(b) the Cabinet/CMT Budget Workshops to identify further savings.

The updated revised budget forecast for 2013/14 in **Appendix A** shows a deficit of £111k.

5.3 2013/14 has proved a difficult year in terms of budget management. There have been many significant budget variances, both increases and decreases. Full details of variances on the portfolio budgets were included in the reports to the Cabinet on the 20th December. An updated summary of the variances from the original budget deficit of £234k to the revised budget deficit of £111k is provided in **Appendix B**

5.4 Every effort will be made through strict budgetary control to further reduce the forecast surplus by the end of the financial year. The resultant deficit, should it arise, will be met by a contribution from the Budget Risks Reserve.

5.5 A request has been made to approve in advance a carry forward on unspent corporate Learning and Development budgets to support future transformation initiatives. Further details are provided in **Appendix L**.

6.0 2014/15 BUDGET

6.1 Significant changes to the way in which local government is funded were introduced in April 2013 so 2014/15 will be the second year

under the new system. Under the previous funding system a large element of the Council's budget requirement was financed by a pre-announced and fixed level of funding but this has been replaced with one which transfer more risk to local authorities. The most significant changes relate to the Localisation of Council Tax Support and the Localisation of Business Rates which are described in more detail below.

7.0 LOCALISATION OF COUNCIL TAX SUPPORT

7.1 The full Council received a report on and approved the Local Council Tax Support Scheme to apply from the 1st April 2014 at its meeting on the 29th January 2014.

7.2 Council tax support is treated as a 'discount' which means that the Council's Tax Base is reduced. The Tax Base is used to calculate how much income the Council can raise through the Council Tax, a reduction in the base reduces the potential income. To help compensate for this loss the Government pays a grant to Billing Authorities and Major Precepting Authorities. In 2013/14 the grant was separately identified, and for the Council was £856k. The Government identified £66k of the grant as relating to the parished areas and stated that there was an expectation that it would be passed on. From 2014/15 the grant has been 'rolled-in' to the overall funding and so is no longer separately identifiable. The Cabinet agreed at its meeting on 22nd October 2013 to reduce the grant passed over to the parishes by 10%, i.e. £6,600, in 2014/15 and to apply the same reduction (£6,600) in future years.

7.3 The grant allocation is less than the amount received in previous years under the national Council Tax Benefit Scheme. The Council agreed at the 29th January meeting to continue with a number of measures designed to help make up for the funding shortfall. The measures were grouped into two packages as follows:

The first package of measures relate to reductions in the benefit/support entitlement for those of working age only as pensioners are protected. The changes included:

- A requirement to pay 8.5% of the liability. There will be no Transition Grant funding to support this in 2014/15 (£21k in 2013/14);
- Re-instating the 'taper' (the rate at which support is withdrawn as income rises) back to 20% from the 25% agreed last year; &
- The removal of the Second Adult Rebate.

The second package of measures relate to maintaining the changes to other Council Tax discounts agreed last year including:

- Reducing the period of 100% empty and unfurnished property relief to just 3 months (from 6 months);
- Removing the remaining 10% of Second Homes discount; &
- Introducing a 50% surcharge for properties that have been empty for more than 2 years.

7.4 The Government has also given authorities a 'New Burdens' grant allocation, covering a three-year period to help with the set-up and operation of the new system. There was an allocation of £84k in both 2012/13 and 2013/14 which was used to pay for changes to the Benefits computer system, computer modelling tools and the consultation exercises. There is one further allocation due, £94k in 2014/15, which will be retained as a contingency to pay for any further computer system changes and additional staffing resources to cover any spikes in demand (advice and debt recovery).

7.5 The financial risks associated with providing council tax support have now effectively transferred from central to local government. The risks will be shared by all precepting authorities in the area. If, for example, a number of local people were made redundant and they ten qualified for Council Tax Support, the discount given will remove a proportion of their properties from the Tax Base.

8.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

8.1 The Provisional Settlement was announced late again this year, on the 18th December although the Government did consult during the summer on a number of proposals. Details of the Final Settlement were published on the 5th February and are to be approved by the House of Commons on the 12th February.

8.2 This is the second settlement under the Business Rates Retention (**BRR**) scheme where business rates become the principle form of funding, other than council tax income. The introduction of BRR is part of the move towards an incentive driven local government finance system. Incentives to grow the Council Tax Base already exist through the New Homes Bonus Scheme and the Rates Retention scheme now extends the principle to Business Rates. Previously all business rate income was paid over into the National Pool and then redistributed through the Formula Grant mechanism. Under the Retention scheme local authorities will be able to keep a percentage of the growth in business rate income.

8.3 The Settlement covers two financial years only, 2014/15 and 2015/16. Future settlements will be informed by the next Comprehensive Spending Review which will take place after the General Election in 2015. The settlement no longer provides guaranteed funding, but rather a combination of Revenue Support Grant allocations and the starting point for authorities within the BRR scheme.

8.4 The **Settlement Funding Assessment (SFA)** is calculated by the Government and sets the starting position in terms of the estimate of the funding available to the Council. The funding is a combination of Formula Funding and other funding streams that were previously paid as specific grants. The Assessment is calculated by using the Formula Funding Methodology that has been used in previous years, subject to some minor changes. The Funding Assessment is made up of two elements, Business Rates Baseline Funding and Revenue Support Grant and these are calculated for each authority pro rata to the national share split of RSG to the aggregate of the Local Shares of Business Rates income forecast.

	Bus. Rate Baseline Funding £'000	**Revenue Support Grant £'000**	**2014/15 Total £'000**	**2013/14 Total £'000**
Lower Tier Funding	2,923	3,230	**6,153**	6,323
Rolled-in grants:				
Tax Freeze Grant re 2011/12	46	67	**113**	113
Council Tax Support Grant	-	-	**-**	856
Homelessness Prevention Grant	35	49	**84**	85
Returned funding	-	9	**9**	-
Total – Settlement Funding	**3,004**	**3,355**	**6,359**	**7,377**

The Provisional Settlement no longer provides a guaranteed level of funding as the Business Rate Funding element is just the Government's estimate of income and this will be replaced by the Council's own estimate when setting the budget.

8.5 The table below compares the **Settlement Funding** for the four financial years 2012/13 to 2015/16. The cumulative reduction over the period is £2.4m or 31%.

Start Up Funding Assessment & Funding				
	'Adjusted' 2012/13 £'000	**2013/14 Final £'000**	**2014/15 Final £'000**	**2015/16 Estimate £'000**
Funding Assessment:				
Lower Tier Funding	6,684	6,323	**6,153**	5,150
Specific Grants rolled-in:				
Tax Freeze Grant re 2011/12	113	113	**113**	113
Council Tax Support Grant	869	856	**-**	-
Homelessness Prevention Grant	85	85	**84**	83
Returned funding			**9**	
Start Up Funding Assessment	**7,751**	**7,377**	**6,359**	**5,346**
Assessment Funded By:				
Revenue Support Grant		4,430	**3,355**	2,259
BR Baseline Need		2,947	**3,004**	3,087
SUFA Funding	**7,751**	**7,377**	**6,359**	**5,346**
Year on year change:				
Amount		**-£374k**	**-£1,018k**	**-£1,013k**
%		**-4.8%**	**-13.8%**	**-15.9%**
Cumulative change:				
Amount		-£374k	**-£1,392k**	**-£2,405k**
%		-4.8%	**-18.0%**	**-31.0%**

8.6 The Government Lower Tier settlement figures, i.e. excluding the rolled in grants, over recent years are summarised in the table below:

Table – Lower Tier Funding Settlements

Year		Grant £'000	Decrease	
			Year-on year	Cumulative
2010/11	Adjusted*	**8,720**		
2011/12	Final	**7,569**	£1.1m / 13%	£1.1m / 13%
2012/13	Final	**6,684**	£0.9m / 12%	£2.0m / 23.3%
2013/14	Final	**6,323**	£0.4m / 5.4%	£2.4m / 27.5%
2014/15	Final	**5,297**	£1.0m / 16%	£3.4m / 39.3%
2015/16	Illustrative	**4,294**	£1.0m / 19%	£4.4m / 50.8%

* Please note that:

a) the original grant amount for 2010/11 of £10.1m has been adjusted down to £8.7m for comparison purposes due to the removal of £1.4m relating to concessionary fares; &

b) the grant figures for both 2014/15 and 2015/16 have had £856k removed re Council Tax Support grant in order to provide broadly comparable figures. Since 2014/15 direct comparisons have become difficult because from 2014/15 onwards the Local Council Tax Support Grant is combined into the Lower Tier Funding element and is no longer separately identifiable.

