

FOR PUBLICATION

GENERAL FUND REVENUE BUDGET SUMMARY (R000)

MEETING: 1. CABINET
2. LEADER

DATE: 1. 16 DECEMBER 2014
2. 9 DECEMBER 2014

REPORT BY: CHIEF EXECUTIVE AND
CHIEF FINANCE OFFICER

WARD: ALL
COMMUNITY FORUM: ALL
NON KEY DECISION 457
REF:

FOR PUBLICATION

Background papers - Working papers in Accountancy Services

1.0 PURPOSE OF REPORT

1.1 To provide the Cabinet with an update on the development of the General Fund Revenue Budget for 2015/16 and future years, and to provide an update on the actions currently being taken to address the forecast budget deficits.

2.0 RECOMMENDATIONS

2.1 To note the updated budget projections for 2014/15 and later years (Appendix A).

2.2 That work continues to refine the draft estimates and to identify budget saving proposals.

3.0 BACKGROUND

- 3.1 The Council's Budget Strategy is to set a sustainable and affordable budget over the medium term. The budget forecasts included in this report cover the current and five future financial years.
- 3.2 The portfolio budget reports are included elsewhere on the agenda. This report brings them together with the non-portfolio items to produce an overall summary (**Appendix A**) which shows the latest surplus/deficit forecast for each financial year. The budgets are a first draft as the Local Government Provisional Finance Settlement has not yet been announced and the Business Rates tax base and income forecasts have not yet been done.
- 3.3 In the last two years the Provisional Settlement, which includes details of the Government funding allocations, were announced in mid-December, some weeks later than had been the norm previously. This year the announcement will be late again due to the Autumn Statement not being announced until the 3rd December. The announcement is expected shortly but no fixed date has been given. The delay is a major concern as once the Settlement is announced there will only be a few weeks in which to address any new issues that might arise from it.
- 3.4 The Chancellor's **Autumn Statement** on 3rd December included a number of proposals that will impact on local authorities, including:
- No further cuts to Local Government funding for 2015/16 were announced. There could still, however, be funding changes announced as part of the Provisional Grant Settlement. Further cuts are likely to be needed to fund an anticipated deficit on the Business Rates Safety Net Scheme.
 - Significant budget cuts are likely after 2015/16 as the Chancellor seeks to achieve a balanced budget largely through cutting spending rather than increasing taxes. With education, health and some other services likely to be protected the cuts falling on the unprotected services, such as local government, will then be disproportionately higher.
 - There was no mention made about the referendum limit for council tax increases in 2015/16. It seems likely that the regime for 2014/15 will be continued, with a tax freeze grant option equivalent to 1% and a referendum limit of 1.99%.
 - A number of changes to business rate discounts were announced, including a 2 per cent capped increase for 2015/16 to help

businesses generally and an increase in retail reliefs to boost high streets. Local authorities will be refunded for the loss in receipts to their Collection Funds as a result of these measures and will benefit from the reduced rates payable on their own properties.

- The expected announcement of a devolution deal for the Sheffield City Region was not included in the Statement.

4.0 **BUDGET ASSUMPTIONS & FORECASTS**

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

	14/15 Orig	2015/16	2016/17	2017/18	18/19 >
Pay inflation	1%	1.2%	1%	1%	1%
Energy inflation	10%	7.5%	7.5%	7.5%	7.5%
Business rates increase	2%	3.0%	3.0%	3.0%	3.0%
Vacant posts allowance	£150k	£150k	£150k	£150k	£150k
Council tax increase / freeze grant	Freeze/ 1% grant	Freeze/ 1% grant	1.99%	1.99%	1.99%
Settlement Funding	-13.8%	-16.2%	-14.5%	-13.7%	-6.5%
Fees & Charges Increase	+3%	+3%	+3%	+3%	+3%
National Insurance			+3.4% = 33% increase		
Investment returns (gross)	0.67% (revised to 0.8%)	0.85%	1.43%	1.70%	1.70%

4.2 The updated Medium Term Budget Forecast is shown in **Appendix A**. It must be pointed out that many of the figures in the Financing section (the third page of the appendix) are provisional estimates. Unfortunately, some of these figures (e.g. Settlement Funding, Retained Business Rates Growth and Pooling) are **significant sums which could be subject to wide variations**. At this stage it has not been possible to provide accurate forecasts for these due to:

- a) The Provisional Grant Settlement not being announced;
- b) The need to assess the impact of the Business Rates changes announced in the Autumn Statement; and
- c) The ongoing uncertainties caused by outstanding Business Rates appeals which in some cases can be back dated for many years, to 2005 or 2010. The Autumn Statement introduced time limits on back-dating but, because back dated claims can still be submitted up until

the 31st March 2015, there is a significant risk that there will be a surge in claims in the run up to the cut-off date.

