Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report reference: FPM-010-2013/14
Date of meeting: 19 September 2013

Portfolio: Finance and Technology

Subject: Financial Issues Paper

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Recommendations/Decisions Required:

1. To recommend to the Cabinet the establishment of a new budgetary framework including the setting of budget guidelines for 2014/15 covering:

(a) The Continuing Services Budget, including growth items;

(b) District Development Fund items;

(c) The use of surplus General Fund balances; and

(d) The District Council Tax for a Band 'D' property.

2. To recommend to the Cabinet the agreement of a revised Medium Term Financial Strategy for the period to 2017/18, and the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders.

3. To recommend to the Cabinet a detailed review of fees and charges, specifically parking charges which have not increased for five years.

4. To recommend to the Cabinet reductions of 13.6% and 14.1% in parish support, in line with the reductions in the central funding this Council receives.

Executive Summary:

This report provides a framework for the Budget 2014/15 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

In broad terms the following represent the greatest areas of current financial uncertainty and risk to the Authority

- Central Government Funding
- Business Rates Retention
- Welfare Reform
- New Homes Bonus
- Development Opportunities
- Reducing Income Streams
- Waste and Leisure Contract Renewals
- Organisational Review

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2014/15.

Reasons for Proposed Decisions:

By setting out clear guidelines at this stage the Committee establishes a framework to work within in developing growth and savings proposals. This should help avoid late changes to the budget and ensure that all changes to services have been carefully considered.

Other Options for Action:

Members could decide to wait until later in the budget cycle to provide guidelines if they felt more information, or a greater degree of certainty, was necessary in relation to a particular risk. However, any delay will reduce the time available to produce strategies that comply with the guidelines.

Report:

General Fund Out-turn 2012/13

1. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2012/13 is being presented to Council on 26 September, but the audit has not amended any of the outturn figures. In summary the General Fund Revenue outturn for 2012/13 shows that Continuing Service Budget (CSB) expenditure was £456,000 lower than the original estimate and £498,000 lower than the revised. The single largest variance was a £195,000 underspend on Housing Benefits, due to adjustments relating to prior years and increased identifications of overpayments.

2. The revised CSB estimate for 2012/13 increased from £14.735m to £14.777m with the actual being £14.279m. The main in year changes related to the savings on the waste management contract and the inclusion of the New Homes Bonus but this was offset to a degree by the decision to build the whole of the pension deficit payments into the CSB. Given that the capitalisation direction applied for in 2011/12 was refused this was considered the appropriate prudent step to take in the circumstances. A significant variance was also seen on the opening CSB figure, which is consistent with the variance arising from salary savings.

3. Net DDF expenditure was £594,000 lower than the revised estimate. However £836,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2013/14, giving a net overspend of £242,000. Three directorates had variances between their revised and actual DDF spending of more than £100,000. The largest variance was £418,000 on Planning and Economic Development, which relates mostly to work on the Local Plan. In Corporate Support Services there was an underspend of £143,000, largely due to the national legal issue on personal searches remaining unresolved. The Office of the Chief Executive had an underspend of £107,000 as the work on the Local Land and Property Gazetteer was still in progress at the year-end.

4. The non-portfolio items include income of £237,000 for interest on a compensation payment relating to the construction of the M25 on Council owned land. This was a complex issue and the final resolution of it is welcome as it has been ongoing since 1992. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £3.581m at 31 March 2013. However, the vast majority of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan.

5. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend

of £498,000. This translates into an increase in balances of £498,000 compared to the original estimate of an increase of £13,000.

The Updated Medium Term Financial Strategy

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2012/13 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that revenue balances will reduce by £204,000 in 2013/14 before reducing in subsequent years by £690,000 in 2014/15, £1,330,000 in 2015/16 and £464,000 in 2016/17 before reducing by £189,000 in 2017/18.

7. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted balance at 1 April 2014 of £9.466m represents over 70% of the anticipated NBR for next year (£13.379m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2018 the revenue balance will have reduced to £6.793m. This still represents 53% of the NBR for 2017/18 (£12.720m).

8. The financial position as at 1 April 2013 was better than had been anticipated, reflecting the success of the cost control measures put in place. Further work was done on the 2012/13 revised estimates to identify and reduce budgets with a history of underspending. However the outturn has shown that there are still some areas where further reductions are achievable.

9. The target saving for 2014/15 has been increased up from the original level of £500,000 to £700,000. This is followed by targets of £700,000 for 2015/16 and 2016/17 which then reduces to £200,000 for 2017/18. These net savings could arise either from reductions in expenditure or increases in income. Progress has already been made on the identification of savings, with some of the individual items being covered in reports to Cabinet. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

10. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £1.416m of DDF funds available at 1 April 2018. The four-year forecast approved by Council on 19 February 2013 predicted a DDF balance of £1.507m at the end of 2016/17.

11. Capital balances have been updated for recent outturn figures. The low level of capital receipts means that the predicted balance at 1 April 2018 falls below £6m. Over this four-year period the capital programme has approximately £70m of spending, inclusive of the HRA. Previously the need to use capital balances for revenue generating assets has been highlighted and this has been included in the Capital Strategy.

Continuing Services Budget

12. The CSB saving against revised estimate was £0.498m, compared to £0.562m in 2011/12. A significant cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £19.092m compared against an original estimate of £19.526m. There is currently an under spend on the salaries budget in 2013/14 and this is expected to continue, although at a reduced level as approximately £400,000 was removed from the salaries budget through the deletion of vacant posts in setting the 2013/14 budget.

13. As already mentioned above, a number of CSB budgets were under spent and these will be closely scrutinised going forward to ensure budgets are more closely aligned with actual spending in prior years.

14. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Retained NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As Members have not indicated any desire to contradict Government guidance that council tax increases should be frozen again for next year, it is clear that the former will be the determinant. The four-year forecast, agreed in February, included the assumption that council tax would increase annually by 2.5% after 2013/14. Previously Members had a policy under which increases in council tax had been linked with increases in the rate of inflation. For information, RPI is currently 3.1% and CPI 2.8% (July 2013 figures, released in mid August) and inflation forecasts retain an important role in estimating future costs. However, in these ongoing difficult economic times Members have indicated a desire to limit the burden on hard pressed tax payers and so no increase has been allowed for in 2014/15.

15. The latest four-year forecast (annexes 1a & b) show that the original budget for 2013/14 narrowly missed that objective, as funding from Government Grants and Local Taxpayers was £44,000 below CSB. The revised estimate for this year shows a net increase of £160,000 in CSB at this time although that is likely to change as we go through the budget process.

Central Government Funding

16. We are now in the brave new world of locally retained business rates, vastly reduced Revenue Support Grant and Local Council Tax Support. Elsewhere on the agenda there is a report on the current round of financial consultations being undertaken by the DCLG, the figures used below take a prudent view on the likely outcomes. Rather unhelpfully the DCLG have not provided a separate figure for Local Council Tax Support Grant for 2014/15, this means it is necessary to provide two comparative tables below to illustrate the reductions in funding. The first table is based on Formula Grant but this is only possible up to 2013/14.

	2009/10 £m	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**
Formula Grant (adjusted)	9.368	9.415 (8.710)	7.590 (7.543)	6.656	6.050
Increase/(Decrease) £	0.046	0.047	(1.120)	(0.887)	(0.606)
Increase/(Decrease) %	0.5%	0.5%	(12.9%)	(11.8%)	(9.1%)

17. The figures shown above illustrate the substantial annual reductions that began in 2011/12. Even using the adjusted figure of £8.710m for 2010/11, Formula Grant has reduced by £2.66m or 31% over the last three years. From 2014/15 Formula Grant has not been separately identified so a different comparison is needed.

