Report to the Cabinet

Report reference: C-061-2012/13
Date of meeting: 4 February 2013

Epping Forest District Council

Portfolio: **Finance and Technology**

Subject: **Council Budgets 2013/14**

Responsible Officer: **Bob Palmer** **(01992 564279)**

Democratic Services: **Gary Woodhall** **(01992 564470)**

Recommendations/Decisions Required:

(1) That the Cabinet considers the Council's 2013/14 General Fund budgets and makes recommendations to Full Council on the 19 February on adopting the following:

(a) the revised revenue estimates for 2012/13, which are anticipated to reduce the General Fund balance by £29,000;

(b) a reduction in the target for the 2013/14 CSB budget from £14.91m to £14.37m (including growth items);

(c) an increase in the target for the 2013/14 DDF net spend from £0.560m to £0.863m;

(d) no change in the District Council Tax for a Band 'D' property to keep the charge at £148.77;

(e) the estimated reduction in General Fund balances in 2013/14 of £44,000;

(f) the four year capital programme 2013/14 – 16/17;

(g) the Medium Term Financial Strategy 2012/13 – 16/17;

(h) the Council's policy on General Fund Revenue Balances to remain that they are allowed to fall no lower than 25% of the Net Budget Requirement.

(2) That the Cabinet recommends to Full Council that the 2013/14 HRA budget including the revised revenue estimates for 2012/13 be agreed;

(3) That Full Council be requested to approve the rent increases and decreases proposed for 2013/14 to give an average overall increase of 4.36%;

(4) That the Cabinet notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2013/14 budgets and the adequacy of the reserves.

Executive Summary:

This report sets out the detailed recommendations for the Council's budget for 2013/14. The budget uses £44,000 of reserves but the Council's policy on the level of reserves can be maintained throughout the period of the Medium Term Financial Strategy (MTFS). Over the course of the MTFS the use of reserves to support spending peaks at £646,000 in 2014/15 and reduces to £255,000 in 2016/17.

The budget is based on the assumption that Council Tax will be frozen and that average Housing Revenue Account rents will increase by 4.36% in 2013/14.

Reasons for Proposed Decisions:

The decisions are necessary to determine the budget that will be placed before Council on 19 February 2013.

Other Options for Action:

Members could decide not to approve the recommended figures and instead specify which growth items they would like removed from the lists, or Members could ask for further items to be added.

Report:

1. This report was considered by the Finance & Performance Management Cabinet Committee on 21 January 2013 and the minutes and recommendations of that meeting are included earlier on the agenda. Cabinet are asked to consider those recommendations and in turn make recommendations to Council for the setting of the Council Tax and budget on 19 February 2013.

2. The annual budget process commenced with the Financial Issues Paper (FIP) being presented to the Finance & Performance Management Cabinet Committee on 20 September 2012. The paper was prepared against the background of cuts in public expenditure, ongoing difficulties within the economy and highlighted the uncertainties associated with:

(a) Local Government Resource Review;
(b) Business Rates Retention;
(c) Welfare Reform;
(d) New Homes Bonus;
(e) Double-Dip Recession;
(f) Development Opportunities;
(g) Community Budgets; and
(h) Organisational Review.

3. There is now greater clarity on some of these issues, but several of them will not be resolved for some time. The key areas are revisited in subsequent paragraphs.

4. In setting the budget for the current year Members had anticipated adding £13,000 to the general fund reserves. This was possible as the savings achieved during the budget process last year had exceeded the target and produced a CSB figure below that which had been anticipated. The small addition of £13,000 was welcome as the MTFS at that time was predicting the use of just over £1 million of reserves to support spending in the following three years.

5. The revised four year forecast presented with the FIP took into account all the additional costs known at that point and highlighted the structural reform to local authority finances due to the local retention of business rates and the Government's programme of welfare reforms. This projection showed a need to achieve savings of £250,000 on the 2013/14 estimates, £400,000 in 2014/15 and 2015/16 and £200,000 in 2016/17 to keep revenue balances above the target level at the end of 2016/17.

6. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. The budget guidelines for 2013/14 were therefore established as:

(i) The ceiling for Continuing Services Budget (CSB) net expenditure be no more than £14.91m including net growth/savings;

(ii) The ceiling for District Development Fund (DDF) net expenditure be no more than £0.560m; and

(iii) The District Council Tax to be frozen.

The Current Position

7. The draft General Fund budget summaries are included elsewhere on the agenda. The main year on year resource movements are highlighted in the CSB and DDF lists, which are attached as Annexes 2 and 3. In terms of the guidelines, the position is set out below, after an update on each of the key areas highlighted in the FIP.

(a) Local Government Resource Review

8. Before considering the current position on the Local Government Resource Review and the replacement of Formula Grant funding with retained National Non-Domestic Rates (NNDR) it is worth looking back at the Comprehensive Spending Review (CSR). The CSR only provided us with two years figures instead of the usual four because of the Government's desire to radically change the system of funding local authorities. This meant the figures for 2013/14 and 2014/15 were only received late in December 2012. The table below shows a five year summary of the changes in the Formula Grant system.

	2010/11 £m	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**
Relative Needs Amount	5.464	4.302	3.901	3.902	3.317
Relative Resource Amount	-4.956	-2.842	-2.810	-4.036	-3.479
Central Allocation	8.871	6.223	5.611	5.611	4.769
Floor Damping	0.036	-0.296	-0.249	0.370	0.315
Freeze Grant	0	0.203	0.203	0.203	0.203
Formula Grant	**9.415**	**7.590**	**6.656**	**6.050**	**5.125**

9. As at 14 January, DCLG have still only published some of the information for 2014/15 so whilst the Formula Grant figure is known the component parts may ultimately prove different to those shown in the table above. Having said that, the components themselves are mainly of interest for how they highlight the lack of consistency and the swings in the outputs from year to year. This is particularly evident with the Floor Damping as over the five year period above this Council has gone from receiving floor support to loosing money to fund the floor for two years to being back in receipt of floor funding again for the next two years. So it is best to concentrate on the outcomes rather than the formulae, which are somewhat random and nowhere near as scientific as it is sometimes claimed.

10. The Floor Damping block was used previously to limit the amount an authority either gained or lost in a given year, to avoid too greater swings in funding. There are very few gainers from this settlement and so this block has now been used to bring authorities funding back to the level determined by DCLG. Authorities have been placed in one of four bands to determine the size of their funding reductions. Band 1 authorities receive the most protection with the reduction in their funding being limited to 5.4%, the only band 1 authority in Essex is Tendring. The size of the reduction increase by 2% steps, with band 2 authorities getting a 7.4% reduction and band 3 9.4% and the largest reduction being 11.4% for band 4 authorities. This Council is a band 3 authority, along with Maldon, Colchester, Harlow and Braintree. The band 4 authorities in Essex are Brentwood, Castle Point, Rochford, Basildon, Chelmsford and Uttlesford.

11. The DCLG calculation is based on the figures before the Freeze Grant is added, so for this Council the fall is from £6.453 million to £5.847 million, a reduction of £606,000 or 9.4%. If the calculation is done after the Freeze Grant the reduction is still £606,000 but the percentage reduces to 9.1%. For 2014/15 the reduction is £925,000, which excluding the Freeze Grant is a reduction of 15.8% or including the Freeze Grant a reduction of 15.3%.

Looking at the two years together, the reduction is £1.531 million or 23% inclusive of the Freeze Grant.

12. This position is substantially worse than had been indicated in previous consultations, on which the MTFS had been based. The 2013/14 figure of £6.05 million is £313,000 lower than had been anticipated and the 2014/15 figure is £627,000 worse. Whilst no figures are available yet beyond 2014/15 the income allowed in the MTFS for 2015/16 and 2016/17 will clearly need to be reduced.