The forecasts at this stage, therefore, come with a very significant health warning. The forecasts will be updated over the next few weeks as further information becomes available and any significant changes reported to the Cabinet at the earliest opportunity so that any corrective action can be considered before the final budget report is submitted to the full Council in February.

- 4.3 The table below provides a summary of how the budget forecasts have moved throughout the year:

Forecast (Surplus) / Deficit			
	2014/15 £'000	2015/16 £'000	2016/17 £'000
Original – Feb '14	(244)	(450)	279
Updated – July '14	301	471	852
Q2 Update – Sept '14	(9)	(350)	104
Latest – revised budget	174	138	613

Change – Original to July	545	921	573
Change – July to Sept	(310)	(821)	(748)
Change – Sept to Revised	183	488	509
Change – Original to Revised	418	588	334

5.0 2014/15 REVISED BUDGET

- 5.1 At the start of the year, there was a forecast budget surplus of £244k after assuming savings of £824k. The first budget monitoring report, after four months showed a deficit forecast of £301k, this changed again at the half-year stage to show a surplus of £9k. Since then the detailed budget preparation exercise has been completed. The latest budget forecast, described as the 'revised' budget in **Appendix A**, shows a deficit of **£174k**.
- 5.2 The main reasons for the change in the forecast since the Quarter 2 monitoring report include:
- An overspend of £120k on the Sport Centres' staffing budgets;
 - Other savings targets of £122k not being achieved.
- 5.3 The main variances from the original to revised budgets are included in the individual Portfolio reports. The key variances to note in terms of the non-portfolio section of the budget include:

- The reduction in the amount delivered against the original Budget Saving Proposal. Some of the savings have moved into the Portfolio budgets but, as previously reported, many of the big ticket items (i.e. Voluntary Redundancies, Terms and Conditions Review and Contract Renegotiations) and some other lower value ones (e.g. CCTV review, Venture House Rents) have not been achieved;
- The increase in the net credit from Interest and Capital Charges (£362k) is offset by an increase in capital charges made to Portfolios (£388k).
- The £249k contribution from the Budget Risk Reserve is to pay for the severance costs and carry forwards (£67k) which have been charged into the Portfolio budgets.
- At this stage no changes have been assumed to the Retained Business Rates income but this could easily change once the impact of settled and outstanding appeals has been assessed.

5.4 In the remaining few months of the financial year every effort will be made to eliminate the forecast deficit. Also, in order to avoid any 'surprises' at the end of the year, budget holders have been instructed to continually monitor their budgets and report any changes to budgets so that they can be included in the final budget report which will go to the Cabinet in February.

6.0 BUDGET FORECAST 2015/16

6.1 The forecast for 2015/16 in **Appendix A** shows a deficit of **£138k** but this is after assumed savings of **£825k** and using the full amount of the estimated New Homes Bonus allocation (£628k) to support the budget. A breakdown of the revised and the previous savings assumptions are included in **Appendices B1** and **B2** respectively. The savings proposals will have to be subjected to a rigorous risk assessment before they are included in the final budget report.

6.2 A major element of the budget, the Government Funding Settlement has not yet been confirmed but the expectation is that it will not change significantly from that announced as part of last year's settlement. The Business Rates income figures are also provisional at this stage and could be subject to considerable variance depending on a review of outstanding appeals, growth and pooling implications. The assumptions made at this stage include:

- A cut in general Government funding target to £5.3m (RSG £2.2m + Business Rates Target £3.1m). This represents a reduction of £1.0m or 16% on the 2014/15 position.
- Business rates income of £3.8m i.e. £0.7m above the target plus a £260k gain from Pooling;
- An Efficiency Support Grant allocation of £232k which was provisionally announced last year but has not yet been confirmed.
- A Council Tax freeze with an assumed Tax Freeze grant equivalent to a 1% increase. The final decision on which option to take will be made by the full Council in February.
- A Tax Base of 27,782 Band 'D' equivalent properties, which represents an increase of 318 on the current year.