8.7 Revenue Support Grant (**RSG**) – the tables in 8.5 and below show the RSG element of funding included in the budget forecast. The grant is forecast to reduce by 24% in 2014/15 and a further 33% in 2015/16 as Business Rate income forms an increasing share of the funding total. The RSG system, therefore, continues to provide a mechanism for the Government to retain control over, and reduce the level of, local government funding. If the recent trend continues it will not be long before the Council receives no RSG but relies solely on retained Business Rates income.

Settlement Funding Assessment & RSG/BR Split

	2013/14 Final £'000	2014/15 Final £'000	2015/16 Illustrative £'000
Revenue Support Grant RSG	4,430	3,355	2,259
BR Baseline Need	2,947	3,004	3,087
Settlement Funding	**7,377**	**6,359**	**5,346**
RSG change in year to year:			
Amount		**-£1,075**	**-£1,095**
%		-24%	-33%
BR change in year to year:			
Amount		**+£57k**	**+£83k**
%		+2%	+3%

9.0 BUSINESS RATES RETENTION

9.1 At the start of the scheme (April 2014) the Government estimated a Business Rate income target for each Billing Authority as their share (the proportionate share) of the national target. The table below shows how this estimate was shared between the Government (50% Central Share), the Major Preceptors (10% in total to the County & Fire Authority) and the Council (40%). The Council's share was then compared to its BR Baseline Funding level for 2013/14 (para 8.5 i.e £2,947k) and the excess was to be paid to the Government as a '**tariff**' (£10,635k).

		2013/14	2014/15
	Share of Total %	**Amount £'000**	**Amount £'000**
Estimated BR Aggregate (EBRA) – national total	100%	**21,797,109**	
CBC Billing Authority proportionate share (0.155777%)		**33,955**	
Government/Central share	50%	**16,977**	
Major preceptors share	10%	**3,396**	
CBC BR Baseline	40%	**13,582**	
Total	100%	**33,955**	
CBC – BR Baseline		**13,582**	**13,846**
Less BR Baseline Funding Level		**(2,947)**	**(3,004)**
Tariff		**10,635**	**10,842**

9.2 The calculation above was used to set the 'tariff' at the start of the scheme but the tariff is then increased each year by the increase in the Small Business Rate Multiplier (SBRM) which in turn was to be linked to RPI (Retail Price Index). In the 2013 Autumn Statement the Chancellor announced that for 2014/15 the increase in the SBRM is to be capped at 2% rather than the 3.2% RPI rate. The SBRM therefore increased from 46.2p to 47.1p which because of the rounding to one decimal place equates to a 1.95% increase. The Council's tariff payment for 2014/15 has, therefore, increased to **£10,842,078**.

9.3 The actual level of income from Business Rates to be included in the budget for 2014/15 will be based on the Council's estimate of income as shown on the NNDR1 Return. The NNDR1 return was approved by the Employment & General Committee on the 30th January at the same time as approving the Council Tax Base. The NNDR1 return shows an estimated Net Yield of £35,778,992 with the Councils 40% as £14,311,597. The Councils share is then reduced by the **tariff** payment of £10,842,078 leaving £3,469,519; the excess of this amount over the Baseline Funding Assessment of £3,004,464 i.e £465,055 is then subject to a 50% 'Levy' (para. 9.4 below). At the same time the Council will qualify for £912,980 of Section 31 grants to make up for the loss of income from the changes to business rates announced in the Autumn Statement (multiplier cap, retail reliefs, small business rate relief extension , etc) which will be subject to the Levy, leaving a net income of £689,018. The Councils net income from business rates is therefore £3,693,482 calculated as follows:

	Gross	Levy	Net
CBC's 40% of total Less Tariff	14,311,597 (10,842,078)		
CBC net of tariff Add: S31 Grants	3,469,519 912,980	(232,528) (456,490)	3,236,992 456,490
	4,382,499	(689,018)	**3,693,482**

The £3,693,482 income forecast for 2014/15, based on the NNDR1 Return and after the Levy payment, results in an additional £689,018 above the £3,004,464 Baseline Funding level included in the Settlement.

9.4 The '**Levy**' is a mechanism designed to limit disproportionate benefit from increase in BR income. The levy is a 1:1 proportionate levy which means that for every 1% increase in BR income the authority

will see no more than a corresponding 1% increase in its Baseline Funding level. The levy rate is, however capped at 50 pence in the pound. The Council's levy rate for 2014/15 is, therefore, calculated as follows:

Levy Rate = Lower of £0.50 & [1–(Baseline Funding / BR Baseline)]

= lower of £0.50 or [1 – (3,004,464 / 13,846,542)] = 0.78

= lower of £0.50 or £0.78

Levy Rate = £0.50

Any growth in BR income above the BR Baseline is distributed as follows:

	Share %
Government – Central Share Major Preceptors	50% 10%
CBC before Levy Government – CBC Levy at 50p in £1	40% -20%
CBC retained growth	**20%**

9.5 There is also a **Safety Net** mechanism in place to protect authorities from excessive decreases in BR income below their BR Funding level. A safety net payment will be triggered if an authority sees its share of BR income in any year decline by more than 7.5% of its BR Funding Baseline. The Council's **Safety Net threshold is £2,779k** (i.e. £3,004,464 x 92.5%). This means that the Council's share of the BR **income could fall by £225k** below its Funding Baseline of £3,004k before it qualifies for a safety net payment.

9.6 The Local Government Association (LGA) has recently released a publication on the experience of councils during the first year of the BRR scheme, entitled **'The story so far: business rate retention'** The report is based on the results of a council survey that the LGA conducted during November 2013 in order to gauge how local authorities are coping with the reform, what the most important issues are, and how the Government could help deal with them. The report concluded that the experience of councils to date has been varied with no two stories the same. However, there are common emergent issues. By far and away the primary challenge is the level of financial risk that councils face due to appeals and business rate avoidance, with little scope for these risks to be managed under the current arrangements. It outweighs the rewards available to councils, which in turn reduces the incentives to grow local economies. It is largely because of this risk that the Council agreed to increase the Working Balance by £0.25m in 2013/14 to £1.75m

10.0 OTHER GOVERNMENT GRANTS

10.1 Details of the other grants included in the budget forecasts are included at **Appendix G**. Further detail on the most significant grants is included below.

10.2 **Council Tax Freeze Grant** –The draft budget includes a previous grant allocation relating to 2011/12 which the Government recently announced will be included in future funding settlements. The budget summary in **Appendix A** assumes that there will be no tax increase in 2014/15 and 2015/16 but instead the 1% freeze grant on offer for both years will be accepted. The Government has given a commitment that these grants will also be base-lined in future funding settlements so there will be no cliff-edge issues to consider. The tax increase or freeze decision is covered in more detail in Section 12 below.

10.3 **Efficiency Support Grant** (ESG). The ESG was first introduced for 2013/14 to replace the Transition Grant Scheme. It is designed to help authorities suffering the greatest reductions in their '**Revenue Spending Power**' (RSP) which is the aggregate of the funds available to the Council from Council Tax, Settlement Funding and other Government grants. The limit was set at 8.8% in 2013/14 and only seven councils qualified for the additional funding; the Council's reduction in its RSP was 8.7% so it narrowly missed out. For 2014/15 the threshold has been changed to **6.9%** and the Council with a **loss of 7.2%** becomes eligible for the grant, with an allocation of **£39,332**. The full conditions relating to the grant have not yet been disclosed but papers within the settlement suggest that it will be conditional on performance and the allocation in the following financial year, 2015/16, will be at least the same as that in 2014/15. The Council suffered the highest reduction in RSP of all district councils in England in 2014/15 and is one of only two to be awarded funding based on the 6.9% threshold. The Council's poor performance relative to that of similar authorities appears to be due to the low council tax base and the low rate of growth in the New Homes Bonus grant. Illustrative figures for 2015/16, again with a threshold of 6.9%, show the Council qualifies with an estimated RSP cut of 8.7% (the third highest RSP reduction of all district councils in the country). The 2015/16 figures are 'illustrative' only at this stage and will be revised in Autumn 2015.