13. To provide more context and a link in to the next section on Business Rate Retention it is necessary to provide an additional table.

	2013/14 £m	**2014/15 £m**
Formula Grant	6.050	5.125
Homelessness Grant	0.113	0.112
Local Council Tax Support Grant	1.119	1.119
Funding Assessment	**7.282**	**6.356**
Funded by -		
Revenue Support Grant (RSG)	4.373 (60%)	3.357 (53%)
Retained Business Rates	2.909 (40%)	2.999 (47%)
	7.282 (100%)	**6.356 (100%)**

14. I have not included the Homelessness or Local Council Tax Support Grants in the first table as they are funding for specific purposes and inclusion of Local Council Tax Support in particular would prevent any meaningful comparison over time. But in looking at total funding it is necessary to include these amounts as these are the totals used by DCLG for splitting the amount of funding between what they pay us (RSG) and what we will know keep for ourselves (Retained Business Rates). The first thing to highlight is that not only is the value of RSG reducing but the percentage of our overall funding it represents is also coming down. So whilst these changes to the funding system have not completely removed formulae and RSG it appears that their future significance will continue to reduce whilst the importance of Retained Business Rates and economic development will continue to increase.

(b) Business Rates Retention

15. The FIP set out the key terms and definitions in the new system and an interpretation of how the system was going to work. It was hoped that by now detailed regulations and guidance would be in place and that there would be certainty about all of the key aspects of the scheme. Unfortunately this is not the case and further regulations and guidance are still being issued.

16. The most important number is what DCLG predicts as the total value of non-domestic rates that will be billed for the area for 2013/14, as this is the start point for all other calculations. There had been concern that unrealistic assumptions on growth and other variables would be applied at the national level and that this could mean some authorities started out under the system with unachievable targets and might even have required immediate support from the “Safety Net”.

17. Thankfully the DCLG listened to the concerns being expressed and have modified several of their assumptions. 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

18. 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 (see para 13 above - £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%.

19. 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.

20. 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.

21. 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.

22. The area of appeals also seems to be concerning the DCLG as on 15 January it was announced – "*The Government has today decided that it will make regulations providing that the cost of such refunds (i.e. sums paid to billing authorities post 1 April 2013 in respect of refunds for rates paid in the years before 2013-14) can be spread over the five years 2013-14 to 2018-19, instead of being accounted for in their entirety in 2013-14.*"

23. Unfortunately, no regulations were issued at the same time to explain quite how this would work, although DCLG did go on to state *"Our intention is to make the regulations before the start of the financial year. We will provide further details shortly."*

24. It would be unfair to be too critical before the regulations are issued as we may be missing something, but at first glance this seems to benefit DCLG more than billing authorities. As a billing authority we will have to make the refund payment immediately, but if we have to account for it over five years the amounts are not fully deducted from the DCLG share until the end of year five. It would seem that billing authorities are being required to provide an interest free loan to the DCLG.

25. At the time of writing the FIP the DCLG were still to determine how far income from non-domestic rates would have to fall before the "Safety Net" came into operation. It has now been decided that the "Safety Net Threshold" will be calculated as 92.5% of the Funding Baseline. As our Funding Baseline is £2,909,311 our income could fall by £218,198 to £2,691,113 before we would receive any help from this mechanism. This is the least bad of the two options considered as the alternative was a 10% reduction, which would have equated to a reduction of £290,931 before help was available.

26. The "Safety Net" is funded through a levy on growth and this process has also altered since the FIP. Included in the FIP was an example of the "proportional levy ratio" which indicated we would keep approximately 23% of any growth and highlighted that some authorities would retain less than 10% under that formula. An alternative formula has now been published which suggests that we might be able to keep 77% of growth, however there is a cap of 50% on growth. The table under para 17 shows that our share of the income is 40%, and so with the levy set at 50% we would only retain 20% or expressed another way if a new business came to the district and paid rates of £1 million we would only retain £200,000. The DCLG is still claiming that any levy that is not needed to fund the Safety Net will be re-distributed to local authorities and it will be interesting to see how that works in practice.