6.3 Once again, the challenge for 2015/16 will be to deliver the savings targets included in the budget and to develop new proposals to fill any shortfalls and in readiness for tackling the future years' deficits.

7.0 MEDIUM TERM FORECASTS

- 7.1 The draft estimates in **Appendix A** assume cuts in the Funding Settlement of 14.5% in 2016/17, 13.7% in 2017/18 and 6.5% in subsequent years. Retained business rate income is forecast to grow to £3.9m in 2016/17 and £4.1m in 2017/18, £0.8m above the target in both years. The assumption on council tax increases in future years is for 1.99% in each year.
- 7.2 A significant change which has been included in the forecast is the 3.4% that has been added to the National Insurance contribution rates following the introduction of the Single Tier State Pension in April 2016, this is equivalent to a 33% increase.
- 7.3 The latest forecast deficits are £0.6m in 2016/17 and £1.0m in 2017/18, this after assumed savings of £1.0m in each year and the continued use of New Homes Bonus Grant to support the budget.
- 7.4 The forecasts will be updated when the grant settlement figures are announced and as other variances are identified. The scale of the forecast deficits is such that further significant savings will have to be found in future years.

8.0 RESERVES

8.1 The General Working Balance was increased from £1.5m to £1.75m in the last financial year to reflect the financial risks which transferred to the Council as a result of the localisation of business rates and council tax support. In addition to the General Working Balance the Council maintains a number of other reserves. Many of the reserves are earmarked and committed for specific purposes, such as property repairs and vehicle & plant replacements. There are three major reserves where the Council has wider discretion on how they are used – the Budget Risk Reserve, the Invest to Save Reserve and the Service Improvement Reserve.

8.2 **Budget Risk Reserve** – this reserve is used to supplement the Working Balance. The table below shows the opening balance in the reserve as at 1st April 2014 and the currently approved or anticipated movements on the reserve:

Table – Budget Risk Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st Apr 2014	1,000	
<u>Less Approved Commitments:</u>		
STWA tenants consultation exercise	(30)	
Land Charges claims	(44)	
Learning & Development - training	(32)	
Governance restructure severance costs	(30)	
2013/14 carry forward requests	(36)	
CMT restructure – severance costs	(68)	
VR/VER's approved to date	(53)	
Uncommitted Balance	677	

The remaining balance could be used to help the Council through this difficult period of budget reductions e.g. to finance severance costs arising from voluntary redundancies, etc.

8.3 **Invest to Save Reserve** – The reserve is used to finance either revenue or capital growth requests which can demonstrate a 'pay back'. The table below shows the opening balance in the reserve as at 1st April 2014 and the currently approved or anticipated movements on the reserve:

Table - Invest-to Save Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st Apr 2014	393	
<u>Less Approved Commitments:</u>		
Venues refurbishment	(90)	
Holmebrook Valley Park drainage	(21)	
Community Infrastructure Levy	(5)	
Customer Service Strategy - capital	(105)	
Local Collective Agreement	(10)	
Car park improvements	(111)	
CMT re-structure – external advice	(25)	
Repayments into the fund	-	
Venues – central booking office	(23)	
Uncommitted Balance c/fwd	3	

8.4 **Service Improvement Reserve** – The table below shows the opening balance in the reserve at 1st April 2014 and the currently approved or anticipated movements on the reserve:

Table - Service Improvement Reserve		
	Updated Forecast £'000	
Balance b/fwd 1st Apr 2014	1,176	
<u>Less Approved Commitments:</u>		
Project Academy (balance)	(6)	
Grit storage facility	(5)	
Venues refurbishment	(20)	
Car parking improvements	(15)	
Project Academy	(60)	
Linacre Master Planning	(67)	
Waterside – legal costs	(40)	
TPIC/DIC telephony system	(204)	
Northern Gateway – tbc by Council 17 th Dec.	(100)	tbc
Uncommitted Balance	659	

8.5 Given the pressure on the Council's budgets and the need to maintain reserves for future investment in transformation projects the Cabinet should regularly review the commitments against the three

major reserves above. A review of all of the Council's other reserves and provisions will be included in the final budget report.