	2013/14 £m	**2014/15 £m**	**2015/16 £m**
Formula Grant	6.050	Not known	Not known
Homelessness Grant	0.113	Not known	Not known
Local Council Tax Support Grant	1.119	Not known	Not known
Funding Assessment	**7.282**	**6.290**	**5.40**
Increase/(Decrease) £	n/a	0.992	0.89
Increase/(Decrease) %	n/a	13.6%	14.1%

18. By providing only figures at the Funding Assessment level for 2014/15 and 2015/16 the DCLG has prevented a detailed comparison with earlier periods. However, it can still be seen that in three years under this new system funding reduces by £1.882m or by 25.8%. Using the two tables to make a crude comparison it can be seen that over 5 years funding has fallen by nearly 60%. The Local Government Association have responded angrily to the proposed reductions in 2015/16 and are encouraging Councils to respond to the current consultation

setting out their concerns about the likely impact on services to the public. The funding position in 2015/16 is £728,000 worse than had been anticipated in the previous MTFS, in updating the MTFS this full reduction has been allowed for.

19. As part of abolishing Council Tax Benefit and introducing Local Council Tax Support the DCLG had to determine whether parish councils would be affected by the reduction in council tax base or left outside the calculations. Despite the consultation responses on the scheme being massively in favour of tax base adjustments only at district level the DCLG decided that parish councils should also be affected. One of the problems with this decision is that DCLG does not have a legal power to make grant payments direct to parish councils. This meant the funding for these councils had to be included in the grants to districts and it was then for districts to determine how much of the grant was passed on. Members determined last year that parish councils should be fully protected from this change for 2013/14, a decision not shared by many authorities across the country. This meant that the figure notionally relating to parishes of £312,810 was topped up with an additional £7,460 to £320,270.

20. We do not have separate figures now for Local Council Tax Support, let alone a detailed split between the district and the parishes. In the absence of this information it is fair to assume the overall reductions of 13.6% and 14.1% are common to each element of the Funding Assessment. On that basis it is proposed to reduce the funding to parish councils by 13.6% for 2014/15 (£43,621) and 14.1% for 2015/16 (£39,007). These amounts need to be seen in the light of the total parish precepts for 2013/14 being just short of £3m.

<u>Business Rates Retention</u>

21. There was concern at this time last year about the design of this new system but thankfully the DCLG listened to the views being expressed and modified several of their assumptions. To refresh Member's memories some of the information from the 2013/14 budget papers is repeated below in paragraphs 22 to 26.

22. For this district the predicted total amount of non-domestic rates for 2013/14 has been set as £31,888,336, which is shared out as shown in the table below.

Authority & Percentage Share	Amount £
Central Government (50%)	15,944,168
EFDC (40%)	12,755,334
Essex County Council (9%)	2,869,950
Essex Fire Authority (1%)	318,884

23. As the billing authority we are responsible for collecting the money and then paying it over as set out above. However, as our share (£12,755,334) exceeds the amount of our funding deemed to come from retained business rates (£2,909,311) the excess (£9,846,023) is also paid to Central Government as a "Tariff". The tariffs are used to provide "Top Ups" to those authorities whose non-domestic rate income is lower than their deemed funding from business rates. Overall this means we will be collecting nearly £32 million but retaining less than £3 million, or just over 9%.

24. The basic amounts within the system are now fixed for an extended period, DCLG have stated that the system will not be re-set until 2020. Although this does not apply to the tariff payments that will be increased annually by inflation, we have been given an indicative tariff figure for 2014/15 of £10.148 million.

25. Overall the predicted total level of non-domestic rates is broadly in line with the current position and it is unlikely that we will have either a large initial shortfall or any windfall gain from the new system. There is a major concern here though due to the way appeals and refunds will be treated within the system. Even though DCLG have already had the benefit of

non-domestic rates paid in respect of periods prior to 1 April 2013, all appeals regardless of start date will be accounted for within the new system. This will mean billing authorities will be refunding money that they have not benefited from in the first place. It also means that in getting to a predicted level of non-domestic rates for 2013/14, allowance has to be made for the amount of money you anticipate having to pay out in appeals and refunds.