27. In summary it is fair to say that the assumptions in setting the baseline and the level of the safety net were not as bad as had been anticipated. Also, whilst we would have hoped for greater local retention of growth than 20% this does still provide an incentive for economic development. The other incentives come from the dwindling amount of Revenue Support Grant and the index linking of tariff payments, which mean that growth in non-domestic income is necessary just to achieve a standstill position.

(c) Welfare Reform

28. 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.

29. 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 modeled and considered before a draft scheme was agreed by Cabinet for consultation and finally adoption by Council in December. 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 local 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.

30. The scheme will need to be carefully monitored through the year and the terms adjusted as necessary. Clearly there is still a lot of work ahead but it would be churlish at this point not to reflect positively on both the quality and quantity of the work completed by the staff in Benefits and Revenues to have got the authority to this point.

31. It is worth taking this opportunity to briefly update on two of the other welfare reforms. The FIP discussed the introduction of a weekly benefits cap. This was intended to be applied from 1 April 2013 and a lot of work was put in to analyse and highlight the households that we thought would be impacted and to start discussing these changes with them. Just before

the Christmas break the DWP announced that the benefit cap would only be introduced in four pilot authorities from 1 April 2013 and would be rolled out nationally by September 2013 but no dates have been specified for individual authorities.

32. 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. 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 ongoing 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.

(d) New Homes Bonus

33. There was concern with the re-working of local government funding that the New Homes Bonus (NHB) might have been removed or diminished in some way. This authority has done relatively well from NHB and £719,000 is currently included in CSB income, £295,000 in respect of 2011/12 and £424,000 in respect of 2012/13. For 2013/14 the Council will receive approximately £550,000 and it is proposed to add that amount to the CSB income figure.

34. It is clear that the Government wants to incentivise authorities to promote both economic and residential development and that as part of that NHB will remain as a key funding stream. As the funding for NHB is top sliced from the control totals and then re-allocated on the basis of relative performance in housing growth there will be a strong cumulative redistributive effect, this will penalise areas of low housing growth. The benefit of our relatively good performance is emphasized by the fact that the income for the three years so far of £1.269 million has off set just under 40% of the reduction in Formula Grant shown in the table at paragraph 8.

35. The amount of 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.

36. A question remains of how much of this income should be taken into the CSB budget for each year through the life of the MTFS. At one extreme it could be argued that to build any income into the CSB would make the Council vulnerable to judicial review on planning decisions and may not be prudent until there is clarity over the full make up of and inter-relationships between the different funding streams. At the other extreme it could be argued that £300,000 of income should be added to the CSB for every year from 2011/12 going forward up to the maximum of six years (2011/12 £0.3m, 2012/13 £0.6m, 2013/14 £0.9m 2014/15 £1.2m, 2015/16 £1.5m and 2016/17 and onwards £1.8m). On one hand, if no income is taken into account severe reductions could be made to services that ultimately prove to be unnecessary, from a financial point of view. On the other, if too much income is allowed for the Council could find itself having to implement substantial cuts on a short time scale. Although it should be remembered that our reserves exist as a buffer against any need to make sudden changes.

37. A prudent position at the moment is to allow for the income for 2011/12, 2012/13 and 2013/14 but no additional income beyond that, as in theory the council tax base could in future reduce. This is unlikely given that the Council itself is embarking on a house building programme and that demand for housing in the district remains high. It is possible that in future years once the Local Plan has been approved a clearer picture may emerge on future housing growth.

(e) Double Dip Recession

38. Since September the economic outlook has not improved and this was reflected in a bleak Autumn Statement. There is little sign of a recovery in either the domestic economy or the Euro Zone. Recently the role of the UK in Europe and the future nature of the relationship with the Euro Zone has been called into question. There are a range of views on the extent to which the relationship with the Euro Zone is either helpful or harmful to the economy. However, in the short term less engagement with the Euro Zone would be unlikely to enhance the recovery of the economy.

