

FOR PUBLICATION

2015/16 BUDGET AND MEDIUM TERM FINANCIAL PLAN – R090R

MEETING: COUNCIL
CABINET
LEADER IN CONSULTATION WITH THE
DEPUTY LEADER

DATE: 26 FEBRUARY 2015
17 FEBRUARY 2015
10 FEBRUARY 2015

REPORT BY: CHIEF EXECUTIVE &
CHIEF FINANCE OFFICER

WARD: ALL

COMMUNITY
ASSEMBLY: ALL

KEY DECISION
REFERENCE: 491

FOR PUBLICATION

1.0 PURPOSE OF REPORT

1.1 To consider the draft General Fund budget report and to make recommendations to the full Council on the budget allocations and council tax level for 2015/16.

2.0 RECOMMENDATIONS

2.1 Cabinet recommends to Council that it:

2.1.1 Approves the revised budget for 2014/15 (Section 5).

2.1.2 Notes the Local Government Finance Settlement (Section 7).

2.1.3 Notes the Collection Fund and the Tax Base forecasts (Section 11).

2.1.4 Approves the Portfolio budgets and the overall revenue budget summary for 2015/16 (Appendix A).

- 2.1.5 Approves the Cabinet's proposed Council Tax for 2015/16.
- 2.1.6 Approves the Cabinet's recommendations on the growth requests (para 13.6).
- 2.1.7 Notes the budget forecasts for 2015/16 and 2016/17 (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).
- 2.1.8 Approves the estimates of reserves including reducing the General Working Balance to £1.5m after applying £250k in 2015/16 to help finance the Council's share of the Business Rates deficit (Section 16).
- 2.1.9 Notes the budget risks and sensitivity analysis (Section 19).
- 2.1.10 Adopts the Government's Retail Relief and extended Transitional Relief schemes as local schemes (para. 20.2 and 20.3).
- 2.1.11 Approves the 2015/16 Council Tax Requirement and financing (Appendix J).
- 2.1.12 Notes the Chief Financial Officer's assurances (Section 24).

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, HRA Rent Setting, HRA Capital Programme, General Fund Capital Programme and Treasury Management reports.
- 3.2 The Council's Budget Strategy (**Appendix C**) 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. The Government, is therefore, able to regulate a large proportion of the resources

available to the Council through the grants it provides and by placing restrictions on Council Tax increases.

- 3.4 At a national level the Government is committed to balancing the public finances through austerity measures which will most likely lead to severe cuts in the funding for local government over the next few years. The Chancellor's Autumn Statement in December 2014 indicated that the cuts in public expenditure are likely to continue through to at least 2018 and included a bleak warning that "to deliver the necessary reductions in spending, the government will continue to pursue an ambitious package of efficiency and reform in the next parliament". The make-up of the next parliament will of course be determined by the General Election in May, but it is clear that whoever is in control the period of austerity will continue. If protection continues to be given to the NHS, education, etc. the "unprotected" departments will bear a disproportionate share of the cuts required.
- 3.5 Warnings about the state of local government finance are coming from various sources:
- A survey by the Local Government Association in 2014 found that 60 per cent of councils said that they were considering stopping at least some services in 2015 because efficiency savings are fast running out;
 - The accountants, Grant Thornton, have predicted that 2016 will be a tipping point for some councils;
 - Margaret Hodge, the Chair of the Public Accounts Committee, recently said "Councils with the greatest spending needs, the most deprived authorities, have been receiving the largest reductions. Further cuts could not just undermine the entire viability of most optional services, but might threaten some statutory services in these areas."
- 3.6 The Local Government Finance Review introduced major changes to the funding arrangements for Local Government from April 2013. The continuing late announcement of funding settlements and the complexities of the Business Rate Retention scheme have made the budget setting process very difficult again this year.
- 3.7 The Council Tax must be set at the Council meeting on 26 February, which means that the Cabinet must now finalise its proposals for achieving a balanced budget.

4.0 POLICY & FINANCIAL PLANNING FRAMEWORK

- 4.1 A copy of the Council's Financial Strategy is attached at **Appendix D**. Its overall aim is to establish a framework for aligning the revenue and capital spending proposals with the Council's strategic priorities. This report covers the application of the strategy for the next five years. The Medium Term Financial Plan (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. The Corporate Plan has been developed in tandem with the preparation of the Medium Term Financial Plan and both plans will be included on the same agendas for the Council and Cabinet meetings.

5.0 REVISED BUDGET 2014/15

- 5.1 The Council approved the original budget for 2014/15 on 27 February 2014. The original budget allowed for a reduction in General Government Grant (Settlement Funding) of £1.0 million but an increase in retained Business Rates of £0.7 million. The Council Tax was frozen at £144.89 for a Band 'D' property. After allowing for planned savings of £591k this produced a forecast net surplus of £224k.
- 5.2 2014/15 has proved a difficult year in terms of budget management. There have been many significant budget variances, both increases and decreases. Budget monitoring reports were presented to the Cabinet and full Council during the year and the position changed quite significantly at each stage. The table below provides a summary of the net forecast at each reporting stage and a commentary on the key reasons for the changes:

Table – 2014/15 Surplus / (Deficit) Forecasts Through The Year			
Date	Net surplus / (deficit)	Change on previous	Key Changes
Feb 14 – approved budget	244		
July '14 – to end of month 4	(301)	(545)	Car parking income forecast revised down (-£100k); PPP pensions cost (-£250k); Abortive costs QPSC (-£50k); Base budget corrections (-£89k). Other variances (-£56k)
Sept – end of quarter 2	9	310	Reduce previous estimate of PPP pensions (+£250k) and car parking income (+51k). Net all other (+£9k)
Dec'14 – revised budget	(174)	(183)	Reduction to savings targets (£-122k) and Staveley Healthy Living Centre (-£93k); net of all other (+£32k)
Feb'14 – this final budget report	40	214	Car parking income improved (+£50k); CCTV savings (+£25k); Planning Fee income up (+£30k); Innovation Centre rents up (+£32k); reduced Business Rates levy (+£47k); net of all other (+£30k)

Revised budgets for 2014/15 have now been prepared and were reported to the Cabinet on the 16th December as part of the first draft budget report. Full details of variances on the portfolio budgets were included in the reports to the Cabinet on the 16th December. Since then further work has been undertaken through budget monitoring to identify other possible variances for inclusion in the final budget report. The updated revised budget forecast for 2014/15 in **Appendix A** shows a surplus of £40k.