26. Calculating an appropriate provision for appeals is extremely difficult as there are currently more than 500 appeals with the Valuation Office. Each appeal will have arisen from different circumstances and it is difficult to produce a uniform percentage to apply. This is a particular concern at the moment as there is one property in the south of the district which has a rateable value approaching £6 million and is currently being appealed. If a full provision was included in our calculations for the owners of this property being completely successful in their appeal there would be a significant shortfall. Based on previous experience and discussions with the Valuation Office a provision has been calculated that is felt to be prudent, but given the size of the financial risk here it is worth mentioning the potential problem.

27. Having had that reminder of how we got here it is necessary to consider what our monitoring has told us since the start of the year. There are two aspects to the monitoring, firstly changes in the rating list and secondly the collection of cash. Changes in the rating list are important as with local retention the overall funds available to authorities will increase or decrease as the total value of the list increases or decreases. The NNDR1 form set out the non-domestic rate estimates for the year and started with a gross yield of £40,208,899 which was then reduced by the various reliefs for charities and small businesses and an allowance for appeals to get to a net rate yield of £31,897,379. At the end of July the net rate yield had reduced by £111,924 and as the Council retains 40% of gains and losses this would mean a reduction in funding of £44,770. This position could improve over the rest of the year but it is a concern as this district is losing businesses to the Enterprise Zone in a neighbouring district.

28. Cash collection is important as the Council is required to make payments to the Government and other authorities based on their share of the rating list. These payments are fixed and have to be made even if no money is collected. Therefore, effective collection is important as this can generate a cash flow advantage to the Council. If collection rates are low the Council is left to finance these payments from working capital and so has to reduce investment balances. At the end of July the total collected was £17,115,229 and payments out were £13,289,085, meaning the Council was holding £3,826,144 of cash and so the Council's overall cash position was benefitting from the effective collection of non-domestic rates.

29. In summary, at the end of July the collection of cash is not a concern but the reduction in the overall value of the rating list is. The other concern is the fact that there has been little progress on the appeals position set out in paragraph 26 and so this significant risk is still with us. The MTFS has not assumed either any growth or any shortfall in funding from retained business rates.

30. One other aspect of the new scheme worth mentioning is the ability to pool with other authorities to share risk and possibly reduce levy payments. The DCLG were very late issuing guidance last year and so although most Essex authorities were keen on pooling in principle, no agreements was possible for 2013/14. The possibility of pooling is now being taken forward through the Essex Leaders Strategic Finance Group with the intention of having a pool in place for 2014/15.

Welfare Reform

31. This phrase is used to capture a number of initiatives that are radically changing the way many benefits are paid and the amounts of those benefits. The single largest change from 1 April 2013 is the abolition of Council Tax Benefit and its replacement with Local Council Tax Support. Over the last year much effort has gone in across the county to develop, consult on and implement schemes aimed at being self-financing. Because of the requirement to protect

people of pension age and the different demographics across the county it was not possible to agree a single uniform scheme but a number of common principles were agreed that all of the schemes were based on.

32. In constructing our own scheme we were always conscious that some of the assumptions being used by the DCLG and the Department for Work & Pensions (DWP) meant that talk of a 10% saving would in reality mean a funding gap closer to 15%. This meant many variables were modelled and considered before a draft scheme was agreed by Cabinet for consultation and finally adoption by Council in December 2012. The final scheme should reduce current expenditure of £8.95 million to £7.68 million to provide a saving of 14%. It was a considerable relief when the settlement figures were announced to find out that the grant being provided to compensate authorities for the reduction in tax base was sufficient to cover both the loss to the parish councils and the loss to this Council. There is a small surplus of approximately £30,000, although given anticipated expenditure of £7.68 million this is not much of a margin for error.