10.4 **Housing & Council Tax Benefits Administration Grant** – the main admin grant generally reduces each year due to assumed efficiency savings. Since 2009/10, however, the Council has also received a supplementary grant to compensate authorities for the additional workload caused by the recession. The draft budgets include the

notified 'recession' grant allocation of £40k in 2013/14 only. No allocations have been notified beyond this date so no amounts have been assumed for 2014/15 and future years. **Appendix G** and the table below provide a comparison of the allocations over a number of years:

Year	Status	Grant allocation	Change on previous year	
			£'000	%
2012/13	Actual	876,040		
2013/14	Actual	838,812	-37,228	-4%
*2014/15	Actual	764,879	-73,933	-9%
**2015/16	Estimate	697,500	-67,379	-9%
**2016/17	Estimate	636,000	-61,500	-9%

*The grant circular for 2014/15 shows that £170,708 (22%) relates to Council Tax Support which is funded by the Department for Communities and Local Government (DCLG) and £594,171(78%) relates to Housing Benefit which is funded by the Department for Work and Pensions (DWP).

** It is difficult to forecast the likely level of grant after 2014/15 as the Government could use the localisation of Council Tax support from April 2013 and the introduction of Universal Credit as a reason to reduce the level of funding. If funding is reduced the Council will need to negotiate corresponding reductions in the cost of the service which is provided by Arvato.

10.5 **New Homes Bonus (NHB)** – when the grant was introduced in 2011/12 there was recognition within the Spending Review 2010 that there would be insufficient funds allocated to cover the cumulative cost of the scheme and that in future years money would have to be transferred from the Formula Grant allocation to make up any shortfall. There is, therefore, a strong argument for using at least some, if not all, of the allocations to support the revenue budget.

The grant is paid as a reward/incentive for increasing the housing supply and is intended to help councils finance the costs which new housing and an increased population create.

When announcing the final allocations for 2013/14 the Housing Minister stated that "*Councils should work with their local community to decide how the bonus is spent: whether building more homes, keeping Council Tax down for local residents, boosting frontline services like rubbish collection or providing local facilities like swimming pools and leisure centres".*

When announcing the allocations for 2014/15 the Housing Minister Kris Hopkins said " *….. they (councils) are free to spend the money any way they like to benefit their local communities – whether that's supporting frontline services, providing new facilities or freezing the council tax.*"

The allocation for each year is paid for a period of six years and is "un-ringfenced", which means that there are no restrictions on its use. The table below shows the receipts and uses of the grant based on the following:

- the Council's allocations and the approved uses to date;
- nothing being allocated to finance new housing projects in future years;
- a prudent estimate of future grant allocations at £200k per annum;
- the unallocated balance being used each year to support the revenue budget but clearly in the longer term this could be a risky strategy given the uncertain future of the scheme.

Table – New Homes Bonus Grant

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
2011/12 alloc	127	127	127	127	127	127	-
2012/13 alloc	-	101	101	101	101	101	101
2013/14 provisional	-	-	123	123	123	123	123
One off adjs-returned funding	-	-	25	10	26	-	-
2014/15 est.	-	-	-	101	101	101	101
2015/16 est.	-	-	-	-	200	200	200
2016/17 est.	-	-	-	-	-	200	200
2017/18 est.	-	-	-	-	-	-	200
Cumulative	127	228	376	462	678	852	925
Commitments:							
Waterside	-127	-81					
Emp Homes Officer		-10	-29				
New schemes				-	-	-	-
Revenue Budget		-137	-347	-462	-678	-852	-925
Balance in year	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cumulative bal	0	0	0	0	0	0	0

11.0 FEES AND CHARGES

11.1 The Council's policy for Fees and Charges (**Appendix E**) requires charges to be set at a level to at least recover costs but reduced concessionary rates are permissible to ensure equal access to services. Charges are reviewed annually taking into account comparisons with other similar authorities, the case for continuing concessions, the cost recovery position, etc. Fees & Charges represent a significant income to the Council and total more than the income raised through the council tax. For 2014/15 the budget includes £8.0 million (£8.1m in 2013/14) from fees and charges compared to only £4.0 million from the council tax. The main income sources and the assumed increases for 2014/15 are summarised in **Appendix F**.

12.0 COUNCIL TAX

12.1 Income raised locally through the council tax represents the other major financing source for the General Fund revenue budget.

12.2 **Collection Fund Balance** – before calculating the council tax for the coming year the estimated balance on the current year's collection fund must be established and taken into account. The balance on the collection fund was reported to the Cabinet on 14th January 2014. There is an estimated surplus balance of £234,633 at the end of March 2014. The surplus is shared amongst the major precepting authorities; the Borough's share is £24,968 (10.6%).

12.3 **Tax Base** - the Tax Base provides an estimate of how much each £1 of Council Tax would raise. The Tax Base is expressed as the equivalent number of Band 'D' dwellings in the borough. The Employment and General Committee set the Tax Base on 30th January 2014 as:

Tax Base – Band 'D' Properties

Area	2013/14	2014/15	Increase / (Decrease)	
			No.	%
Brimington Parish	2,176.71	**2,188.09**	11.8	0.5
Staveley Town	3,889.06	**3,932.98**	43.92	1.1
Unparished areas	21,088.20	**21,342.78**	254.58	1.2
Total	27,153.97	**27,463.85**	309.88	1.1

From April 2013 the tax base reduced significantly due largely to the treatment of Council Tax Support as a 'discount' under the new Localised Support Scheme. This reduced the tax raising ability of the

precepting authorities but as described in Section 7 above this will be compensated to some extent by the receipt of grant direct into the General Fund and by other changes to discounts and council tax support criteria which are designed to increase the tax base.

12.4 **Referendum Limit** – the capping regime was replaced some years ago with a requirement to hold a referendum if the proposed council tax increase exceeds a limit set by the Secretary of State. The limit for 2014/15 was not announced until 5th February, much later than in previous years and reflecting the disagreements within Government on what it should be.

Local authorities need to take care to ensure that they do not inadvertently trigger a referendum by exceeding the limit by some tiny margin. To avoid this happening, and the cost of running a referendum estimated to be in the region of £50k, it would be sensible to build a small safety margin into the tax setting calculation if an increase close to 2% is to be proposed.

12.5 **Tax Freeze Grant** - the Government has offered a Tax Freeze Grant for 2014/15 equivalent to a 1.0% council tax increase. The terms of the grant are more attractive than those available in previous years because:

a) The tax base which is used in the calculation of the grant is that before the reduction for council tax support discounts; this gives a higher tax base figure than that which would be used to calculate the income from a real tax increase and hence produces a higher grant figure equivalent to a 1.2% increase;

b) The grant is not for a fixed period but will go into the funding baseline in future years thus avoiding the cliff edge risk. This option is, however, not without risk as even when the funding is in the 'baseline' it could still be reduced as part of the overall funding cuts.

The take up of the freeze grant offers have been:

- 2010/11 - all authorities accepted the tax freeze grant;
- 2011/12 – 85% of authorities accepted the grant
- 2012/13 - 256 authorities accepted the grant
- 2014/15 - the likely outcome is not yet clear but information on the DCLG website indicated that as at 3rd February 129 out of 353 (36.5%) local authorities had signalled their intention to accept the grant.

12.6 **Alternative Option** – for 2013/14 the DCLG introduced an amendment to allow authorities in the lower quartile for their category

(shire districts for CBC) to be exempt from the 2% excessiveness principle and instead only required a referendum to be held where:

- The increase in the relevant basic amount of council tax for 2013/14 is more than 2%; and
- There is a cash increase of more than £5 in the relevant basic amount.

Chesterfield BC, with a Band D tax of £139.89 at that stage, fell within the lower quartile and, therefore, was able to take advantage of the exemption and increase its tax by £5 without a penalty. The Council took advantage of the exemption mainly on the basis that it was likely to be a one-off opportunity.

A similar scheme has not been announced for 2014/15.

12.7 **Evaluation of the Options** – the table below compares the options of either freezing the council tax or increasing it by 1.99% in 2014/15 only:

2014/15 Council Tax Options			
	Yield £	**Band 'D' tax £**	**Band 'A' tax £**
1.99% increase	79,200	147.77	98.52
Tax freeze	47,900	144.89	96.59
Difference	**£31,300**	£2.88 pa or 5.5p per week	£1.93 pa or 3.7p pr week

NB – all based on the 2014/15 tax base with no allowance for future growth.

