Report to the Cabinet

Report reference: C-075-2013-14
Date of meeting: 3 February 2014

Epping Forest District Council

Portfolio: Finance and Technology

Subject: Council Budgets 2014/15

Responsible Officer: Bob Palmer (01992 564279)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) That the Cabinet considers the Council's 2014/15 General Fund budgets and makes recommendations to Full Council on 18 February on adopting the following:

(a) the revised revenue estimates for 2013/14, which are anticipated to reduce the General Fund balance by £160,000;

(b) a reduction in the target for the 2014/15 CSB budget from £14.07m to £13.77m (including growth items);

(c) an increase in the target for the 2014/15 DDF net spend from £0.142m to £1.6m;

(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 2014/15 of £243,000;

(f) the four year capital programme 2014/15 – 17/18;

(g) the Medium Term Financial Strategy 2013/14 – 17/18; and

(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 2014/15 HRA budget including the revised revenue estimates for 2013/14 be agreed;

(3) That Full Council be requested to approve:

(a) the rent increases and decreases proposed for 2014/15 to give an average overall increase of 4.91%; and

(b)) that vacant Council properties be re-let at the property target rent from 5 April 2014.

(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 2014/15 budgets and the adequacy of the reserves.

Executive Summary:

This report sets out the detailed recommendations for the Council's budget for 2014/15. The budget uses £243,000 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 £931,000 in 2015/16 and reduces to £340,000 in 2017/18.

The budget is based on the assumption that Council Tax will be frozen and that average Housing Revenue Account rents will increase by 4.91% in 2014/15.

Reasons for Proposed Decisions:

The decisions are necessary to determine the budget that will be placed before Council on 18 February 2014.

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 20 January 2014 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 18 February 2014.

2. The annual budget process commenced with the Financial Issues Paper (FIP) being presented to the Finance & Performance Management Cabinet Committee on 19 September 2013. The paper was prepared against the background of cuts in public expenditure, ongoing difficulties within the economy and highlighted the uncertainties associated with:

(a) Central Government Funding;
(b) Business Rates Retention;
(c) Welfare Reform;
(d) New Homes Bonus;
(e) Development Opportunities;
(f) Reducing Income Streams;
(g) Waste and Leisure Contract Renewals; 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 using £44,000 from the general fund reserves. This was possible as the MTFS approved in February 2013 showed a combination of net savings targets and limited use of reserves which still adhered to the policy on reserves over the medium term. The limited use of reserves in 2013/14 was not significant as the MTFS at that time was predicting the use of just over £1.3 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 additional reductions in support grant and the potential top-slicing of New Homes Bonus. This projection showed a need to achieve

net savings of £700,000 on the 2014/15 estimates, followed by £700,000 in 2015/16 and 2016/17 and £200,000 in 2017/18 to keep revenue balances above the target level at the end of 2017/18.

6. Members adopted this measured approach to reduce expenditure in a progressive and controlled manner. The budget guidelines for 2014/15 were therefore established as:

(i) The ceiling for CSB net expenditure be no more than £14.07m including net growth/savings;

(ii) The ceiling for DDF net expenditure be no more than £0.142m; and

(iii) The District Council Tax to be frozen.

<u>The Current Position</u>

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.

<u>(a) Central Government Funding</u>

8. The 2013/14 financial year took us into the new world of locally retained business rates, vastly reduced Revenue Support Grant and Local Council Tax Support. Rather unhelpfully the DCLG did not provide a separate figure for Local Council Tax Support Grant for 2014/15 and this has been maintained with the draft figures supplied immediately before Christmas. 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%)

9. 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**	**6.375**	**5.393**
Increase/(Decrease) £	n/a	(0.907)	(0.982)
Increase/(Decrease) %	n/a	(12.5%)	(15.4%)

10. By not providing a full analysis for 2014/15 and 2015/16 the DCLG has prevented a detailed comparison with earlier periods. The draft figure for 2014/15 of £6.375m was slightly higher than the previous figure of £6.290m but the 2015/16 figure at £5.393m is slightly lower than the previous figure of £5.40m. It can still be seen that in three years under this new system funding reduces by £1.889m or by 25.9%. Using the two tables to make a crude comparison it can be seen that over 5 years funding has fallen by nearly 60%. The funding

position in 2015/16 is £735,000 worse than had been anticipated in the February 2013 MTFS, in updating the MTFS this full reduction has been allowed for.

11. 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 £312,812 was topped up with an additional £7,460 to £320,272.