33. It is still too early to draw any firm conclusions on collection rates from the bills for 20% of the full charge. We are trying to get people to engage with us and, unlike some authorities, are taking these debts through a slower recovery cycle. Cabinet on 22 July 2013 decided on the aspects of the scheme for 2014/15 to consult on and that consultation is now underway. A recent survey by the Society of District Council Treasurers showed that over 60% of districts are planning on keeping their schemes largely unchanged for 2014/15. This seems sensible given that we will have little hard data to work with and it would be better to consider any radical changes from 2015/16 onwards.

34. Whilst I have said that it is too early to draw any conclusions yet, the initial signs and the dialogue with most people are encouraging. It appears that in dealing with first time payers there is an acceptable range of bill that has tipping points either side. If you try and charge these people too much they will have no hope of paying and will ignore the debt. If you charge these people too little they will think you will not try and enforce such a small debt and will ignore it. So in trying to claw back any reduction in grant through increasing the 20% to 30% or more we need to be careful that we do not create a situation where we actually end up collecting less.

35. It is worth taking this opportunity to briefly update on some of the other welfare reforms. Both the Benefits Cap and the Spare Room Subsidy (also known as the "Bedroom Tax") were delayed but have now been introduced. Early indications of the impact of these changes are not good. In view of the reforms, the key performance indicator for rent collection had a reduction in its target from 97% to 96% but collection in the first quarter of 2013/14 was only 92.17%.

36. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit. Unfortunately this scheme has also been subjected to delays and confusion, further highlighted by the recent report of the National Audit Office. There is still no clarity over the time period and process for the migration of our existing housing benefit claims to Universal Credit. The DWP is still to decide on the role it wants local authorities to perform under the new system. This on-going uncertainty is unhelpful to both claimants and staff. Whilst there seems general agreement about the need to bring the welfare bill for the country under control there remains room for improvement in the delivery mechanisms.

New Homes Bonus

37. The amount of New Homes Bonus (NHB) payable for a year is determined by the annual change in the total number of properties on the council tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average Council Tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going

to the county council and 80% to the district, with the amount being payable for six years. For 2014/15 the Council will receive approximately £495,000 and it is proposed to add that amount to the CSB income figure.

38. There was concern with the re-working of local government funding that the NHB might have been removed or diminished in some way. This authority has done relatively well from NHB and £1.269m was included in CSB income in 2013/14. Whilst NHB seems set to remain in its current form, one of the DCLG consultations discussed elsewhere on the agenda is proposing to top slice £400m of funding from the NHB due to authorities to contribute to the Local Growth Fund which will be administered by Local Enterprise Partnerships (LEPs).

39. The Heseltine review (No Stone Unturned in Pursuit of Growth) made 89 recommendations to boost growth. Heseltine sees LEPs as key to driving forward locally-led growth and enterprise and recommended a Local Growth Fund of £80 billion over 4 years. The Government claims to be fully supportive of the report's recommendations, although the funding that has been compiled is only £2 billion per year. None of the funding is new money as £1.12 billion has come from transport schemes, £500 million from education and £400 million from the NHB.

40. The key issue in the consultation is how much individual authorities will lose to fund the £400 million. Question 2 proposes a method that applies the same percentage reduction to the NHB of all authorities. To achieve the required top slice of £400 million this would be approximately 35%, which in monetary terms for this council would be close to £800,000 in 2015/16 and approaching £1 million in subsequent years (when the scheme will have been in place for a full six years). Question 3 proposes an alternative for two tier areas that would see county councils lose all their NHB and districts making up the additional amount to reach £400 million overall. This proposal would reduce the loss from 35% to 19%, in monetary terms £425,000 in 2015/16 rising above £500,000 in later years.