Provided that the tax freeze grant is protected in future funding settlements the loss of income as a result of freezing will be £31k each year and, therefore, £155k over 5 years.

If the tax is frozen again in 2015/16 the pattern will be repeated to give a loss in 2015/16 of £62k and over the five years 2014/15 to 2018/19 a cumulative loss of £279k.

If the tax freeze grant funding is reduced by say 10% per annum as part of the overall funding settlement in future years the funding loss will increase each year by approximately £5k for each year that the tax is frozen.

The MTFP in **Appendix A** assumes a tax freeze in both 2014/15 and 2015/16 with associated grants reducing by 10% in each of the subsequent years.

The arguments about the best option are finely balanced:

- The financial loss from freezing in any one year is relatively small but the cumulative impact over a number of years is obviously

much greater. Any opportunity to increase our low tax base would be welcome in the current financial climate.

- The base-lining of the freeze grants should provide more certainty and remove the previous cliff-edge issue. The extent to which tax freeze grants will be shielded from future funding cuts, however, is uncertain but equally there is a risk that the Government could take future action to penalise those authorities that do not freeze.
- For local tax payers the impact of a 1.99% increase will be low in monetary terms, for a;
  - **Band 'A'** property (more than half the properties in the Borough) the increase would be equivalent to £1.93 per annum or 3.7 pence per week;
  - **Band 'D'** it would be £2.88 per annum or 5.5 pence per week.
- The Council's share of the overall tax bill is approximately 10% so whatever it does will be dwarfed by what the major preceptors, particularly the County Council, decide to do.
- The major argument in favour of freezing the tax is to provide some relief, albeit a relatively small amount of money, to the residents of the borough during these difficult economic times.

13.0 DRAFT BUDGETS

13.1 The following assumptions have been made in preparing the draft budgets:

Table – Budget Assumptions

	2013/14	2014/15	2015/16	2016/17 – 2018/19
Pay inflation	1%	1%	1%	1%
Vacant posts allowance	-£100k orig	-£150k	-£150k	-£150k
Council tax increase	£5 increas e	Freeze	Freeze	1.99%
Settlement Funding	-4.8%	-13.8%	-15.9%	-10%
Fees & Charges Increase	+3%	+3%	+3%	+3%
External Fund investment returns (gross)	Original 1.0% Revised 0.32%	0.67%	1.1%	1.5%
Cuts in the Settlement Funding Assessment		-13.8%	-15.9%	-10% in 16/17 &17/18,

				& -8% in 18/19
Business rates growth		+2.5%	+2.5%	+2.5%
Pension Fund Contributions	12.2% +£176.9 k	13.2% +£1,811 k	13.2% +£1,871 k	13.2/14. 2% +£1,931

The risks and uncertainties related to the assumptions are considered in the Risk Management section later in this report.

13.2 Pension Fund Revaluation – the Derbyshire Pension Fund was subject to the triennial review during 2013 to produce employer pension contributions for the three financial years starting April 2014. The results for the Council provided two options. Option A, the recommended option, is for:

a) an increase in the Employer Rate for future service of 1%, from 12.2% to 13.2%; and

b) an increase in the Deficit Recovery Lump Sum for past service from £1,769k to £1,811k in 2014/15 and increasing by a further £60k in 2015/16 and a further £61k in 2016/17.

The alternative option, Option B, is to have a stepped increase of 0.5% per annum in the Employer Rate, the Lump sum being the same under either option. Option A is recommended as it provides some stability to the budgets and avoids having a higher rate in the third year when the budget will be under even greater pressure. The majority of councils in the county have adopted this approach.

13.3 Since the draft Portfolio budgets were considered by the Cabinet on 20th December 2013, a number of changes have been made as more up to date information has become available and as the Cabinet/CMT Budget Workshop savings proposals have developed. A summary of the overall budget including the latest changes is shown in **Appendix A**. The Budget Book for 2015/16 with the updated portfolio budgets will be included with the report to the full Council.

14.0 <u>2014/15 NET EXPENDITURE ESTIMATES</u>

14.1 The Medium Term forecast approved a year ago, by the Full Council on 28th February, showed a deficit, before Transformation Programme savings, of £1.9m in 2014/15 rising to £2.3m in 2015/16.

14.2 The table below provides a summary of the budget forecasts which have been reported to the Cabinet during the financial year:

Surplus / (Deficit) Forecasts			
Stage	**Cabinet**	**2013/14 £'000**	**2014/15 £'000**
Start of the year	19th Feb	(868)	**(1,889)**
After 5 months	22nd Oct	(550)	**(1,613)**
Revised budget report after 8 months	20th Dec	(190)	**(1,123)**
Latest Forecast	18th Feb	(111)	**243**

14.3 A summary of the latest budget forecast for 2014/15 is shown in **Appendix A** assuming a Council Tax freeze. The updated budget forecast shows a surplus £243k but this is after assuming £824k of net budget savings developed by the Political Cabinet and Corporate Management Team. The deficit before allowing for the savings target is, therefore, **£581k** which is a significantly improved position from that forecast 12 months ago (£1.9m).

14.4 Investment interest provides a significant income to support the revenue budget. It is very difficult to predict how and when interest rates will move in the current economic climate. Gross returns of 0.3% in 2013/14, 0.67% in 2014/15, 1.1% in 2015/16 and 1.5% per annum thereafter are currently forecast in line with recommendations from the Council's external fund manager. Each ¼% movement is equivalent to +/- £54,000, of which approximately 62% impacts on the General Fund. Further details are included in the Annual Treasury Management and Annual Investment Strategy report.

14.5 Budget Saving Proposals – a number of savings proposals were identified at a series of budget workshops. The savings that were agreed have been included in the budget at **Appendix A**. A summary of the savings is included in **Appendix A1** . A non-delivery allowance of 20% of the gross savings target has been built into the budget forecasts in **Appendix A**.

14.6 Budget Growth Requests – the draft budgets are based on current service levels and do not include any provision for growth. The future budget deficit forecasts make it difficult to earmark resources to fund growth requests at this stage. Any growth funding will have to be restricted to:

a) Priority activities where corresponding savings can be found from another budget (i.e. virement);

b) True invest-to-save projects where the initial funding can be met from the Invest-to-Save Reserve; or

c) Funding one-off corporate priority projects from the Service Improvement Reserve.

No priority/urgent growth requests have been put forward for consideration.

14.7 Council Tax Options – the draft budget assumes that the Council Tax will be frozen in 2014/15 as described in para. 12.6.

14.8 Strategy for funding the deficit –The Council's key response to tackling future budget deficits is its Transformation Strategy (Section 16 below) including the Great Place: Great Service Programme. The planned savings of £824k in 2014/15 will, provided they are delivered in full and in good time, should result in a budget surplus. It is important to remember that the saving s proposals include some big figures against options that will be difficult to implement e.g. voluntary redundancies, changes to terms and conditions and changes to the PPP contract.

15.0 MEDIUM TERM FORECAST - 2015/16 through to 2018/19

15.1 It is good financial practice for authorities to consider their budgets over the medium term and not just for the year ahead. With the promise of multi-year grant settlements some years ago it seemed as though we would be able to move to a position of setting medium term budgets with greater certainty and be in a position to declare indicative council tax increases over the same period. The settlement announced for 2014/15 however is for two years only and the next announcement is not expected until November/December 2014 which makes budget forecasting from 2016/17 onwards more difficult. Nevertheless, a medium term forecast has been prepared based on the best available information in order help with longer term planning of priorities and transformation change.

15.2 The assumptions made in drafting the medium term forecast are set out in the table at para. 13.1 above. Some of the assumptions built into future years' budgets may also be subject to considerable variation as described in the Risk Management section below. The latest medium term forecast in **Appendix A** shows for:

	2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Deficit forecast before planned savings	(1,251)	(2,004)	(2,513)	(2,820)
Planned savings (Appendix A1)	1,701	1,725	1,725	1,725
Net Surplus / (Deficit)	450	(279)	(788)	(1,095)

Any recurring savings made in the early years will also help to reduce the deficit forecasts in the later years.

The forecasts are based on current levels of service provision with no allowance for future growth.

The scale of the forecast deficits means that work must continue to monitor progress on the planned savings proposals and to identify new savings in order to be able to produce balanced and sustainable budgets for future years.