39. The changes discussed above, with local authority financing coming from retained business rates and the localisation of council tax support, transfer substantial financial risks to local authorities from Government. If once these reforms are in place a large employer or employers were to close this could have severe consequences for the Council. There could be a combination of reduced income because of the reduction in NNDR, increases in claims for CTB and increased demands on services. So whilst the devolution of genuine power and freedoms would be welcomed, Members also need to be aware of the increased risks.

40. Recession also has a damaging effect on the housing market. A problem exists with many developers having banked land and planning approvals but not being willing to build until market conditions improve. This limits the income that could come from the New Homes Bonus. A final concern on the economy is the potential effect on the market at North Weald, which is a significant income stream. All of the Council’s key income streams will continue to be closely monitored.

(f) Development Opportunities

41. Preparatory work continue to progress on the various schemes. 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 sometime. 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 a double dip recession.

42. 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.

(g) Community Budgets

43. Since September Community Budgets have received a lot of media coverage and some positive comments from DCLG. However, the reality in Essex is still to catch up with the hype at the national level. Essex County Council are still to produce a robust business plan or cost benefit analysis to support the headline claims. Whilst we are still awaiting a robust business case it was not felt appropriate to include any budgets in support of these initiatives. If the County Council are able to produce a robust business case a report will be made to Cabinet so Members can determine if and how they would want to support any of these initiatives.

(h) Organisational Review

44. The Council, as an organisation, has not made substantial changes to its structure for many years. With changes in funding structures and responsibilities the whole public sector is at a crossroads. An opportunity has arisen with the appointment of a new Chief Executive for a fresh review of the organisation. Over the next year it will be important to ensure that

structures and staffing are appropriate to deliver the vision of Members and serve the community.

45. At the moment the MTFS has not been adjusted for any changes to the organisation as these cannot easily be anticipated. However, it is likely that any changes will have implications for both the CSB and DDF.

The Ceiling for CSB Net Expenditure be no more than £14.91m including Net Growth

46. Annex 2 lists all the CSB changes for next year. The original budget for 2012/13 included CSB savings of £1.233m but the revised 2012/13 budget has an additional £170,000 of savings. The most significant changes in the revised estimates are the increase in rental income from industrial estates being £97,000 more than anticipated and savings on the deletion of some vacant posts which reduce the revised estimates by £80,000.

47. The greater savings in 2012/13 and inflation being less than had been allowed for mean that the opening CSB in 2013/14 is £409,000 lower than anticipated in the previous MTFS. This combined with CSB savings being £129,000 higher than the target of £674,000 mean the closing CSB is £538,000 lower than previously predicted.

48. The General Fund summary at Annex 1 shows that the CSB total is £538,000 below the CSB target of £14.91m and it is therefore proposed to reduce the CSB target to £14.37m.

The Ceiling for DDF Net Expenditure be no more than £0.56m

49. The DDF net movement for 2013/14 is £0.863m, Annex 3 lists all the DDF items in detail. The largest cost item is £282,000 for work on the Local Plan. The Local Plan is a substantial and unavoidable project and in 2012/13 and the subsequent two years DDF funding of £1.029m is allocated to it. The Director of Planning and Economic Development has been asked to provide regular updates to Cabinet to monitor this project and the expenditure incurred on it. Other significant items of expenditure include £154,000 for the planned building maintenance programme and £91,000 for the work on asset rationalisation.

50. The DDF lists include the funding for the consultancy exercise on future uses of North Weald Airfield. A supplementary estimate of £150,000 was agreed by Council for this work. At the time of writing this report the outcome of the tender process is still to be determined. To avoid any potential delays or additional further requests for funding a total of £176,000 has been included for this project. Whether all of this funding is needed will depend on Member's choice of consultant but it is prudent to allow for the maximum potential cost at this time.