5.3 Every effort will be made through strict budgetary control to achieve and maximise the surplus by the end of the financial year. The final surplus or deficit for the year will be transferred to the Budget Risk Reserve.

6.0 2015/16 FUNDING SOURCES

6.1 Significant changes to the way in which local government is funded were introduced in April 2013 so 2015/16 will be the third 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 transfers more risk to local authorities. The most significant changes relate to the amount of Business Rates income retained through the retention scheme and the impact on Council Tax income as a result of the Localisation of Council Tax Support. At the same time the Government's austerity measures have resulted in significant cuts in Government funding. The impact of these changes and the other major income sources available to the Council are described in more detail below.

7.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 7.1 The Provisional Settlement was announced late again this year, on the 18 December 2014. Details of the Final Settlement were published on the 3 February and are to be approved by the House of Commons on the 10 February.
- 7.2 The Settlement covers one financial year only, 2015/16. Future settlements will be determined by the next Comprehensive Spending Review which will take place after the General Election in May 2015.
- 7.4 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.

	Bus. Rate Baseline Funding £'000	Revenue Support Grant £'000	2015/16 Total £'000	2014/15 Total – incl rolled in* £'000
Lower Tier Funding	2,980	2,163	5,143	6,153
<u>Rolled-in grants:</u>				
Tax Freeze Grant re 2012/13	47	65	112	113
Tax Freeze Grant re 2014/15	-	48	48	*48
Efficiency Support Grant - base	-	39	39	*39
Homelessness Prevention Grant	35	48	83	84
Returned funding	-	-	-	9
Total – Settlement Funding	3,062	2,363	5,425	6,446

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.

7.5 The table below compares the **Settlement Funding** for the four financial years 2013/14 to 2016/17. The cumulative reduction over the period is £2.7m or 37%.

Start Up Funding Assessment & Funding				
	'Adjusted' 2013/14 £'000	2014/15 Final £'000	2015/16 Final £'000	2016/17 Estimate £'000
<u>Funding Assessment:</u>				
Lower Tier Funding	6,323	6,153	5,143	
<u>Specific Grants rolled-in:</u>				
Tax Freeze Grant re 2012/13	113	113	112	
Tax Freeze Grant re 2014/15	-	48	48	
Efficiency Support Grant	-	39	39	
Council Tax Support Grant	856	-	-	
Homelessness Prevention Grant	85	84	83	
Returned funding		9	-	
Start Up Funding Assessment	7,377	6,446	5,425	4,658
<u>Assessment Funded By:</u>				
Revenue Support Grant	4,430	3,442	2,363	1,520
BR Baseline Need	2,947	3,004	3,062	3,138
SUFA Funding	7,377	6,446	5,425	4,658
<u>Year on year change:</u>				
Amount		-£931k	-£1,021k	-£767k
%		-13%	-16%	-14%
<u>Cumulative change:</u>				
Amount		-£931k	-£1,952k	-£2,719k
%		-13%	-26%	-37%

7.6 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	Cumulativ e
2010/11	Adjusted*	9,576		
2011/12	Final	8,425	£1.1m / 12%	£1.1m / 12%
2012/13	Final	7,540	£0.9m / 11%	£2.0m / 21%
2013/14	Final	7,179	£0.4m / 5%	£2.4m / 25%
2014/15	Final	6,153	£1.0m / 14%	£3.4m / 36%
2015/16	Provisional	5,143	£1.0m / 16%	£4.4m / 46%

* Please note that in order to produce broadly comparable figures:

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) 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 a separately identifiable grant. The grant figures for the years before 2014/15 have, therefore, had £856k added to them as an estimate for Council Tax Support grant in order to provide broadly comparable figures.

7.6 Revenue Support Grant (**RSG**) – The RSG system continues to provide a mechanism for the Government to retain control over, and reduce the level of, local government funding. The actual and forecast levels of RSG in the Financing Section of **Appendix A**, show that RSG is being cut dramatically each financial year and will be reduced to a relatively minor sum by 2020. If the current funding system continues then the Council will become increasingly reliant on retained Business Rates income.

8.0 BUSINESS RATES RETENTION

8.1 At the start of the scheme (April 2013) 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 (9% to the County Council and 1% to the Fire Authority) and the Council (40%). The Council's share was then compared to its BR Baseline Funding level for 2013/14 (£2,947k) and the excess was to be paid to the Government as a 'tariff' (£10,635k).

Calculation of Tariff at the start of the BR system (2013/14)		
	Share of Total %	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 Less BR Baseline Funding Level		13,582 (2,947)
Tariff		10,635

8.2 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). The actual increases, however, have been capped as follows:

- 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; &
- In the 2014 Autumn Statement the Chancellor announced that for 2015/16 the increase in the SBRM is to be capped at 2% rather than the 2.3% RPI rate.

The SBRM has, therefore, increased from 47.1p to 48.0p in 2015/16 which, because of the rounding to one decimal place, equates to a 1.9% increase. The Council's tariff payment for 2015/16 has similarly increased to **£11,049,252** (£10,842,078 in 2014/15).