9.0 CONCLUSIONS & NEXT STEPS

- 9.1 This report presents the first draft of the budget for 2015/16 but there are still some major elements of the budget still to be confirmed and other budget variances could be identified during the coming weeks. The latest forecast shows deficits in each financial year, increasing by approximately £0.4m each year as the cuts in funding continue.
- 9.2 The full Council will approve the final budget and Council Tax for 2015/16 at its meeting on 26th February. The final budget report to the Cabinet will, therefore, be considered on the 17th February. In the meantime, the budget forecasts will be updated as announcements on the Local Government Finance Settlement are made and as Business Rates forecasts are developed. The Budget Workshop sessions for Executive Members and the Corporate Management Team will continue to meet in the run-up to setting the budget in order to consider the updated forecasts and identify further savings proposals for inclusion in the final budget.

10.0 RISK MANAGEMENT

- 10.1 There are a number of significant risks inherent in any budget forecasting exercise and the risks increase as the period covered increases. The major budget risks at the moment include:
- The final grant settlement for 2015/16 and future years.
 - The uncertainty about the timing and value of outstanding Business Rate appeals, some potentially going back a number of years. This presents a major risk to the forecasts of income from business rates.
 - The medium forecast assumes that the full amount of the estimated New Homes Bonus allocations will be used to support the budget. This could be a risky strategy as not only are future years' allocations difficult to predict but there is also risk that the scheme could be radically changed or terminated, especially if there is a change of Government following the General Election in May 2015.
 - Achieving income targets for rents, fees, charges and interest.
 - Delivering the required budget savings on time and to the value required. It is important that a rigorous risk assessment is

undertaken for each saving proposals before they are included in the final budget report.

- Holiday pay entitlement on overtime.
- The introduction of Universal Credit – the pilot scheme from February 2015 and full implementation at a future date. There are unknowns in terms of the extent, timing and funding of these changes.
- Retender of the Waste Collection contract in 2018, a provisional sum has been built into the forecasts.

These and other financial risks will be evaluated more fully in the Budget Risk & Sensitivity Analysis, which will be included in the final budget report in February.

11.0 LEGAL CONSIDERATIONS

- 11.1 It would be unlawful for the Council to set a deficit budget. Section 33 of the Local Government Finance Act 1992 requires the Council to set a balanced budget.

12.0 EQUALITIES IMPACT ASSESSMENT (EIA)

- 12.1 The budget process and forecasts produced do not require an EIA but any decisions to vary budgets and service provision later in the process might well require EIA's specific to those options.

13.0 RESOURCE IMPLICATIONS

- 13.1 This report provides details of the revised budget for 2014/15, the first draft budget for 2015/16 and updated forecasts for future years.

14.0 RECOMMENDATIONS

- 14.1 To note the updated budget projections for 2014/15 and later years (Appendix A).
- 14.2 That work continues to refine the draft estimates and to identify budget saving proposals.

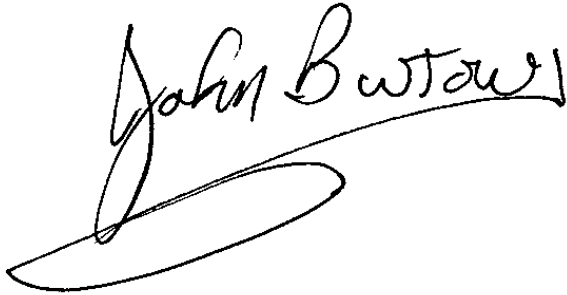
15.0 REASONS FOR RECOMMENDATIONS

15.1 To keep Members informed on the development of the budget proposals for 2015/16 and to provide an update on the medium term financial forecasts.

H. BOWEN
CHIEF EXECUTIVE

B. DAWSON
CHIEF FINANCE OFFICER

Officer recommendation supported

A handwritten signature in black ink that reads "John Bowen". The signature is written in a cursive style and is positioned above a large, horizontal, oval-shaped flourish.

Signed
Date 10.12.14

Executive Member

Consultee Executive Member and/or Support Members' Comments

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