51. At £0.863m the DDF programme is £303,000 above the target for 2013/14. However, this needs to be balanced with the reduction in 2012/13 as the predicted spend in the previous MTFS of £1.539m has been reduced by £1.069m to £470,000. Taking the two years together there is a net reduction in DDF spending of £766,000 and so it is proposed to increase the DDF ceiling for 2013/14 from £0.56m to £0.863m. The DDF is predicted to continue to have funds available through to the end of the period covered by the MTFS.

The District Council Tax be Frozen

52. Members have indicated that they want to benefit from the Council Tax freeze grant for 2013/14 and so the Council Tax will not be increased for 2013/14.

That Longer Term Guidelines covering the period to March 2017 provide for

- *The level of General Fund revenue balances to be maintained within a range of approximately £4.0m to £4.5m but at no lower level than 25% of net budget requirement whichever is the higher;*

53. Current projections show this rule will not be breached by 2016/17, by which time reserves will have reduced to £7.815m and 25% of net budget requirement will be £3.432m.

- *Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.*

54. The outturn for 2011/12 added £631,000 to reserves, whilst the revised estimates for 2012/13 anticipate a small reduction of £29,000. This would leave the opening revenue reserve for 2013/14 at £9.172m and with the estimates for 2013/14 showing a decrease of £44,000, reserves at the end of 2013/14 would be just over £9.1m. The Medium Term Financial Strategy at Annex 4 shows deficit budgets throughout the period to 2016/17. The level of deficit peaks at £646,000 in 2014/15 and reduces to £255,000 in 2016/17, although this is achieved through CSB savings of £500,000 in both 2014/15 and 2015/16 and a smaller saving of £300,000 in 2016/17.

The Local Government Finance Settlement

55. This has already been covered in some detail above and whilst the figures are currently subject to consultation it is not anticipated that they will change significantly. Beyond 2014/15 the figures are subject to the next Comprehensive Spending Review and cannot be predicted with any certainty, although further reductions of 2% each year have been allowed for in both 2015/16 and 2016/17.

The 2013/14 General Fund Budget

56. Whilst the position on some issues is clearer now than it was when the FIP was written there are still significant risks and uncertainties. Signs of improvement in the economy remain weak and speculation continues about the need for additional policy measures. It is still possible that the country may fall back into a recession that may last some years. Economic uncertainty will continue to provide an unhelpful background but the more immediate issues are the areas of Government policy that will impact in 2013/14.

57. Retention of non-domestic rates is now with us, although we will retain less than £3 million of the nearly £32 million we collect and we will only be able to keep 20% of any growth in the rating list. Although in expressing disappointment at the structure of the scheme we must still welcome the fact that we will now be retaining some element of growth which previously has gone entirely to central government.

58. An area of concern highlighted in the section on Business Rates Retention is the transfer of financial risk to billing authorities. The key risk here is the large number of appeals that are outstanding against previous rating assessments and the difficulty in calculating an appropriate provision. Over time as the backlog of appeals with the Valuation Office is cleared and more trend data becomes available it should be possible to calculate provisions with greater confidence.

59. The table at paragraph 13 highlighted the shift in funding from revenue support grant to retained business rates and this is a trend which is likely to continue. The Government is incentivising authorities to pursue residential development and economic development and it is clear that those authorities that do relatively less well in delivering growth will be penalised through the funding systems.

60. The other area worth touching on again is welfare reform. It remains to be seen whether the public will behave in the way that has been modeled, but the local council tax support scheme can be amended for subsequent periods if necessary. It would be helpful for claimants and staff if the DWP could set out clearly an irrevocable timetable of when the other benefit changes will be implemented and also provide some clarity on the role that local authorities will have under universal credit. At the moment it is difficult for both local authorities and claimants to plan for the future.

61. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 4. Annexes 4a and 4b are based on the current draft budget, no Council Tax increase (£148.77 Band D) for 2013/14 and subsequent increases of 2.5% per annum for each of the following three years.