- 8.3 The actual level of income from Business Rates to be included in the budget for 2015/16 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 26th January 2015. The NNDR1 return shows an estimated Net Yield of £36,631,510 with the Council's 40% share as £14,652,604. The Council's share is then reduced by the **tariff** payment of £11,049,252 leaving £3,603,352. At the same time the Council will qualify for £850,897 of Section 31 grants to make up for the loss of income from the changes to business rates announced in the Autumn Statement (retail reliefs and small business rate relief extension, etc). The excess of the combined amount (£4,454,249) over the Baseline Funding Assessment of £3,061,874 i.e £1,392,375 is then subject to a 50% 'Levy'. In 2015/16, because the Council has joined the Derbyshire Business Rates Pool, the Levy will not be paid to the Government but instead will form part of the Pooling calculation which will return some of the money back to the Council, currently estimated to be £404k.
- 8.4 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 £2,832k** (i.e. £3,061,874 x 92.5%). This means that the Council's share of the **BR income could fall by £230k** below its Funding Baseline of £3,061k before it qualifies for a safety net payment. The estimate of BR income per the NNDR1 return is well above the Baseline level so it is highly unlikely that the Safety Net provisions will apply.
- 8.5 The major issue regarding the BR system has again been the impact of back-dated appeals. At the end of the 2013/14 financial year there was a deficit of £1.1m on the BR account due to having to create a £1.7m provision for back dated appeals. In addition, although £1.5m of appeals have been settled during 2014/15 to date it is estimated that the provision for outstanding appeals need to be increased up to £1.5m, creating a further deficit on the BR account in 2014/15. The combined effect, of these provisions and other movements on the account, is to create a deficit of £1.9m which must be made good in 2015/16. The Council's share of the deficit, at 40%, equates to £749k and this has been included in the budget for 2015/16. Reduced Levy payments in 2013/14 and 2014/15 have enabled £232k and £88k

respectively to be set aside into a provision for future BR deficits; this still leaves a balance of £429k to address. In 2013 the Working Balance was increased by £0.25m to £1.75m in recognition of the new financial risks caused by the introduction of the BR retention scheme and the Localisation of Council Tax Support. The Council Tax Support Scheme has been implemented quite smoothly and is no longer considered to represent a significant financial risk. The major risk with the BR retention scheme has been the impact of back-dated appeals. It is anticipated that the latest increase in the provision together with the fact that new back-dated appeals cannot be lodged after the 31st March 2015 should limit the Council's exposure in future years. This leaves just the issue of the deficit in 2015/16 to address. It is recommended that the £250k from the Working Balance, together with the £320k transferred in a Business Rates Deficit Provision account in previous years, are used in 2015/16 to help finance the £749k BR deficit, leaving £179k as a cost to the revenue budget.

9.0 OTHER GOVERNMENT GRANTS

- 9.1 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.
- 9.2 **Council Tax Freeze Grant** –The draft budget includes the previous grant allocations relating to 2011/12 and 2014/15 which the Government has combined into the funding settlement for 2015/16. The budget summary in **Appendix A** also assumes that the **£48k** tax freeze grant on offer for 2015/16 will be accepted. What will happen to these grants after 2015/16 is uncertain.
- 9.3 **Efficiency Support Grant (ESG)**. The ESG was first introduced in 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 was changed to 6.9% and the Council, with a loss of 7.2%, qualified for a grant of £39k; the £39k grant has also been included in the funding settlement for 2015/16. In addition, because the Council's RSP reduction exceeded the threshold again in 2015/16 (7.9% versus the threshold of 6.4%) it qualifies for a further grant allocation of **£137k** in 2015/16. The Council's poor performance relative to that of similar authorities is due to its low council tax

income base and the low rate of growth in the New Homes Bonus grant.

- 9.4 Housing & Council Tax Benefits Administration Grant** – the main admin grant generally reduces each year due to assumed efficiency savings. From 2009/10 to 2013/14 the Council also received a supplementary grant which was designed to compensate authorities for the additional workload caused by the recession. **Appendix G** and the table below provide a comparison of the allocations over recent years:

Benefits Admin Subsidy				
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	Actual	725,600	-39,279	-5%
**2016/17	Estimate	689,310	-36,290	-5%
**2017/18	Estimate	655,210	-34,100	-5%

*The grant circular for 2015/16 shows that £152,815 (£170,708 in 2014/15) relates to Council Tax Support which is funded by the Department for Communities and Local Government (DCLG) and £572,785 (£594,171 in 2014/15) 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 2015/16 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.

- 9.5 New Homes Bonus (NHB)** – when the grant was first announced in the Spending Review 2010, it was recognised that the new funds made available for the scheme would not be sufficient to fund the scheme in future years as the payments accumulated, and that 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 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 allocations form part of the Government’s calculation of the Revenue Spending Power for each authority. This reinforces the argument that the grant is available to support the revenue budget.

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;
- a prudent estimate of future grant allocations of £250k in 2015/16 and then £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
2012/13 alloc	127	127	127	127	127	127	-
2013/14 alloc	-	101	101	101	101	101	101
2014/15 provisional	-	-	123	123	123	123	123
One off adjs-returned funding	-	-	25	10	10	-	-
2015/16 est.	-	-	-	101	101	101	101
2016/17 est.	-	-	-	-	154	154	154
2017/18 est.	-	-	-	-	-	250	250
2018/19 est.	-	-	-	-	-	-	200
Cumulative Commitments:	127	228	376	462	616	856	929
Waterside	-127	-81					
Emp Homes Officer		-10	-29				
New schemes				-	-	-	-
Revenue Budget		-137	-347	-462	-616	-856	-929
Balance in year	0	0	0	0	0	0	0
Cumulative bal	0	0	0	0	0	0	0

10.0 FEES AND CHARGES

10.1 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 2015/16 the budget includes £8.4 million (£7.9m in 2014/15) from fees and charges compared to only £4.0 million from the council tax. The main income sources and the assumed increases for 2015/16 are summarised in **Appendix F**.