15.3 Sensitivity of funding forecasts – the forecasts of funding in future years are based on prudent assumptions as follows:

a) Settlement Funding – in years after the currently announced settlements a 'pessimistic' view of 10% cuts in 2016/17 and 2017/18 and 8% in 2018/19.

b) Business Rates – a 'central' view based on 2.5% growth above inflation each year.

Alternative scenarios would result in the following changes to the forecast budget surpluses/deficits:

	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Settlement Funding Cuts:	fixed	fixed			
Central Case - % cut	-	-	-8%	-8%	-6%
amount	-	-	£107k	£194k	£270k
Optimistic Case - % cut	-	-	-6%	-6%	-4%
amount	-	-	£214k	£393k	£551k
Business Rates Income:					
Pessimistic Case - % cut	-0.5%	-0.5% & £0.4m loss	-0.5%	-0.5%	-0.5%
amount	-£37k	-£310k	-£379k	-£451k	-£527k
Optimistic Case - % cut	+0.5% +one-offs	+0.5% +one-offs	+0.5% +one-offs	+0.5%	+0.5%
amount	£474k	£723k	£981k	£1,037k	£1,155

16.0 BUDGET SAVINGS

16.1 The Council has a good track record of delivering budget savings. The scale of the savings required in 2014/15 and future years means that delivering further savings will continue to be a priority for the Council, but this will become progressively more difficult. The Council's key response to tackling future budget deficits is its Transformation Strategy and the Great Place: Great Service Programme. The Strategy involves reviewing all services to identify cashable efficiency saving whilst the GP:GS Programme currently focuses on the four key strategies of Customer Service, ICT, Workforce and Asset Management to transform and modernise service delivery.

16.2 The budget forecasts have highlighted the need to deliver significant budget savings year after year. Details of the savings proposals developed by the Political Cabinet and the Corporate Management Team are included in **Appendix A1**. The savings are spread across a range of services but there are some big savings targets against a few headings including voluntary redundancies, changes to terms and conditions and changes to the PPP contract. Delivering these savings quickly and at the same time planning for further savings in future years will be a huge challenge. Individual budget saving proposals will require tight project management to ensure that they are delivered on time and produce the required level of saving. The Political Cabinet and CMT will continue to develop other proposals which will be needed to address the medium term deficit forecasts and the Financial Planning Group and Scrutiny Panel will monitor progress.

17.0 RESERVES AND BALANCES

17.1 The Council maintains a General Working Balance plus a number of other earmarked reserves. A review of all the reserves and provisions has been undertaken as part of the budget process.

17.2 **General Working Balance** – the working balance provides a cushion for cash flow shortages and a contingency for unforeseen events. The minimum prudent level for the working balance is a matter of professional judgement based on past experience, the level of other earmarked reserves and an assessment of future risks. In February 2013 the Cabinet agreed to increase the minimum working balance for the General Fund to £1.75m (previously £1.5m). The updated financial risks assessment in **Appendix I** using prudent assumptions has calculated the risk level at £1.7m. A balance of £1.75m is equivalent to 15% of the Council's budget requirement. Over the

medium term the Council will need to continually review the minimum balance required as budget risks and the level of other earmarked reserves change.

17.3 **Earmarked reserves** are held to meet known or anticipated liabilities. Details of the earmarked reserves held by the Council, including their purpose and predicted movements over the next three years are included in **Appendix H**. Details of the main reserves are provided below.

17.4 **Budget Risk Reserve** – This reserve provides a supplement to the Working Balance to cover any budget risks and to help finance any severance costs resulting from voluntary staffing reductions through implementing the Transformation Programme. In January 2012 the Cabinet agreed that all future revenue surpluses will be transferred into this reserve rather than the Invest-to-Save Reserve.

The table below shows the opening balance in the reserve as at 1st April 2013 and the currently approved or anticipated movements on the reserve:

Budget Risk Reserve

		£'000
	Opening balance 1 Apr 2013	610
	Contribution in: STWA consultation provision	30
	Transfer in from Insurance Reserve (para 17.9)	360
	c/fwd : Learning & Development - training	(11)
	c/fwd : Leisure Centres Advertising budgets	0
Cab 17 Apr	Grant to the Credit Union	(5)
	Pension strain – voluntary redundancies	(24)
	Pension strain – Environment restructure	(100)
	Land charges – potential claims	(44)
Cab 20 Dec	Land charges – additional costs (para. 5.3)	(13)
Cab 11/6/13	Regen restructure – redundancies (prev. £103k)	(60)
Cab 09/4/13	H & S restructure - redundancies	(8)
	Provision for Pavements Security DSO loss	(20)
	Governance restructure severance costs	**tbc**
	Amount required for deficit in 2013/14	**tbc**
Commitment	Re STWA tenants consultation exercise	(30)
	Settlement of the PPP Legal support	(25)

	account Transfer from the Risk Management Reserve 2013//14 budget deficit	 15 **tbc**
	Uncommitted Balance	**675**

The remaining balance should be maintained to help the Council through this difficult period of budget reductions e.g. to finance severance costs arising from voluntary staffing reductions.

17.5 **Invest to Save Reserve** – The purpose of this reserve has been clarified to ensure that only true invest-to-save type initiatives will be funded from this source. There will be a requirement for all such advances to be repaid into the reserve from efficiency savings made over a reasonable period of time, generally less than seven years. The idea is that the reserve will be replenished as repayments are made thereby enabling further investments to be made.

The table below shows the opening balance in the reserve as at 1st April 2013 and the currently approved or anticipated movements on the reserve:

Invest-to Save Reserve

		£'000
	Opening balance 1 Apr 2013	775
	Commitments b/fwd from previous years:	
Pre Apr '11	**c/fwd**: Leisure Options – phase 1	(40)
Cab 9 Oct '12	**c/fwd**: Democratic services, meetings system	(9)
Cab 9 Oct '12	**c/fwd**: Legal - case management system	(12)
	c/fwd: Community Infrastructure Levy	(6)
Cab/Emp Jan 12	Leisure Options – phase 2	(80)
Cab 9 Oct '12	Venues refurbishment	(108)
Cab 17 Jan'12	Holmebrook Valley Park drainage	(44)
Cab 19th June	Community Infrastructure Levy (cut by £7k)	(3)
Cab 19 June	Customer Service Strategy - capital	(106)
	Local Collective Agreement	(10)
	Car park improvements	(111)
	2013/14 Approvals:	
Cab 14 May 13	Voluntary sector relocation	(80)

Cab June 13	ICT disaster recovery Estimated repayments from efficiency savings	(58) 7
	Uncommitted Balance	**115**

The uncommitted balance is available to finance either revenue or capital growth requests which can demonstrate a 'pay back'.

17.6 **Service Improvement Reserve** – this is used to finance one-off type investments to support the delivery of the Council's priorities, where the aim is service improvement rather than a financial return. The table below shows the opening balance in the reserve at 1st April 2013 and the currently approved or anticipated movements on the reserve:

Service Improvement Reserve

		£'000
	Opening balance 1 Apr 2013	1,487
	<u>Commitments b/fwd from previous years</u>:	
Pre Apr '13	**c/fwd**: Learning & Development	(13)
	Recurring growth from 2010/11 in 2013/14	(77)
Cab 17 Jan'12	Holmebrook Valley Park drainage	(32)
Cab 19 June	Market Hall – capital £0.5m tfr'd to Cap Prog	-
Cab 22 May 12	Project Academy back-filling	(27)
Cab 31 July 12	Grit storage facility	(18)
Cab 31 July 12	Training on contract administration in 13/14	(2)
	ICT infrastructure (£110k with 1/3 from HRA)	(73)
Cab 9 Oct '12	Venues refurbishment	(51)
Cab 5 Mar 13	Car parking improvements	(15)
	Uncommitted Balance	**1,179**

17.7 **Property Repairs Fund** - established to even-out the peaks and troughs of property maintenance costs - services pay in a predetermined contribution each year which has been calculated to cover their property maintenance costs over a ten year period. The ten-year plan is reviewed annually and contributions adjusted to

reflect any significant changes. The estimated balance on this fund at March 2014 is £633k.

17.8 **Vehicle, Plant & Equipment Funds** - operate as a replacement reserve for major items of vehicle, plant, wheeled bins or equipment. Services pay in annual contributions spread over the estimated useful life of an asset so that when it falls due for replacement the funding is available. A review of the fund in 2012/13 identified that the contributions into the domestic wheeled bin replacements fund could be suspended for three years to reflect the increase in their expected life. The estimated balance on this fund at March 2014 is £862k.