41. Previously NHB for future years has not been anticipated in the MTFS. Given that NHB has remained a key aspect of the funding system, it is realistic now to balance the assumptions in the MTFS by both allowing for the largest reduction to fund the LEPs and by including anticipated amounts for NHB in subsequent periods. Based on the experience of the first four years of the scheme, an average annual increase is £445,000 and this is the amount that has been built into the MTFS for future years. This is a prudent amount as it is lower than the two most recent years and the signs of recovery in the economy indicate further growth is likely.

Development Opportunities

42. There is a separate Cabinet Committee charged with looking at and co-ordinating asset management issues so I do not intend to trespass on their territory. However, it is necessary to touch briefly on the number of development opportunities that currently exist in the district and their potential benefits. There is the possibility of a retail park in Loughton and a mixed use redevelopment of the St Johns area in Epping amongst the developments. The Council has had the requirement for capital resources to be used for revenue generating schemes as part of the Capital Strategy for some time. If schemes proceed it will only be after rigorous examination to ensure business cases make sense and a financial benefit is anticipated. The economic boost offered by such schemes could benefit the Council in several ways, mirroring the multiple threats of the double dip recession.

43. Given the lack of certainty at this time about which of the potential sites will progress, and indeed which of the schemes for a given site, the MTFS and capital projections do not include either any capital financing requirement or any revenue projections. The only budgets that are included for the developments are those that Members have already approved for preliminary consultancy and planning works.

Reducing Income Streams

44. Several of the key income streams are monitored on a monthly basis and the table below sets out the position at the end of August –

Activity	Annual Estimate	Estimate to end August	Actual to end August	Possible Shortfall
Building Control	£459,200	£216,870	£161,157	£130,000
Dev. Control	£541,250	£221,500	£206,467	£40,000
Land Charges	£179,940	£81,140	£83,374	£0
Licensing	£300,930	£103,010	£92,684	£25,000
Fleet Ops.	£242,500	£111,830	£97,060	£35,000

45. It is too early in the year to draw strong conclusions from this data as monthly trends do fluctuate between years and one or two large applications can make a big difference on development control. However, we are now nearly half way through the year and the start to 2013/14 has not been encouraging.

46. The other key income stream worth commenting on is the market at North Weald. As the operator was experiencing financial difficulties the Council agreed to a reduced rent, which included a profit share element if the income exceeds a given level in any individual week. So far the level of income necessary to trigger the profit share has not been reached in any week, although the market is continuing to trade on an adequate basis and still attracts approximately 200 traders each week. The estimates were based on a lower level of income but part of this reduction was attributed to the DDF so that the longer term trend could be evaluated before adjusting down the CSB. Given experience so far in 2013, it appears likely that the estimate for CSB income from the market will need to be reduced by £200,000 and the MTFS has been adjusted for this.

47. Given the shortfalls in income, not to mention the other financial pressures, it is imperative that the fees and charges are critically reviewed for opportunities. One key area that should be revisited is pay and display charges in the Council's off-street car parks. These charges have not been increased for five years and the study by Price Waterhouse Coopers in 2011/12 predicted that modest changes in the fee structure could boost income by more than £300,000.

Waste and Leisure Contract Renewals

48. Two of the Council's high profile and high cost services are provided by external contractors, SITA for waste and SLM for leisure. The current waste contract expires in November 2014 and a procurement exercise is underway for the new contract. A competitive dialogue procedure is being used to seek innovation and efficiency in the provision of this service. Market intelligence suggests it should be possible to procure the service at a lower cost than the current contract. However, at this early stage in the process it would not be prudent to build any savings in to the MTFS.

49. The leisure management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. A Leisure Strategy is currently being prepared and as part of this serious consideration will need to be given to what is the appropriate role for local authorities in leisure provision in these difficult financial times. The budget book for 2013/14 includes net expenditure of over £2m for leisure facilities and this is not sustainable in the long term given the Council's financial position.

Organisational Review

50. The Chief Executive has issued a draft Head of Paid Service report to consult on an organisational restructure. It is anticipated that the report will go to Full Council before the end of the calendar year and so it should be possible to include the changes arising from it in the final figures for the 2014/15 budget. The current consultation version of the report does not include any financial data and so at the moment the MTFS has not been adjusted for any changes to the organisation. It is likely that the changes will assist with reductions in the CSB, although some initial DDF expenditure will probably be required.