11.0 COUNCIL TAX

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

11.2 **Collection Fund Balance** – before calculating the council tax for the coming year the estimated balance on the current year's Council Tax elements of the Collection Fund must be established and taken into account. The balance on the Collection Fund was reported to the Cabinet on 27th January 2015. There is an estimated surplus balance of £664,798 at the end of March 2015. The surplus is shared amongst the major precepting authorities; the Borough's share is £69,958 (10.5%).

11.3 **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 approved the Tax Base on 17th December 2014 as:

Tax Base – Band 'D' Properties

Area	2014/15	2015/16	Increase / (Decrease)	
			No.	%
Brimington Parish	2,188.09	2,231.39	43.3	2.0
Staveley Town	3,932.98	3,964.47	31.49	0.8
Unparished areas	21,342.78	21,585.71	242.93	1.1
Total	27,463.85	27,781.57	317.72	1.2

Since April 2013 the tax base has been reduced as a result of the support given under the Localised Support Scheme being treated as a 'discount'. This reduced the tax raising ability of the precepting authorities but this is 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.

11.4 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 2015/16 was announced on 18th December 2014 at 2% or more.

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.

11.5 Tax Freeze Grant - the Government has offered a Tax Freeze Grant for 2015/16 equivalent to a 1.0% council tax increase, but because the grant is calculated on an enhanced tax base (i.e. before the Council Tax Support reductions) it equates to an increase of 1.2%.

At the national level the take up of the freeze grant offers in recent years has been as follows:

- 2010/11 - all authorities accepted the tax freeze grant;
- 2011/12 – 85% of authorities accepted the grant
- 2012/13 - 256 authorities accepted the grant
- 2013/14 – 61% (257 out of 421) accepted the tax freeze grant
- 2014/15 – 60% of authorities froze their council tax.
- 2015/16 - the likely outcome is not yet clear.

11.6 Evaluation of the Options – the table below compares the options of either freezing the council tax or increasing it by 1.99% in 2015/16 only:

2015/16 Council Tax Options			
	Yield £	Band 'D' tax £	Band 'A' tax £
1.99% increase	80,011	147.77	98.52
Tax freeze	48,044	144.89	96.59
Difference	£31,967	£2.88 pa or 5.5p per week	£1.93 pa or 3.7p per week

If the tax freeze grant is protected in future funding settlements the loss of income as a result of freezing will be £32k each year and, therefore, £160k over 5 years.

If the tax freeze grant funding for 2015/16 is for one year only and not included in future grant settlements the loss will be £32k in 2015/16 and £80k in all future years; a total loss of £352k over five years.

The MTFP in **Appendix A** assumes a tax freeze in 2015/16 with a one-off tax freeze grant and a council tax increase of 1.99% in all 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 some of the freeze grants should provide more certainty and remove the previous cliff-edge issue. The extent to which the 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 £1.92 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.

11.7 **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. From 2014/15 the grant has been 'rolled-in' to the overall funding

settlement and is no longer separately identifiable. The original grant funding included £66k relating to the parished areas and the Government said that there was an expectation that this element of the grant would be passed on to parished areas. 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.

11.8 The initial grant allocation was less than the amount received in previous years under the national Council Tax Benefit Scheme. In setting up the first Local Support Scheme for 2013/14 the Council agreed a number of measures to help address the funding gap. The Local Scheme has to be approved before the start of each financial year. On the 17th December 2014 the Council agreed to continue with the 2014/15 Council Tax Support Scheme in 2015/16. The measures designed to recover some of the cost of the scheme 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, and included the requirement to pay 8.5% of the liability and the removal of the Second Adult Rebate.

The second package of measures relate to maintaining the changes to other Council Tax discounts, 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.

11.9 The Government has also given authorities a 'New Burdens' grant allocation 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 was a further allocation due, £94k in 2014/15, which was used to pay for further computer system changes and additional staffing resources to cover increases in demand (advice and debt recovery). For 2015/16 the grant allocation has been reduced to £31,232.

11.10 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 then qualified for Council Tax Support, the discount given will remove a proportion of their properties from the Tax Base. It also presents an opportunity because when people move off support the tax base will increase.

12.0 DRAFT BUDGETS

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

Table – Budget Assumptions					
	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%
Future service pension contribution rate	13.2	13.2	13.2	+£140k	+£140k
National Insurance			+3.4% = 33% increase		
Investment returns (gross)	0.67% (revised to 0.76%)	0.84%	1.42%	1.70%	1.70%

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

12.2 Since the draft Portfolio budgets were considered by the Cabinet on 16th December 2014, a number of changes have been made as more up to date information has become available. 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.

13.0 2015/16 NET EXPENDITURE ESTIMATES

13.1 The Medium Term forecast approved a year ago, by the Full Council on 27th February, showed a deficit, before savings targets, of £1.3m in 2015/16 rising to £2.0m in 2016/17.

13.2 The table below provides a summary of the budget forecasts, after savings targets, which have been reported to the Cabinet during the current financial year:

Surplus / (Deficit) Forecasts			
Stage	Cabinet	2014/15 £'000	2015/16 £'000
Start of the year	18 th Feb	244	450
After 4 months	9 th Sept	(301)	(471)
Revised budget report after 6 months	2 nd Dec	9	350
1 st draft budget report	16 th Dec	(174)	(138)
Latest Forecast	17 th Feb	40	(94)

13.3 A summary of the latest budget forecast for 2015/16 is shown in **Appendix A** assuming a Council Tax freeze. The updated budget forecast shows a deficit of £94k but this is after a net savings target of £586k. The deficit before allowing for the savings target is, therefore, **£680k** which represents an improvement on the deficit forecast 12 months ago of £1.0m.