62. Members are reminded that this strategy is based on a number of important assumptions, including the following:

- Future Government funding will reduce by 2% for 2015/16 and 2016/17.
- CSB growth has been restricted and the CSB target for 2013/14 of £14.91 million has been achieved. Known growth beyond 2014/15 has been included but will be subject to a further review to help identify savings.
- All known DDF items are budgeted for, and because of the size of the Local Plan programme the closing balance at the end of 2016/17 is anticipated to reduce to £1.63m.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets throughout the period will reduce the closing balances at the end of 2016/17 to £7.8m or 57% of NBR for 2016/17, although this can only be done with further savings in 2014/15 and subsequent years.

The Housing Revenue Account

63. The balance on the HRA at 31 March 2014 is expected to be £3.683m, after a deficit of £938,000 in 2012/13 and a surplus of £0.127m in 2013/14. The estimates for 2013/14 have been compiled on the new self-financing basis and so the negative subsidy payments have been replaced with borrowing costs.

64. The rent increase is set with reference to an individual property's formula rent but subject to various constraints. This process of Rent Restructuring to bring Council rents and Housing Association rents more in line with each other still needs to be addressed. The rent increase for 2013/14 is likely to see a narrowing of this gap between Council and Housing Association rents, with an average rent increase of 4.36% for Council dwellings.

65. An update to the current five-year forecast is being prepared and will be presented to a subsequent Cabinet. The HRA has had substantial balances for some time and this position is expected to continue under self-financing.

66. Both the Housing Repairs Fund and the Major Repairs Reserve are expected to have positive balances throughout the medium term. Members are recommended to agree the budgets for 2013/14 and 2012/13 revised and to note that although a deficit budget is proposed for 2012/13 the HRA has substantial ongoing balances.

The Capital Programme

67. The Capital Programme at Annex 5 shows the expenditure previously agreed by Cabinet. Members have stated that priority will be given to capital schemes that will generate revenue in subsequent periods. This position has been stated in previous Capital Strategies and has been reinforced by the increasing awareness that capital spending reduces investment balances and thus impacts on the general fund revenue balance through lower interest earnings.

68. Annex 5d sets out the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, which exceeds £83m over five years, it is anticipated that the Authority will still have more than £7.8m of usable capital receipt balances at the end of the period. However, it should be noted that a number of sites are currently under review and that this could involve either receipts through disposals or additional expenditure to fund developments.

Risk Assessment and the Level of Balances

69. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2013/14. Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council at its meeting on the 19 February will consider the recommendations of the Cabinet on the budget for 2013/14 and will determine the planned level of the Council's balances. The report of the CFO follows as Annex 6.

The Prudential Indicators and Treasury Management Strategy 2013/14

70. Since 2004/05 it has been necessary to set affordable borrowing limits, limits for the prudential indicators and a Treasury Management Strategy. These elements of the budget requirements will be set out in a separate report to Cabinet on 4 February.

71. Due to the £190m of debt for the HRA self-financing the Council is no longer debt free and the Prudential Indicators and Treasury Management Strategy have been amended for this. Ongoing difficulties persist in financial markets but higher capital requirements have eased concerns about some banks, Arlingclose still advise a very restricted counter party list but have allowed some increase in suggested investment periods.

Resource Implications:

The report details proposed growth items and potential savings, the implications are set out above and will vary depending on the course of action decided by Members.

Legal and Governance Implications:

None.

Safer, Cleaner, Greener Implications:

Items related to the Safer, Cleaner, Greener initiative are included in the report.

Consultation Undertaken:

None.

Background Papers:

Financial Issues Paper – Finance & Performance Management Cabinet Committee 20 September 2012.
Draft Growth List – Finance & Performance Management Cabinet Committee 22 November 2012.

Impact Assessments:

The Directorate proposing the growth or savings will have considered the equalities impacts for each budget proposal.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although if the necessary savings highlighted are not actively pursued problems will arise in the medium term.