DDF

51. The carry forward of £836,000 represents an increase of £390,000 on the £446,000 of slippage for 2011/12. Half of the increase arises from the Local Plan, for which the carry forward has trebled from £93,000 at the end of 2011/12 to £292,000 at the end of 2012/13. Requests for carry forward are scrutinised by this Committee at the June meeting each year, as part of considering the draft revenue outturn report, and it is accepted that DDF money will not automatically be carried forward. Given that DDF funding is limited, it should only be used to support high priority projects. If a project takes several years to be implemented questions need to be answered over whether it was really a priority and if that money could have been used for a more urgent purpose.

52. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is estimated that there will be some £1.416m of DDF available at 1 April 2018.

The Capital Programme

53. The Government has attempted to boost right to buy sales by increasing the discount that tenants can receive. This is starting to feed through as sales in 2012/13 were in double figures (13) for the first time in five years and there have been a further 18 sales in the first five months of 2013/14. The Capital Programme has been adjusted to reflect this higher level of Council house sales.

54. Significant receipts have previously been generated through the sale of other assets. Land values in some areas are starting to improve again and a number of potential projects are currently being evaluated. As non-housing receipts are not included in the estimates before completion has occurred no allowance has been made in the MTFS.

55. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 20 June 2013 highlighted that the variance of £2,000 was a substantial reduction on the previous year's figure of £2.766m. Non-housing expenditure was £306,000 below the estimate at £3.263m, whilst housing expenditure of £9.826m was £308,000 above the estimate of £9.52m. The slippage in the programme will be carried forward to subsequent periods.

A revised Medium Term Financial Strategy

56. Annexes 1 (a & b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £700,000 for the three years 2014/15, 2015/16 and 2016/17 before reducing to £200,000 for 2017/18. These savings would give total CSB figures for 2013/14 revised of £14.528m and 2014/15 of £14.069m.

57. This proposal sets DDF expenditure at £1.557m for the revised 2013/14 and £142,000 for 2014/15, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

58. No predicted non-housing capital receipts are being taken into account, as any

developments are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund reduces significantly from £13.898m at 1 April 2013 to £5.95m at 1 April 2018.

59. Previously the Council has taken steps to communicate the MTFS with staff, partners and other stakeholders. This process is still seen as good practice and a failure to repeat the exercise could harm relationships and obstruct informed debate. If Members agree, appropriate steps can be taken to circulate either the full strategy or a summarised version.

The Council Tax

60. The Government announced in June that it will continue to provide an incentive for authorities to freeze the Council Tax for both 2014/15 and 2015/16. Additional grant equivalent to a 1% increase in the Council Tax will be available and Councils seeking to raise Council Tax by more than 2% will have to conduct a referendum. From 2016/17 onwards it is assumed that future increases will not exceed 2.5%.

Conclusion

61. The Council is in a stronger financial position than had been anticipated. This is due to the greater level of savings in 2012/13 and reductions in underspent budgets. However, the scale of the challenges ahead is greater now than at any time in the past. Future funding has been hit by reductions in government grant, top slicing of the NHB and a drop in local income streams. There is also the substantial risk that retained business rates could fall either through continued shrinkage in the rating list or through successful appeals.

62. The MTFS approved in February 2013 was looking for net CSB savings of £1.3m but the updated version now requires an additional £1m to provide £2.3m of savings across the forecast period. If this level of savings is to be achieved tough decisions will be necessary on fees and charges and the future level of service provision, particularly in discretionary areas.

63. At the end of 2013/14 the balance on the general fund reserve is predicted to be £9.466m and the balance on the DDF to be just over £2m. This position of financial strength means the Council does not need to find all of the savings in one year but can take a measured approach to reduce net spending over a number of years.