13.4 Investment interest provides an important source of 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 0.76% in 2014/15, 0.84% in 2015/16, 1.42% in 2016/17 and 1.7% per annum thereafter are currently forecast. Each ¼% movement is equivalent to +/- £78,000, of which only approximately 19% or £15k impacts on the General Fund. Further details are included in the Annual Treasury Management and Annual Investment Strategy report.

13.5 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 B**. A risk assessed provision for non-achievement for each proposal has been built into the budget forecasts in **Appendix A**.

13.6 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.

Details of the growth requests which have been submitted are included in **Appendix L**. The table below provides a summary of the requests:

Description	One-off or recurring	2015/16	2016/17	Future years	Officer Recommendation
Private Sector Stock Condition Survey	One-off	25,750	-	-	Approve - from the Budget Risk Reserve
Cemeteries Improvement Programme	Recurring	70,000	25,000	25,000	Defer until 2014/15 outturn known.
Data Custodian & GIS Support	Recurring	16,870	16,870	16,870	Approve from Base Budget Reserve in 2015/16 and to add to the base budget in future years
PR Training Budget	Recurring	2,000	2,000	2,000	Defer until 2014/15 outturn known.

13.7 Council Tax Options – the draft budget assumes that the Council Tax will be frozen in 2015/16.

13.8 Strategy for funding the deficit –The Council’s key response to tackling future budget deficits is its transformation programme called “Great Place: Great Service” (GPGS). The planned savings of £586k in 2015/16 will, provided they are delivered in full and in good time, still leave a deficit of £94k to be covered by other new savings proposals yet to be identified. It is important to remember that the planned savings 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. To recognise these risks a significant provision for non-achievement has been built into the budget.

14.0 MEDIUM TERM FORECAST - 2016/17 through to 2019/20

14.1 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 2015/16 however is for one year only and the next announcement is not expected until November/December 2015 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 to help with the longer term planning of priorities and transformation change.

14.2 The assumptions made in drafting the medium term forecast are set out in the table at para. 12.1 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:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Deficit forecast before planned savings	(1,380)	(1,760)	(2,112)	(2,520)
Planned savings (Appendix B)	766	796	796	796
Net Surplus / (Deficit)	(614)	(964)	(1,316)	(1,724)
Change on previous year	(520)	(350)	(352)	(408)

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.

15.0 BUDGET SAVINGS

15.1 The Council has a good track record of delivering budget savings. The scale of the savings required in 2015/16 and future years means that delivering savings must continue to be a priority for the Council. This, however, will become progressively more difficult since the easier options have already been implemented. The Council's key response to tackling future budget deficits is its transformation programme called "Great Place: Great Service" (GPGS). The GPGS Programme focuses on the four key strategies of Customer Service, ICT, Workforce and Asset Management to transform and modernise service delivery.

15.2 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 B**. 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 programme 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 Overview and Performance Scrutiny Forum will monitor progress.

16.0 RESERVES AND BALANCES

16.1 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.

16.2 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) to recognise the new risks created by the introduction of the Business Retention and Localised Council Tax Support schemes. The Council Tax Support scheme is now well established and the initial risk has subsided.

The Retained Business Rates risks centred mainly on the issue of back-dated appeals, a risk that should now be fully provided for in the 2015/16 budget. Back-dated appeals cannot be lodged after 31st March 2015 and it is likely that any significant appeals will have already been made. A provision for settling the existing appeals has been made, which in turn has created the gross NNDR fund deficit of £1.9m, of which the Council's share at 40% or £749k has been provided for in the 2015/16 budget. It should be possible, therefore, to use the £250k top-up from the Working Balance to help offset the Business Rates deficit charge in 2015/16, thereby reducing the Working Balance back to £1.5m. The updated financial risks assessment in **Appendix I**, using prudent assumptions, indicates that a balance of £1.5m should be adequate. A balance of £1.5m is equivalent to 14% 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.

16.3 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 five years are included in **Appendix H**. Details of the main reserves are provided below.

16.4 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 2014 and the currently approved or anticipated movements on the reserve:

Table – Budget Risk Reserve		
Balance b/fwd 1st Apr 2014		1,000
Less applied in 2014/15:		
VR/VER's approved to date	(53)	
Learning & Development - training	(32)	
Governance restructure severance costs	(31)	
2013/14 carry forward requests	(36)	
CMT restructure – severance costs	(97)	(249)
Add: estimated budget surplus in 2014/15		40
		791
Less: applied in 2015/16:		
Land Charges claims	(44)	
Erin Road Pumping Station	(50)	
Approved growth (para 13.6)	(43)	(137)
Less: applied in 2016/17:		
STWA tenants consultation exercise	(30)	(30)
Uncommitted Balance		624

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.

16.5 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. Ideally, there should 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. This would replenish the reserve, thereby enabling further investments to be made. However, to require all recent advances to be repaid would require a charge of £200k per annum to be made into the revenue budget, which if imposed would increase the already challenging deficit forecast and require an equivalent amount of savings to be found. It is proposed, therefore, to continue waiving the requirement for repayments. However, the approved uses of the reserve will be monitored to ensure that the anticipated savings are delivered and are contributing to keeping the base budget down.