12. The draft settlement has no separate figures for Local Council Tax Support, let alone a detailed split between the district and the parishes. Cabinet agreed in December that in the absence of this data it should be assumed that the overall reductions should be treated as applying equally to the Local Council Tax Support element. Based on the draft settlement, it is proposed to reduce the funding to parish councils by 12.5% for 2014/15 (£40,034) and 15.4% for 2015/16 (£43,156). These amounts need to be seen in the light of the total parish precepts for 2013/14 being just short of £3m. Information was circulated to parish colleagues before Christmas and confirmed after the meeting of the Finance & Performance Management Cabinet Committee on 20 January.

(b) Business Rates Retention

13. 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 14 to 18.

14. 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

15. 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%.

16. 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.

17. 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.

18. 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.

19. 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 December the net rate yield had reduced by approximately £600,000 and as the Council retains 40% of gains and losses this would mean a reduction in funding of £240,000. However, the allowance for appeals figure has not been reduced during the year for the appeals that have been settled. This has not been done to be prudent as the large appeal mentioned above is still to be settled and the Council has recently been notified of another large appeal involving a pipeline. External advice is being obtained on the pipeline case as the Valuation Office does not appear to have followed all of the correct procedures in dealing with this case. If the Council has to bear the cost of the pipeline case the net rate yield would be reduced by approximately £1.6 million.

20. 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 December the total collected was £29,474,306 and payments out were £23,920,351, meaning the Council was holding £5,553,955 of cash and so the Council's overall cash position was benefitting from the effective collection of non-domestic rates. This would not have been possible without the additional funding of £25,000 provided in the 2013/14 budget for enforcement action on arrears cases.

21. The Autumn Statement and the draft settlement figures made some unexpected changes to the system and also set out the likely funding and tariff amounts for the next two years.

	2013/14 £m	**2014/15 £m**	**2015/16 £m**
Baseline Funding	2.909	2.966	3.048
Tariff	9.846	10.038	10.315
Increase %		1.95%	2.76%

22. Both the money the Council retains as part of its own funding and the tariff that has to be paid into the central pool increase by 1.95% for 2014/15 and then by 2.76% for 2015/16.

The increase in funding from retained business rates is more than offset by the reductions in support grant, the two figures combined give the Funding Assessment figure shown under paragraph 9. This means that in the first three years of this system the percentage of funding coming from retained business rates goes from under 40% to nearly 60%, which illustrates the increasing importance of economic development and good collection rates.

23. The unexpected changes to the system included reducing the annual increase from the RPI value of 3.2% to 2%, providing a discount of £1,000 for some retail premises and extending the doubling of small business rate relief. These measures will help businesses but reduce the amount of business rates available to the Council and introduce an additional administrative burden. The Chancellor has stated that local authorities will be fully compensated for these losses and it is hoped that will prove to be the case.

24. In summary, at the end of December 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 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 for 2014/15 onwards. However, to be prudent £250,000 has been included in the DDF for 2013/14 to provide against the outstanding appeals.

25. 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 was taken forward through the Essex Leaders Strategic Finance Group and the outline terms of a pool were agreed 2014/15. However, the changes in the Autumn Statement and draft settlement have significantly reduced the potential benefits and so pooling will not now take place in Essex during 2014/15. It is understood that authorities in Hertfordshire will also be withdrawing their pooling application.

(c) Welfare Reform

26. 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 was the abolition of Council Tax Benefit and its replacement with Local Council Tax Support (LCTS). 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.

27. 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 2012. The final scheme for 2013/14 aimed to reduce expenditure of £8.95 million to £7.68 million to provide a saving of 14%. The settlement figures for 2013/14 included sufficient grant to compensate authorities for the reduction in tax base and to cover both the loss to the local councils and the loss to this Council.

28. The scheme has been carefully monitored through the year and the revised estimate for the year is £7.56 million, a reduction of approximately £120,000 or 1.6%. This small saving has arisen through a reduction in caseload from above 8,400 at the start of the year to under 8,300 now.

29. Given the position on the current year's scheme and the projections for 2014/15, Council decided on 17 December 2013 to keep the scheme for 2014/15 very similar to that for 2013/14. This approach is common not only across Essex but most of the country as well.

As the funding reductions in 2015/16 are more substantial it is likely that schemes will need to be amended to seek savings in that year and so a degree of stability and consolidation in 2014/15 is welcomed. It should be remembered that a lot of residents have been asked to pay Council Tax for the first time and in getting them used to this idea it would be counter-productive to increase their bills too quickly. In dealing with first time payers a balance has to be struck between bills which are too big and consequently ignored as the resident has no chance of paying them or too small in which case there is a belief that the charge will not be pursued. This will need to be borne in mind when constructing the 2015/16 scheme as the good rate at which we have been able to collect 20% of the full charge is unlikely to be maintained if the charge goes much above 30%.