17.9 **Insurance Fund (provision and reserve)** - the Council maintains this fund to cover insurance policy excesses and self-insured risks. A specialist insurance actuary reviewed the Fund in November 2013. The review recommended that the fund could be reduced. At the same time it was recommended that the Municipal Mutual Insurance Claw-back Provision be increased from £300k to £719k. The remaining surplus of £360k has been transferred into the Budget Risk Reserve.

17.10 **Appendix H** shows that the total of all reserves and provisions are forecast to reduce by £1.3m from £8.9m at the start of 2013/14 to £7.6m by the end of the financial year.

17.11 The reduction in the level of reserves by reducing the amount of cash available for investment has a direct impact on the revenue budget by reducing the amount of investment interest received. It is important that Members appreciate that the earmarked reserves are held for specific purposes. All fund balances will be reviewed again as part of the final accounts process.

18.0 <u>CONSULTATION</u>

18.1 The consultation meeting with the business ratepayers' representatives took place on 30th January 2014. Issues discussed included the changes to the business rates system, the small business rate scheme, the Councils budget forecasts and the council tax increase options.

18.2 Consultation meetings with representatives of Community Assemblies and the Citizens Panel took place on 2nd December 2013 and 8th January 2014. The first session was mainly taken up with a presentation of the Council's current priorities, projects and financial position. The second session focussed on the issue of the council tax increase; a freeze, a 2% increase or a £5 increase. The majority

supported going for the £5 increase if that was made available to the council, otherwise a tax freeze was the preferred option.

19.0 SCRUTINY

19.1 The Overview and Performance Scrutiny Forum has received regular budget updates throughout the year. The first draft budget report and an update on the Council Tax options were considered at their meetings on 19th December 2013 and 13th January 2014.

20.0 RISK AND SENSITIVITY ANALYSIS

20.1 The budget estimates are based on the best available information but inevitably there is a degree of risk and uncertainty in some of the assumptions made. The most significant risks and issues are described below with further information provided in **Appendix I**.

a) **Cuts in Government Grants** – this is a risk facing most public sector organisations. The Final Settlement for 2014/15 and the Provisional Settlement for 2015/16 were published on the 5th February and are expected to be approved by the House of Commons on the 12th February. The outlook beyond 2015/16 is difficult to predict, there will be further cuts but it is the scale of the cuts that is uncertain. It seems likely that the period of austerity will continue at least through to 2018. The medium term financial plan assumes a 'pessimistic' view with 10% cuts in 2016/17 and 2017/18, and 8% in 2018/19. A sensitivity analysis is provided in para. 15.3 showing the impact of a 'central' case and an 'optimistic' case on the forecast surpluses/deficits.

b) **Investment Interest** - The current Base Rate is 0.5% but there is little sign that the Monetary Policy Committee will start to increase base rates in the foreseeable future. The assumed gross rate of return on the Council's externally managed investment fund in 2014/15 is 0.67%. The estimate is based on information provided by the external fund manager. The fund manager uses a panel of economists and market experts to produce the forecasts. The estimated figures are, therefore, based on expert advice. For each 0.25% that rates actually deviate from the forecast the investment return will increase or decrease by approximately £50,000 (62% to the General Fund). The forecasts for future years assume a gradual increase in investment returns, to 1.1% in 2015/16 and 1.5% in the subsequent years but this will clearly be dependent on the pace of the economic recovery. Officers will continue to seek alternative investment instruments in an attempt to improve returns but it should always be remembered that the golden rule for local government investing is that security of capital is the

overriding consideration. Government regulations and CIPFA guidance make it clear that 'security' of capital is the primary consideration, followed by 'liquidity' and then 'yield'.

c) **Fees and charges** income – the severity and length of the current economic downturn could have a significant impact on the Council's income particularly from areas like car parking, leisure memberships, cultural events, planning fees, land charges, etc. The 2014/15 budget targets for the key income sources are shown in **Appendix F**. Car parking income, the largest income source will not meet its original budget target for 2013/14 so the base has been lowered for future years and a new pricing strategy developed. In the medium-term car parking income could be at risk when the Saltergate multi-storey and Holywell Cross Car Parks are closed to allow the Northern Gateway development scheme to progress. The Council will negotiate with the Developer to find ways of minimising the potential loss. Also, car parking income has come under a lot of scrutiny at a national level during the year. The initial focus tended to be on enforcement charges but parking charges generally were brought into the discussions. There is a risk that the Government might implement measures in the future to limit the amount of money councils can generate from car parking.

d) **Property rents** – the state of the economy also presents a risk to the Council's significant income from its extensive industrial, commercial and retail property holdings.

e) **HRA cost sharing** - under the self-financing arrangements it is important to be able to demonstrate that any recharges to the HRA are fair and reasonable. A review of the charging arrangements for grounds maintenance works is continuing and could result in a transfer of costs out of the HRA and into the General Fund.

f) **Staff pay awards** – In the Chancellor's Autumn Statement in December 2013 he announced plans to make public sector pay awards that average at 1 per cent. Local government pay awards, however, are outside of the Treasury's control as they are subject to free collective bargaining between the national employers and trade unions through the National Joint Council (NJC). After three successive years of a pay freeze an increase of 1% was announced for 2013/14. The budget forecast for 2014/15 and future years includes a provision of 1% for pay awards. Each 1% increase costs the General Fund £140k. Also, there is growing pressure, both locally and nationally, to implement the 'Living Wage'.

g) **Energy costs** – the gas and electricity budgets within the General Fund total £986k in 2014/15. The increases in future energy prices are very difficult to forecast. An allowance of 10% per annum has been made but each 5% variance from this provision equates to £45k per annum.

h) **Land Charges Income** – in August 2010 the Council ceased making charges for personal search fees and this has been reflected in the budget forecasts. An amount of money was earmarked within the Budget Risk Reserve as a provision to help meet any future liability related to back-dated claims for the period January 2005 to July 2010. The Council has settled one claim (£58k) and retained £44k in the Budget Risk Reserve as a provision for other claims.

i) **Housing Benefit costs not covered by subsidy** – the council has been disputing a number of claims for housing benefit from tenants in supported accommodation operated by a charitable organisation. Benefit is being claimed on rents that are significantly above the Rent Officer Assessment and therefore if the Council awarded full benefit it would be unable to claim government subsidy on the excess amount. The dispute has been referred to the Benefits Tribunal and we are hopeful that the case will be dropped. The provisional allowance of £0.5m has been left in the Budget Risk Assessment in **Appendix I** pending formal confirmation of the outcome.

j) **Insurance costs** – The Council was insured with the Municipal Mutual Insurance Company until 1993 when the Company went into administration. The Company is still dealing with claims, mainly employer's liability claims, related to the period of cover. The Scheme of Arrangement, however, allows the Company to claw back some or all of the claims paid since 1993 if a solvent run-off is not possible. The Company lost an appeal to the Supreme Court about the trigger date for employer liability insurance; the Court ruled that it is the insurer at the date of exposure that is responsible for disease or injury claims. The decision led to the triggering of the Scheme of Arrangement and the claw back provisions. The Council has been notified that its first claw back payment based on 15% of past settlements is £204k which must be paid by 14th February 2014. The Council has set aside a provision of £719k (para 17.09 above) to cover this and future claw back payments as the full extent of the Company's exposure to long-tail occupational disease claims unfolds.

k) **New Homes Bonus** Grant (NHB) – when the grant was introduced in 2013/14 there was a recognition within the Spending

Review 2010 that there would be insufficient funds allocated to cover the cumulative cost of the scheme and that in future years money would have to be transferred from the Formula Gant allocation (soon to be replaced by localised business rates) to make up any shortfall. The budget forecast includes a prudent assumption about future allocations of grant but assumes that all future allocations of grant will be used to support the revenue budget. Using the grant to support the core revenue budget does, however, create a financial risk due to (a) its volatility and (b) its uncertain future.