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		
Balance b/fwd 1st Apr 2014		393
<u>Less: applied in 2014/15:</u>		
Community Infrastructure Levy	(5)	
Holmebrook Valley Park drainage	(21)	
Venues refurbishment	(90)	
Venues – central booking office	(23)	
CMT re-structure – external advice	(25)	(164)
<u>Less: applied in 2015/16:</u>		
Customer Service Strategy - capital	(105)	
Local Collective Agreement	(10)	
Car park improvements	(111)	(226)
Repayments into the fund		-
Uncommitted Balance c/fwd		3

16.6 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 2014 and the currently approved or anticipated movements on the reserve:

Table - Service Improvement Reserve		
Balance b/fwd 1st Apr 2014	1,176	1,176
<u>Less Approved Commitments:</u>		
Linacre Master Planning	(67)	
Project Academy (£30k pa 14/15 & 15/16)	(30)	
Grit storage facility	(5)	
Venues refurbishment	(20)	
TPIC/DIC telephony system (half of £204k)	(102)	
*Northern Gateway (half of £100k)	(50)	
Open Markets Feasibility study	(15)	(289)
<u>Less: applied in 2015/16:</u>		
**Waterside – legal costs	(40)	
Project Academy	(30)	
Project Academy (balance)	(6)	
Car parking improvements	(15)	
TPIC/DIC telephony system (bal of £204)	(102)	
*Northern Gateway (bal of £100k)	(50)	(243)
Uncommitted Balance		644

*An application for European funding is being made.

**To recover through the developer loan agreement.

- 16.7 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 2015 is £453k.
- 16.8 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 2013/14 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 2015 is £853k.
- 16.9 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, of which £216k has been paid out leaving a balance of £503k.
- 16.10 Appendix H** shows that the total of all reserves and provisions are forecast to reduce by £2.1m (£1.6m General Fund and £0.5m DSO's) from £8.6m at the start of 2014/15 to £6.5m by the end of the financial year.
- 16.11** 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.

17.0 CONSULTATION

- 17.1** The consultation meeting with the business ratepayers' representatives took place on 28th January 2015. 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 (**Appendix M**).

17.2 Consultation with the Council Taxpayers took place at the Community Assembly meetings during November 2014. This was the first time this approach was used and the feedback received was very positive; many attendees said that they had really enjoyed the event. At each of the four Assemblies an update on the Borough and its finances were given and those attending were:

- a) Given £100 of fake money, in denominations of £20, and asked to allocate that money to what they considered were their priority services from a list of ten service areas; &
- b) Asked to vote on the option of a Council Tax increase of 1.99%, just below the anticipated referendum limit, or a tax freeze.

Detail of the aggregate amount of money awarded to each of the ten service areas is included in **Appendix N**, the top three were:

1. Economic Development
2. Street-scene Activities
3. Reducing Crime and Anti-Social Behaviour.

In terms of the Council Tax increase, 62% voted for a 1.99% increase and 38% for a tax freeze.

18.0 SCRUTINY

18.1 The Overview and Performance Scrutiny Forum has received regular budget updates throughout the year. A budget update was considered at their meetings on 17th December and a second session was planned for the 29th January to review the first draft budget reports but this was rearranged to the 12 February due to the weather conditions.

19.0 RISK AND SENSITIVITY ANALYSIS

19.1 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 2015/16 was published on the 3 February and is expected to be approved by the House of Commons on the 10 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 2020. The medium term financial plan assumes a 14% cut in 2017/18, 13% in 2017/18 and 6% in the following years. In term of the sensitivity of the future estimates, each 1% variance is equivalent to £50k in round terms.

- b) **Delivering budget savings** at the required level and at the right time continues to be a major challenge for the Council. Although the Council has a good track record of tackling budget deficits, some of the individual savings targets have not been met (e.g. PPP, terms and conditions, etc). The Council must learn from its experience of what has and has not worked well in the past in order to improve the process going forward. For example, future budget saving proposals are now subject to an individually risk assessed non-achievement factor. Delivering savings is becoming increasingly difficult as the easier options are exhausted, which means that further improvements to the planning and estimating savings will be required.
- c) **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 investment funds (internal and external) in 2015/16 is 0.84%. The estimated figures are, based on expert advice from the external treasury advisers and the fund manager. For each 0.25% that rates actually deviate from the forecast the investment return will increase or decrease by approximately £78,000 (19% or £15k to the General Fund). The forecasts for future years assume a gradual increase in investment returns, to 1.4% in 2016/17 and 1.7% 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'.
- d) **Fees and charges** income – the state of the economy 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 2015/16 budget targets for the key income sources are shown in **Appendix F**. Car parking income is the largest single income source. 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 have to negotiate with the Developer to find ways of minimising the potential loss.

- e) **Property rents** – the state of the economy also impacts on the Council's ability to generate rental income from its extensive industrial, commercial and retail property holdings. There is, for example, one property with an annual rental value of £40k where the current lease expires in 2016 which could prove difficult to re-let quickly if the existing tenant does not renew the lease. Also, no provision has been made in the budgets for a revenue deficit on operating the NEDDC Council House, assuming the Council proceeds with the purchase, during the period of refurbishment and to allow for a gradual letting of the offices.
- f) **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.
- g) **Staff pay** – Local government **pay awards** 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). In 2014/15 a two-year pay deal was agreed for local government after three successive years of a pay freeze. For most staff, those above scale point 10, the deal was for a 2.2% increase from January 2015 plus a one-off payment of £100 in 2014/15. The budget forecasts for 2016/17 and future years include 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**'. This will be considered as part of the corporate review of terms and conditions.

A recent legal ruling has established a liability to accrue **holiday pay** on regular overtime working. The ruling is likely to be appealed and the issue of back-dating any liability has yet to be determined. It is not possible at this point in time to quantify the back-dating liability or to estimate the on-going impact on the General Fund budget.