30. I will take this opportunity to briefly update on some of the other welfare reforms. Both the Benefits Cap and the Removal of Spare Room Subsidy (also known as the "Bedroom Tax") were delayed but have now been introduced. The full effects of these changes will not be evident for some time. However, it is encouraging that at the moment it is anticipated that the existing provision for both hardship relief (for LCTS) and discretionary housing payments will be adequate.

31. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit (UC). Unfortunately this scheme has also been subjected to delays and confusion, further highlighted by a report from the National Audit Office. The latest update as part of the Autumn Statement said that existing housing benefit claims would not transfer to UC until 2016/17. This was helpful in at least clarifying the role of local authorities in the short term whilst the DWP is still to decide on the role it wants local authorities to ultimately perform under UC. Despite the delay with UC the DWP are pushing ahead with the introduction of a Single Fraud Investigation Service. Although the dates are still rather vague for this too with it taking place between October 2014 and March 2016.

(d) New Homes Bonus

32. 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. For 2014/15 the Council will receive approximately £550,000 and this will be added to the CSB income figure.

33. There was concern in September with a DCLG consultation 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). Thankfully it has been confirmed that this will not now be happening. However, uncertainty remains over the future of NHB as the DCLG is conducting a review which is meant to conclude by Easter 2014. This is likely to change some aspects of the scheme and one possibility that has been discussed is the withholding of NHB where the planning permission has only been granted on appeal.

34. In September the MTFS was adjusted to allow for the large reduction to fund the LEPs and by including anticipated amounts for NHB in subsequent periods. This has now been reversed as the top slice is not taking place but income for future years has become more uncertain. This is a prudent position to adopt until the review is concluded.

(e) Development Opportunities

35. Significant, although not universally popular, progress has been made since September on some of the Council's development sites. The re-development of the Winston Churchill in Debden will bring additional income from NHB and retained business rates but there has been local opposition to the scheme. A more popular scheme has been the

purchase of the long lease for the Sainsbury's site at Torrington Drive as parts of this site are derelict. The certainty over these schemes has meant it has been possible to make adjustments to the capital and revenue budgets for them.

36. There are several other schemes still in progress such as the possibility of a retail park in Loughton and a mixed use redevelopment of the St Johns area in Epping. 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.

37. 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.

(f) Reducing Income Streams

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

Activity	Original Estimate	Estimate to end December	Actual to end December	Possible Shortfall/(Surplus)
Building Control	£459,200	£351,980	£285,051	£100,000
Dev. Control	£541,250	£393,680	£427,694	(£40,000)
Land Charges	£179,940	£136,970	£155,438	(£25,000)
Licensing	£300,930	£248,770	£236,590	£20,000
Fleet Ops.	£251,160	£191,160	£171,252	£30,000

39. The FIP reported on the income position as at the end of August, which showed a combined potential shortfall of £230,000. In every area the income position has improved in the subsequent four months. This is particularly evident for Development Control which has seen a potential shortfall of £40,000 turn into a potential surplus of £40,000. The combined potential shortfall is still significant at £85,000 but this is an improvement of £145,000 on the previous position.

40. 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.

41. The shortfalls in income and the other financial pressures necessitated a critical review of fees and charges. One key area that needed to be revisited was pay and display charges in the Council's off-street car parks. These charges had 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. The meeting of this Committee in November decided that officers should bring forward a charging structure which provides £150,000 of additional income and this amount has been included in the MTFS.

(g) Waste and Leisure Contract Renewals

42. 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.

43. 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 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.

(h) Organisational Review

44. In December Council agreed the revised top management structure proposed in the Head of Paid Service Report. From April 2014 the organisation will be based on a four directorate structure. In a full year this will provide a CSB saving of approximately £350,000, although in order to achieve this one-off costs of £370,000 will need to be incurred. The savings and expenditure fall in more than one year as it is necessary for operational reasons for some of the staff affected to remain in post beyond 31 March 2014. Each Director will be reviewing their new directorate to identify both savings and areas in need of additional investment and some adjustments to resources may be necessary during 2014/15.

45. As part of the Head of Paid Service Report, the need was discussed for a DDF budget to support projects on transformational change. The Chief Executive is still to set out in detail his plans for transformation but a budget of £150,000 has been included at this stage.

The Ceiling for CSB Net Expenditure be no more than £14.07m including Net Growth

46. Annex 2 lists all the CSB changes for next year. The MTFS in September included CSB savings of £643,000 but the revised 2013/14 budget has an additional £64,000 of savings. The most significant item not already covered above is a reduction in the NNDR bill for the Civic Offices. Growth of £13,000 had been allowed for this item but a successful appeal has provided a saving of £87,000, a net change of £100,000.