l) **Localisation of Business Rates** from April 2013 – the baseline starting point for 2013/14 is intended to ensure that no council is worse off than it would have been if the Formula Grant system continued. For future years the Council will share in any growth in income above its baseline level at a rate of 20% after the Levy payment but will also carry a 40% share of any reduction in income below the baseline up to the Safety Net Threshold (a maximum exposure of £225k in 2014/15). The Council, therefore, now shares the risk of changes to BR income due to new builds, demolition, exemptions and appeals, a risk that previously rested with the Government. The budget forecasts are based on a 'central' case which assumes growth of 0.25% per annum above inflation. The impact of a 'pessimistic' and 'optimistic' view on the budget forecast is shown in para. 15.3. In the longer term, the system is due to be 'reset' in 2020 and there is, therefore, a risk that some of the retained growth accumulated up to that point could then be lost if the 'tariff' is increased to reflect the higher tax base.

m) **Localising Support for Council Tax** from April 2013 – details of the new arrangements and the measures the Council has put in place to finance the local scheme are detailed in Section 7 above. Previously the national scheme was fully funded by the Government and the Government therefore carried the financial risks. In future, with a fixed grant allocation the Council, together with the other precepting bodies, carries the risk of the tax base reducing if the number of claimants increases and the risk that the losses on collection of council tax are greater than those assumed when the local scheme was agreed.

n) **Introduction of Universal Credit** – Universal Credit will replace all current means tested working age benefits, including housing benefit which is currently administered by local authorities. It will be introduced on a phased basis from October 2013 with the end date currently uncertain. The change could, therefore, have significant implications for benefits staff and systems. For the

General Fund the financial risks relate to the loss of the administration function, possible redundancy and/or contract penalties, residual costs, etc. There is insufficient information available at this time to be able to assess the likely financial implications. The medium term financial plan therefore assumes no net loss or gain from the changes. There is also an indirect risk for the Housing Revenue Account as rent arrears could increase when housing benefit is paid directly to and monthly in arrears to the affected tenants.

o) **Pension Costs** – The last review of the Pension Fund was undertaken in 2013 and set the revised employer contribution rates to apply for the three years commencing April 2014. The revised rates have been built into the medium term forecast. The next review is due in three years time i.e. to set the employer contribution rate to apply from April 2017 and a provision of £140k per annum has been included into the medium term forecast from this.

A review of the national Local Government Pension Scheme (LGPS) has taken place over recent years with the objective of reducing the amount required to be funded by tax payers in the future. A revised scheme will be introduced from April 2014, the main changes include:

- Revised employee contributions with those earning above £43,000 paying higher contributions.
- A reduction in benefits over the longer term by basing pension on the career average salary rather than final salary.
- Linking pension age to the state pension age.
- Accrued pension benefits up to March 2014 are to be protected.
- A more generous accrual rate, the rate at which annual benefits are earned, to 1/49th from the current rate of 1/60th.
- Defining a wider range of pay elements as pensionable.

Auto-enrolment from October 2013, also from October 2017 if a transitional delay is approved, could increase the employer contributions into the pension fund if the employees concerned decide to stay in the scheme once ‘auto enrolled’.

p) **Major Capital Schemes** - there are currently a number of major capital schemes that have been approved or are being developed, including for example the Northern Gateway Development, Queen’s Park Sports Centre and Venues improvements. The schemes carry financial risks in term of being able to finance the capital cost from grants, capital receipts or borrowing. There are also financial risks relating to the on-going revenue costs such as

generating the required level of income, financing any borrowing costs, future maintenance liabilities, etc.

q) **VAT** – the Council can only recover the VAT incurred on the provision of exempt activities, such as the letting of premises or educational/coaching services, if that VAT does not exceed a prescribed level (currently £300k). If the level is exceeded then none of the exempt VAT, not just the excess amount, can be reclaimed. Whilst the Council is currently comfortably below the 5% limit there is a risk that major capital expenditure in an area that includes exempt activities could cause the limit to be breached. Another long –running VAT issue relates to what is referred to as the "Isle of Wight Case" and concerns the issue of whether off-street parking charges should include VAT. The Council has submitted a protected claim to recover the VAT it has previously paid over to HMRC from car parking income pending the outcome of the IoW Case. The protected claim currently stands at £5.4m. Given the huge uncertainty surrounding this case the Council will continue to account for VAT and pay it over to HMRC and treat any refund, should it ever materialise, as a windfall receipt once it is certain.

21.0 BUSINESS RATE

21.1 Although the Council is responsible for the collection of business rates and retains only a proportion of the income, the rate multiplier is set by the Government. There are two rate multipliers which have been announced as;

- The 'small business' rate - this is based on the previous year's multiplier adjusted for RPI inflation in September of the previous year (2.6%). This gives a multiplier of 47.1p for 2014/15 (46.2p in 2013/14).
- The non-domestic rating multiplier – is the small business multiplier plus an adjustment to fund the estimated cost of the small business rate relief scheme. The supplement for 2014/15 is 0.9p giving a multiplier of 48.2p (47.1p in 2013/14).

21.2 In his Autumn statement in December 2013 the Chancellor announced a number of new reliefs to help businesses and the retail sector in particular, including:

- A further one year extension of the temporary increase in Small Business Rate Relief; and
- A 2% cap on the Small Business Rate Multiplier rather than the 3.2% increase that would be required if the normal index was applied (September 2013 Retail Price Index);

- A discount of up to £1,000 for retail premises including pubs, cafes and restaurants with a rateable value of up to £50,000 in 2014/15 and 2015/16 (see para 2.1.3 below).
- New occupiers of former retail premises which have been unoccupied for a year will receive a 50% discount for 18 months.
- Business will also be allowed to spread their rates payments over 12 months rather than 10.

21.3 The Chancellor of the Exchequer also announced in his Autumn Statement that the Government will provide a relief of up to £1,000 to all occupied retail premises with a rateable value of £50,000 or less in each of the years 2014-15 and 2015-16. DCLG guidance states that because the scheme is being introduced as a Section 47 relief Billing Authorities are required to adopt the scheme (even though the guidance says that we are 'expected' to award the relief, and it will be fully funded by the Government as a s.31 grant). It is, therefore, proposed that the Council adopts and implements the rates retail relief scheme with effect from 1st April 2014. It is also proposed that delegate authority be given to the Head of Finance to approve the reliefs under this scheme. A draft of the Policy is attached at **Appendix M**.

22.0 OTHER LOCAL COUNCIL TAXES

22.1 The special items to be added to the tax in **parished areas** are:

- **Staveley Town Council -** Band 'D' tax increased by 11.5% to £74.81 (£67.09 in 2013/14); &
- Brimington Parish Council – Band 'D' tax increased by 1.9% to £21.13 (£20.73 in 2013/14).

22.2 **Derbyshire County Council** has agreed to increase its council tax by 1.99% to £1,098.71(£1,077.22 in 2013/14).

22.3 **Derbyshire Police & Crime Commissioner** has agreed to increase its council tax by 1.96% to £170.22 (£166.95 in 2013/14).

22.4 **The Derbyshire** Fire and Rescue Authority has agreed to increase its council tax by 1.9% to £68.45 (£67.17 in 2013/14).

22.5 Details of the council taxes for each major preceptor and by each tax band will be calculated once all of the precepts are received and the table in **Appendix K** will be completed.

23.0 CALCULATION OF EXPENDITURE

23.1 The calculation of expenditure required under Section 32 of the Local Government Finance Act is shown at **Appendix J**.

24.0 LEGAL IMPLICATIONS

24.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. Before setting the level of the council tax the Council must have agreed a balanced budget, differentiated by services, which is sufficient to meet estimated revenue expenditure, levies, contingencies, any deficit estimated to be brought forward from previous years, and any amounts required to be transferred between funds. The council tax itself must be sufficient to cover the difference between the agreed budget less government grants credited to the income and expenditure account, and any other expenditure which must be met from the Collection Fund, less any surplus (or plus any deficit) brought forward from previous years.

25.0 CHIEF FINANCIAL OFFICER'S ASSURANCES

25.1 The Local Government Act 2003 (section 25) requires the Chief Financial Officer (CFO) to report on the robustness of estimates and the adequacy of financial reserves when the statutory calculations to determine the Council Tax are reported. The Head of Finance is the CFO for the Council being the officer responsible for the administration of the Council's financial affairs for purposes of Section 151 of the Local Government Act 1972.

25.2 **Robustness of estimates** - other than the risks highlighted elsewhere in this report, the Head of Finance is satisfied that the estimates are based on the best available information and that procedures are in place to ensure the estimates are accurate and reliable. Budget responsibility is devolved to service managers who are best placed to complete the budget working papers. The central Accountancy Team co-ordinates the budget process and check through all budget working papers. The Council’s procedures, experienced staff and approach to risk management should minimise the inherent risks and uncertainties in the forecasting process.