- h) **Energy costs** – the gas and electricity budgets within the General Fund total £1,011k in 2015/16. The increases in future energy prices are very difficult to forecast. An allowance of 7.5% per annum has been made but each 5% variance from this provision equates to £47k per annum.

- i) **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. In 2013/14 the Council set aside a provision of £719k (para 16.09 above) to cover future claw back payments as the full extent of the Company’s exposure to long-tail occupational disease claims unfolds. The first claw back payment of £204k, based on 15% of past settlements, was paid in February 2014.
- j) **New Homes Bonus Grant (NHB)** – the budget forecast includes prudent assumptions about future allocations of grant and also 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.
- k) **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 £230k in 2015/16). 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 liability for Levy payments has been avoided in 2015/16 by joining the Derbyshire Business Rates Pool, which if successful will be continued in future years. The cost of back-dated appeals has been a major risk element and this has contributed to the estimated cumulative deficit of £1.9m on the Business Rate account as at the end of March 2015. The Council’s 40% share of the deficit, £0.75m, has been charged into the 2015/16 budget. It is anticipated that the provision that has been set aside for back dated appeals, and the fact that new back dated appeals cannot be lodged after 31st March 2015, means that

the risk is now adequately covered. 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.

- l) **Localisation of Council Tax Support** 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 paragraphs 11.7 to 11.10. Previously the national scheme was fully funded by the Government and the Government therefore carried the financial risks. Under the new, localized arrangements, 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 of fund deficits if the collection rate falls below the estimated level.

- m) **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 in Chesterfield from the 25th March 2015, with the end date currently uncertain. The change could 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 a risk for the Housing Revenue Account as rent arrears could increase when housing benefit is paid directly to tenants and monthly in arrears.

- n) **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 for this.

- n) **Major Capital Schemes** - there are currently a number of major capital schemes that have been approved or are being developed, including for example the Queen's Park Sports Centre and the Northern Gateway Development. Major schemes inevitably bring with them risks of capital budget overspends, slippage and the forecast revenue costs/income not being achieved.

- o) **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 £5.9m. The case has been lost at various stages of the process, with one final appeal yet to be confirmed. It is highly unlikely therefore that there will be a successful outcome for local authorities. 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.

20.0 BUSINESS RATE

20.1 Although the Council is responsible for the collection of business rates and retains 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 normally based on the previous year's multiplier adjusted for RPI inflation in September of the previous year (2.3%) but for 2015/16 the increase has been capped at 2%. This gives a multiplier of 48.0p for 2015/16 (47.1p in 2014/15).
- 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 2015/16 is 1.3p giving a multiplier of 49.3p (48.2p in 2014/15).

20.2 In his Autumn statement in December 2014 the Chancellor also announced the extension of a number of new reliefs, initially introduced in 2014/15, to help businesses and the retail sector in particular, including:

- The doubling of Small Business Rate Relief to continue for a further year (i.e. eligible properties with a rateable value (RV) of less than £6,000 receive 100% rate relief ; the relief then reduces

by 1% for every additional £60 of RV above £6,000 down to 0% at an RV of £12,000).

- The £1,000 discount for all retail premises including, pubs, cafes and restaurants (but excluding banks and betting offices) with a rateable value below £50,000 is increased to £1,500 for 2015/16. The Local Scheme approved last year will have to be extended and amended to reflect this increase.

The reliefs above are both fully funded through Section 31 Grant.

20.3 The Chancellor of the Exchequer also announced in the 2014 Autumn Statement an **extension of Transitional Relief** for small and medium properties with a rateable value up to and including £50,000. The relief was originally introduced in 2010 and was due to end on 31st March 2015. The two-year extension to the scheme will protect the small number of ratepayers concerned from seeing an increase to their full rates bill from April 2015. The DCLG guidance states that because the cost of the scheme will be reimbursed through Section 31 grant, the government expects local government to grant the discretionary relief to qualifying ratepayers. In Chesterfield there are only 14 ratepayers affected with an estimated cost of £12,500 in 2015/16. It is, therefore, recommended that the Council adopts the scheme from 1st April 2015 to 31st March 2017 and grants discretionary relief to qualifying ratepayers under powers in Section 47 of the Local Government Finance Act 1988 as amended.

21.0 OTHER LOCAL COUNCIL TAXES

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

- **Staveley Town Council** - Band 'D' tax increased by **xx%** to **£xx.xx** (£74.81 in 2014/15); &
- **Brimington Parish Council** – Band 'D' tax decreased by 0.4% to £21.04 (£21.13 in 2014/15).

21.2 **Derbyshire County Council** has agreed on 3rd February 2015 to increase its council tax by **xx%** to **£xxxx** (£1,098.71 in 2014/15).

21.3 **Derbyshire Police & Crime Commissioner** set its precept and council tax on 23rd February - the Band D tax will be **£xxx**, an increase of **xx%** (£170.22 in 2014/15).

21.4 **The Derbyshire Fire and Rescue Authority** set its precept and council tax on 25th February – the Band D tax will be **£xxx** an **increase of x%** (£68.45 in 2014/15).

21.5 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.

22.0 CALCULATION OF EXPENDITURE

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

23.0 LEGAL IMPLICATIONS

23.1 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.

24.0 CHIEF FINANCIAL OFFICER'S ASSURANCES

24.1 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 CFO is the officer responsible for the administration of the Council's financial affairs for purposes of Section 151 of the Local Government Act 1972.

24.2 Robustness of estimates – subject to the the risks highlighted elsewhere in this report, the Chief Finance Officer 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-ordinate 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 planned budget savings targets and the remaining deficits, present a challenge for the Council. The Council has a proven track record for delivering significant savings, for example;

- 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 surplus of £193k.
- 2014/15 - from an original deficit forecast of £581k to a revised surplus of £40k.