47. The greater savings in 2013/14 and inflation being less than had been allowed for mean that the opening CSB in 2014/15 is £219,000 lower than anticipated in the previous MTFS. This combined with CSB savings being £76,000 higher than the target mean the closing CSB is £295,000 lower than previously predicted.

48. The General Fund summary at Annex 1 shows that the CSB total is £295,000 below the CSB target of £14.07m and it is therefore proposed to reduce the CSB target to £13.77m.

The Ceiling for DDF Net Expenditure be no more than £0.142m

49. The DDF net movement for 2014/15 is £1.6m, Annex 3 lists all the DDF items in detail. The largest cost item is £321,000 for work on the Local Plan. The Local Plan is a substantial and unavoidable project and in 2013/14 and the subsequent two years DDF funding of £0.751m 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 £199,000 for the planned building maintenance programme and £160,000 for the work on asset rationalisation.

50. The DDF lists include £150,000 for the Chief Executive's Transformation Programme. As the organisational restructure is taken forward below the Assistant Director level external consultancy assistance will be necessary to transform processes and structures. Whether all of this funding is needed will depend on the scale and nature of the projects pursued but it is prudent to include a significant budget at this time.

51. At £1.6m the DDF programme is £1.45m above the target for 2014/15. However, this needs to be balanced with the reduction in 2013/14 as the predicted spend in the previous MTFS of £1.557m has been reduced by £0.236m to £1.321m. Taking the two years together there is a net increase in DDF spending of £1.22m. In September the various costs and savings from the restructure were still to be determined and these have increased the DDF spend by £566,000 (severance costs of £371,000, £150,000 for transformation and £45,000 for the temporary Assistant director post for Economic Development), with the other significant new item being the £160,000 for the work on asset rationalization. Therefore, it is proposed to increase the DDF ceiling for 2014/15 from £0.142m to £1.6m. The DDF is predicted to continue to have funds available through to the end of the period covered by the MTFS.

<u>The District Council Tax be Frozen</u>

52. Members have indicated that they want to benefit from the Council Tax freeze grant for 2014/15 and so the Council Tax will not be increased for 2014/15.

<u>That Longer Term Guidelines covering the period to March 2017 provide for</u>

> *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 2017/18, by which time reserves will have reduced to £7.531m and 25% of net budget requirement will be £3.194m.

> *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 2012/13 added £469,000 to reserves, whilst the revised estimates for 2013/14 anticipate a reduction of £160,000. This would leave the opening revenue reserve for 2014/15 at £9.51m and with the estimates for 2014/15 showing a decrease of £243,000, reserves at the end of 2014/15 would be just under £9.3m. The Medium Term Financial Strategy at Annex 4 shows deficit budgets throughout the period to 2017/18. The level of deficit peaks at £931,000 in 2015/16 and reduces to £340,000 in 2017/18, although this is achieved through CSB savings of £700,000 in both 2015/16 and 2016/17 and a smaller saving of £200,000 in 2017/18.

<u>The Local Government Finance Settlement</u>

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 2015/16 the figures may fluctuate following the General Election and the next Comprehensive Spending Review and cannot be predicted with any certainty, although further reductions of 3% each year have been allowed for in both 2016/17 and 2017/18.

<u>The 2014/15 General Fund Budget</u>

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 are encouraging, although some concern exists over a housing price bubble. It seems unlikely now that the country will fall back into a recession and most commentators are predicting growth in the economy. There is less economic uncertainty than at this time last year but with the General Election approaching in 2015 there is increasing political uncertainty. We are also still to see the full impact of the changes to local government financing and the welfare reforms as these remain works in progress.

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 comments in paragraph 22 highlight 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 2014/15 or 2015/16 and subsequent increases of 2.5% per annum for both the following 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 3% for 2016/17 and 2017/18;
- CSB growth has been restricted and the CSB target for 2014/15 of £14.07 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 2017/18 is anticipated to reduce to £0.48m; and
- 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 2017/18 to £7.5m or 59% of NBR for 2017/18, although this can only be done with further savings in 2015/16 and subsequent years.

The Housing Revenue Account

63. The balance on the HRA at 31 March 2015 is expected to be £2.711m, after a surplus

of £0.252 m in 2013/14 and a deficit of £0.916m in 2014/15. 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 2014/15 is likely to see a narrowing of this gap between Council and Housing Association rents, with an average rent increase of 4.91% 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 2014/15 and 2013/14 revised and to note that although a deficit budget is proposed for 2014/15 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 £91m over five years, it is anticipated that the Authority will still have more than £3m 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 2014/15. 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 18 February will consider the recommendations of the Cabinet on the budget for 2014/15 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 2014/15

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 are set out in a separate report elsewhere on the agenda.

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 19 September 2013.
Draft Growth List – Finance & Performance Management Cabinet Committee 14 November 2013.

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.