The achievement of the required budget savings, both the Transformation Programme assumed savings and the remaining deficits, present a huge challenge for the Council. The Council has a proven track record for delivering significant savings, for example;

- 2009/10 - savings of £1.0m were made to reduce the outturn deficit to £0.7m from the original £1.7m forecast whilst also managing new pressures which arose during the year as a result of the economic recession.
- 2010/11 – from an original forecast surplus of £282k to an outturn surplus of £491k.
- 2011/12 – from an original forecast deficit of £84k to an outturn surplus of £434k.
- 2012/13 – from an original deficit forecast of £870k to a revised deficit of £62k.
- 2013/14 - from an original deficit forecast of £868k to a revised deficit of £111k.

The Transformation Programme identifies the areas to be targeted and the approaches to be taken but the real challenge will be in delivering the savings within the required timescales. Robust management arrangements will have to be put in place for each of the projects within the Programme.

Budgets will continue to be monitored on a monthly basis throughout the year so that any required corrective action can be taken at the earliest opportunity and the medium term forecasts will be continually updated as part of that process. The Council has a good track record of coming in under budget at the end of the financial year.

25.3 **Level of reserves** - details of the Council's reserves are provided in Section 12 above and in **Appendix H**. The Council previously agreed that the minimum level of General Fund working balance for Chesterfield was £1.75 million. The updated Budget Risk and Sensitivity Analysis in **Appendix I** suggests that the balance should now be retained at £1.75m to allow for the new risks relating to localised business rates and council tax support.

In addition to the Working Balance the Council maintains a Budget Risk Reserve which provides another buffer for any unforeseen events. The balance in the Budget Risk Reserve as at the end of March 2014 is estimated to be £674k. The uncommitted balances in the Invest to Save Reserve and the Service Improvement Reserve could also be called upon to support the revenue budget if required. This combination of reserves could be used to help support future budgets and provide investment in order to secure future efficiencies. Indeed, the reserves have been used quite extensively over recent years to invest in services in order to deliver longer term efficiency savings. It is important to remember, however, that reserves can only be used once and they, therefore, can only provide a short term solution to any funding shortfall.

The reserves are considered adequate for 2014/15, but the position in future years will depend on the Council's success in delivering the required budget savings.

The Council also maintains a number of earmarked reserves for financing capital expenditure and equalising expenditure between years. The balances in these other reserves are considered adequate for the medium term.

HRA - The Council has set a higher minimum working balance of £3.0m for its Housing Revenue Account to recognise the increased risks it carries under the new self-financing arrangements from April 2012. The HRA budget forecasts for the next three years show that this can be achieved.

26.0 CONCLUSIONS

26.1 2013/14 - The budget at the start of the financial year was always going to be challenging given that the original budget forecast showed a deficit of £0.9m for the financial year. The revised budget forecast shows an improved position with a deficit of £111k. The turnaround is as a consequence of a numerous savings spread across a wide range of services (**Appendix B**). These savings also helped to offset some budget increases (e.g. arising from a shortfall in car parking income).

26.2 2014/15 – The Council faces the loss of the Council Tax Support Transition Grant (£23k) and a £1m reduction in its Settlement Funding Assessment. On the positive side, however, it will receive an increase in the amount of Business Rates income retained, an increase of £354k on the 2013/14 revised position. The options on Council Tax are again limited. The Government's tax freeze incentive grant is, however, more attractive than in previous years. If the Council freezes the Council Tax it will secure a grant equivalent to a 1.2% (para. 12.5a) increase and the grant will be base-lined into the future funding settlements. A 1.99% increase will yield £79k, which is £31k more than the Tax Freeze Grant option. Whilst there are strong financial arguments for opting for a 1.99% increase there are political issues to consider in terms of the impact on the taxpayer and the possible negative publicity. Regardless of which option is chosen, the Council will still be required to deliver the significant package of planned savings as outlined in para. 16.2 above to avoid a budget deficit in 2014/15. This will present a significant challenge, especially given the continuing economic downturn. Although the Council has a good track record of delivering savings, the challenge of implementing savings on this scale and within such a tight timescale cannot be underestimated. The Council does have reserves which could be used to bridge a short term deficit but, given that the deficit forecasts are increasing year-on-year and the fact that

reserves can only be used once, the aim must be to find the required savings within the financial year. After many years of funding cuts finding savings is becoming increasingly more difficult.

26.3 Medium term – The medium-term outlook gets progressively worse with further cuts in Government funding. There is an expectation that Councils will be able to increase their Business Rates tax base to boost their income. Under the current retention scheme, however, the Council gets to keep only 20% of any increase in the income above the baseline. If the Council is able to implement the planned budget savings of £1.7m by 2015/16, and providing they are all of a recurring nature, this will still leave deficits in the later years of the Medium Term Financial Plan as funding continues to be reduced. Effective arrangements will have to be put in place to ensure that not only are the planned savings of £0.8m in 2014/15 and a further £0.9m in 2015/16 delivered but also that work continues to identify and implement further savings in readiness for later years. Over the five-year period of the Medium Term Financial Plan cumulative savings of £2.8m must be delivered.

26.4 The medium term forecast shows that the Council continues to face significant financial challenges in the years ahead and all the indications are that this is likely continue over the longer term, at least through to 2018. In a series of recent reports the Local Government Association has continued to warn that discretionary services will come under threat over the next few years due to funding reductions. Also, the National Audit Office and others have highlighted the risk of financial failures in local government due to the combination of funding cuts and increasing demand for statutory services. Whilst the Council has a good track record of delivering budget savings, the task is getting increasingly difficult. It is evident that some difficult spending decisions are going to have to be made and that the Council will no longer be able to continue to provide the breadth and quality of services that it currently offers.

26.5 The new funding regime places an increasing reliance on growing the income from Business Rates. Whilst this presents an opportunity, the retention scheme also exposes the Council to a serious budget risk if the income declines. To recognise this and other risks it is recommended that the Working Balance be maintained at £1.75m.

27.0 ALTERNATIVE RECOMMENDATIONS

27.1 To propose alternative budget allocations and/or council tax level.

28.0 RECOMMENDATIONS

Cabinet recommended to Council:

28.1 That the revised budget for 2013/14 be approved (Section 5).

28.2 That the Local Government Finance Settlement be noted (Section 8).

28.3 That the Collection Fund and the Tax Base forecasts be noted (Section 12).

28.4 That the Portfolio budgets (Attachment) and the overall revenue budget summary for 2014/15 (Appendix A) be approved.

28.5 That the Council accepts the Government's offer of a Council Tax Freeze Grant for 2014/15.

28.6 That the budget forecasts for 2014/15 and 2015/16 (Section 14) and the strategy for addressing the projected deficits (Section 15) ne noted.

28.7 That the estimates of reserves, including maintaining the General Working Balance at £1.75m, be approved (Section 17).

28.8 That the budget risks and sensitivity analysis be noted (Section 20).

28.9 That the Government's Retail Relief Scheme as a local scheme and authority be delegated to the Head of Finance to approve the reliefs (para. 21.3 and Appendix M).

28.10 That the 2014/15 Council Tax Requirement and financing be approved (Appendix J).

28.11 That the Chief Financial Officer's assurances be noted (Section 25).

28.12 That the Learning and Development budget carry forward request be approved (Appendix L).

29.0 REASONS FOR RECOMMENDATIONS

29.1 In order to meet the statutory requirements relating to setting a budget and the council tax.

H. BOWEN	**B. DAWSON**
CHIEF EXECUTIVE	**HEAD OF FINANCE**

Further information on this report can be obtained from
Barry Dawson, Head of Finance (ext. 5451)

APPENDICES:

Appendix A – General Fund Revenue Budget Summary

Appendix A1 – Savings Identified at Budget Workshops

Appendix B – 2013/14 Budget Variances – Original to Revised

Appendix C – Financial Strategy

Appendix D – Budget Strategy

Appendix E – Fees & Charges Policy

Appendix F – Analysis of Fees & Charges Income

Appendix G – Details of Revenue Grants

Appendix H – Reserves & Balances

Appendix I – Budget Risks & Sensitivity Analysis

Appendix J – Section 32 Statement

Appendix K – Council Taxes

Appendix L – Learning & Development Carry Forward Request

Appendix M – Business Rates Retail Relief Policy

Additional reports – Budget Book for full Council