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.

24.3 Level of reserves - details of the Council's reserves are provided in Section 16 above and in **Appendix H**. There is a recommendation to use £0.25m of the working balance to meet the exceptional one-off cost of back dated business rate appeals, leaving a balance of £1.5m. The updated Budget Risk and Sensitivity Analysis in **Appendix I** suggests a minimum balance of £1.2m. The proposed working balance of £1.5m is, therefore, comfortably above the calculated minimum balance.

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 2015 is estimated to be £791k. The uncommitted balance in 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 2015/16, 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.

25.0 CONCLUSIONS

25.1 2014/15 - The budget at the start of the financial year showed a surplus of £244k but this was dependent on achieving planned savings of £591k. In the early part of the year there were concerns about achieving income targets, particularly car parking, and a potential increase in pension costs for staff transferred under the Public Private Partnership. However, as the year progressed, these issues were resolved. The latest revised budget forecast shows a reduced surplus of £40k. The reduction is as a consequence of not achieving all of the planned savings targets and numerous other variances, some favourable, spread across a wide range of services.

25.2 2015/16 – The Council faces a reduction in its Settlement Funding Assessment of £1,021k and a £749k share of the deficit on the Business Rate Account. To help offset these pressures it has a planned savings target of £586k, will apply reserves to offset the impact of the business rates deficit (£570k) and gains potentially £404k from the Derbyshire Business Rate Pooling arrangement. The options on Council Tax are again limited. If the Council freezes the Council Tax it will secure a grant equivalent to a 1.2% (para. 11.5) increase but there is no guarantee that the grant will continue to be paid in future years. A 1.99% increase will yield £80k, which is £32k more than the Tax Freeze Grant option. Regardless of which option is chosen, the Council will still be required to deliver a significant package of planned savings to avoid a budget deficit in 2015/16. 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 should not 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.

25.3 Medium term – The deficit forecasts for future years get progressively worse with further cuts in Government funding anticipated. There is, however, an expectation that Councils will be able to increase their Business Rates tax base to boost their income. Business Rate income, therefore, becomes an increasingly important element of the Council's income so it is important that the tax base grows and that the option of "Pooling" continues to be available in future years. Based on the current forecasts, if the Council is able to implement the planned recurring budget savings for 2015/16 of £0.6m, further savings of £0.8m will still be required in 2016/17. The deficits in later years continue to grow as further funding cuts are anticipated. We are, therefore, locked into a sustained period of budget reductions. Effective arrangements will have to be put in place to ensure that not only are the planned savings of £0.6m in 2015/16 and a further £0.8m in 2016/17 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 £2.5m must be delivered.

25.4 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 to continue over the longer term, at least through to 2018. The Council's ability to deliver discretionary services will inevitably 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.

26.0 ALTERNATIVE RECOMMENDATIONS

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

27.0 RECOMMENDATIONS

- 27.1 Cabinet recommends to Council that it:
- 27.1.1 Approves the revised budget for 2014/15 (Section 5).
 - 27.1.2 Notes the Local Government Finance Settlement (Section 7).
 - 27.1.3 Notes the Collection Fund and the Tax Base forecasts (Section 11).
 - 27.1.4 Approves the Portfolio budgets and the overall revenue budget summary for 2015/16 (Appendix A).
 - 27.1.5 Approves the Cabinet's proposed Council Tax for 2015/16.
 - 27.1.6 Approves the Cabinet's recommendations on the growth requests (para 13.6).
 - 27.1.7 Notes the budget forecasts for 2015/16 and 2016/17 (Sections 13 & 14) and the strategy for addressing the projected deficits (Section 15).
 - 27.1.8 Approves the estimates of reserves including reducing the General Working Balance to £1.5m after applying £250k in 2015/16 to help finance the Council's share of the Business Rates deficit (Section 16).
 - 27.1.9 Notes the budget risks and sensitivity analysis (Section 19).
 - 27.1.10 Adopts the Government's Retail Relief and extended Transitional Relief schemes as local schemes (para. 20.2 and 20.3).
 - 27.1.11 Approves the 2015/16 Council Tax Requirement and financing (Appendix J).
 - 27.1.12 Notes the Chief Financial Officer's assurances (Section 24).

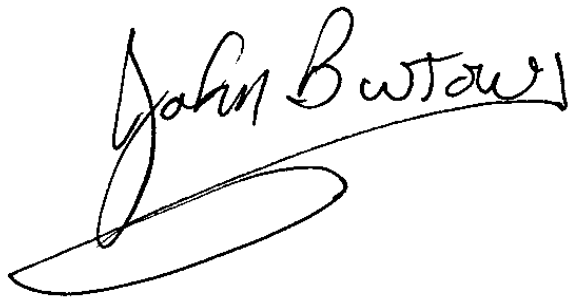
28.0 REASONS FOR RECOMMENDATIONS

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

H. BOWEN
CHIEF EXECUTIVE

B. DAWSON
CHIEF FINANCE OFFICER

Officer recommendation supported.

A handwritten signature in black ink that reads "John Burtow". The signature is written in a cursive style with a large, sweeping underline that extends across the width of the signature.

Signed
Date 10.2.2015

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)

APPENDICIES:

Appendix A – General Fund Revenue Budget Summary

Appendix B – Savings Targets

Appendix C – Budget Strategy

Appendix D – Financial 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 – **to follow**

Appendix K – Council Taxes – **to follow**

Appendix L – Budget Growth Requests

Appendix M- Business Ratepayers Consultation

Appendix N - Community Assemblies Consultation Meetings

Additional reports – Budget Book for full Council