

EAST HERTS COUNCIL

JOINT MEETING OF SCRUTINY COMMITTEES – 14 JANUARY 2014

EXECUTIVE – 4 FEBRUARY 2014

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

9. CONSOLIDATED BUDGET REPORT: PROBABLE OUTTURN 2013/14; REVENUE BUDGET 2014/15; MEDIUM TERM FINANCIAL PLAN 2014/15 TO 2017/18
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WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

This report recommends a revenue budget for 2014/15 in the context of:

- the Council's priorities
- the medium term financial plan to 2017/18
- funding the capital programme (subject of a separate report)
- the anticipated revenue budget outturn for 2013/14
- the proposed Treasury Management Strategy for 2014/15 (subject of a separate report to the Audit Committee followed by Executive)
- the council tax base for 2014/15 (agreed at Council on 11 December 2013)
- the NNDR base for 2014/15 (to be agreed at Council prior to Executive)
- proposals no council tax increase for 2014/15
- proposals for reserves and balances.

<u>RECOMMENDATION FOR JOINT MEETING OF SCRUTINY COMMITTEES:</u> that	
(A)	The Executive be advised of Scrutiny's comments on the proposals detailed in the report including any amendments to the budget which the Committee wish to be considered by the Executive.
<u>RECOMMENDATIONS FOR THE EXECUTIVE:</u>	
(A)	The probable outturn for 2013/14 be approved and it be agreed

	that any variation at out turn showing an improved position against the under spending reported below, be put to the cost of the priority spend reserve;
(B)	The revenue budget for 2014/15 be approved and, in support of the 2014/15 budget, a one-off payment be made from the reserves of £1.008m to fund a one-off payment to the Pension fund to cap the increased deficit repayments to £600k pa for future years;
(C)	The medium term financial plan to 2017/18 be approved; and
(D)	There be no increase in Council Tax for 2014/15 and 2015/16.

1.0 Background

1.1 The Council continues to set its Medium Term Financial Plans (MTFP) against a backdrop of reducing public expenditure and increasing financial constraints across the sector. The budget for 2014/15 is set in a significantly changed funding regime for Local Government which has the potential to increase the risks locally for financial planning going forwards. Although this new funding regime has been in place since 1st April 2013, the financial impacts are still to be fully analysed for a full financial year. These changes include:

- The cessation of Council Tax Benefit which has been replaced with a locally determined and managed Council Tax support scheme.
- The localisation of Business Rates which places the risks and rewards for increases and decreases in Business Rate yield with the Council.

1.2 The Council's Financial Strategy was updated in September and emphasised its prudent approach to long term commitments and the intention "to maximise the Council's financial resilience". The Strategy included a statement on the policy on general and earmarked reserves emphasising the need to maintain a good level of reserves, particularly given the need to be able to respond to any fluctuations in funding levels presented by the transfer of risk arising from the changes in the way Local Government is funded.

1.3 Following on from the Autumn Statement on 5th December 2013, the government announced the provisional Local Government Finance Settlement for 2014/15 and 2015/16 on 18th December 2013. This is subject to consultation and final checks by DCLG of the data they have used, and will not be finalised until the end of January 2014. The numbers in this report are subject to further revision once the settlement has been finalised if they should differ.

1.4 When the MTFP was refreshed in September 2013, assumptions were made about funding levels for the Council, based upon announcements made in the Comprehensive Spending review in June 2013. At that time, assumptions were made in our funding model that:

- Funding reductions already announced in 2014/15 would remain the same, and that there would be 10% reductions in our total funding from 2015/16 onwards.
- That 40% would be top-sliced from New Homes Bonus funding.
- An overall cap on welfare spending nationally. The impact specifically on East Herts was unknown.

1.5 Following the Autumn Statement in December 2013, and subsequent specific funding announcements, these assumptions have been updated to the following:

- Funding reductions in line with original 2014/15 announcements last year and provisional settlement for 2015/16 consistent with overall funding reductions already assumed in the September refresh
- No top-slice of New Homes Bonus. However, a review was announced of the whole New Home Bonus scheme to be undertaken in early 2014, reporting "Easter 2014"
- The Welfare Cap is still applicable although there is still no indication on what impact there may be locally.
- Council Tax freeze grants from prior years were rolled into our base funding, although this is still all part of our overall funding settlement

1.6 Locally, there are also some further issues that we have considered in more detail since the September refresh and have included these in the updated model:

- The Executive requested that funding for one further year to Parish and Town Councils be included in the budget for 2014/15. This would be at 50% of the level of funding they received in 2013/14 in recognition of the impact of the localisation of Council Tax Support. At the same time, the Executive committed to continue to pass on 25% of the funding the Council receives for New Homes Bonus directly onto Parish and Town Councils.
- Priority Spend budgets for New Homes Bonus had previously been capped at 25% of the 2011 award. This has been amended to be 25% of total award.
- Budgets for 2014/15 (and future years where appropriate) have been amended following a budget challenge session held during August and September. All Heads of Service reviewed their budgets to see if there were efficiency savings that they could propose to meet future funding gaps.
- Following publication of Planning projections and the impact on housing levels for future years, the Council Tax Base and subsequent impact on New Homes Bonus projections at a District Level have been revised
- Results of the Triennial Pension review have been received. The impact of the results has been included in the model. There is a separate note included with this report that explains the rationale.
- As part of the Treasury Management Strategy, the implications of the new investment strategy have been included in the model, particularly in relation to investment in property funds. At this point, no assumptions have been made about investing directly in property.
- New savings, growth and special items have been identified and included in the model

1.7 The impact of the introduction of Council Tax Support in 13/14 and the scheme for 2014/15 was subject to a separate report to Executive in December. The implications of this are already

factored into the financial model.

1.8 The revised model shows a significant variation (reduction) in the new savings that have to be found in 2016/17 and 2017/18 and an increased contingency level in earlier years. These will have to be closely monitored given the level of risk in some of the supporting assumptions:

- Assumed continuation of New Homes Bonus throughout the life of the MTFP. This currently supports 8% of our cost of services of which only 50% of this could immediately be stopped in 2014/15. In 2017/18 this proportion rises to 11%.
- Achievement of increase in interest levels from investment opportunities estimated from property funds
- Continued delivery of savings already planned
- Identification of new savings for 16/17 and 17/18
- Inclusion of Council Tax Freeze grant for 14/15 and 15/16

2.0 Report

Opening balances 1 April 2013

2.1 The budget for 2013/14 was set in February 2013 with an expectation that 31 March 2013 would see a balance on the general reserve of £4,204k. The final accounts recorded a balance of £4,255k i.e. £51k higher than expected.

2.2 The unallocated general fund balance was £3,854k inclusive of the £168k building control surplus. Earmarked reserves compared as follows:

2.3

Reserve	Expected Balance 31.3.13 £000	Actual Balance 31.3.13 £000
Interest Equalisation	1577	1683
Insurance Fund	10	10
Emergency Planning	36	36
VAT partial exemption	146	146
Service Improvement	610	610
LDF/Green belt	764	814
Housing condition survey	65	65
Council election	25	25

LABGI	104	99
Leisure utilities/pensions	240	240
Restructure	33	33
Performance Reward Grant	42	62
Pension strain costs	95	0
Waste recycling income volatility	275	275
Footbridge reserve	150	150
Cost of change	565	1127
DCLG Preventing Repossession	25	30
DEFRA Env. Pollution	35	53
Waste Recycling Reserve	280	461
New Homes Bonus Priority Spend	0	133
Total	5077	6052

Taken together the additional general and earmarked reserves at out turn provide the Council with a further degree of resilience to meet short term pressures. The statement on reserves in September noted that the sum of the general reserve and general fund balance was £805k above ceiling.

Projected outturn 2013/14

- 2.4 The latest health check report at the time of drafting this report is the November report. This shows favourable variances of £1,374k offset by adverse variances of £887k, a net favourable variance of £487k. The health check report includes both service and non service estimates.

Priorities

- 2.5 The Council's priorities against which spending proposals need to be measured have been simplified to the broad strands of People Place and Prosperity.
- 2.6 In summary the key objectives of (and set out in full in) the Corporate Strategic Plan 2013/14 – 2016/17 are

People – Opportunities for everyone to contribute to and access the Council's services

- Support for the vulnerable
- Community engagement
- Health Inequalities
- Satisfaction with the Council

Place – Safe and Clean

- Increased waste recycling
- Satisfaction with cleanliness of the area
- Satisfaction with parks and open spaces
- A sustainable Hertford Theatre
- Reduced council carbon dioxide emissions
- Well managed Council assets
- Reduce fear of crime

Prosperity – Improving the economic and social opportunities to our communities:

- Parking and transport strategy
- Enhance broadband in rural area
- Zero per cent council tax increase
- Development meeting priorities
- Stream line the Council's back office
- Office and industrial space
- Improved economic resilience of market towns
- Guidance for development in Hertford and Ware
- Rural business programme
- Local Development Framework

2.7 The proposals in this report are designed to be consistent with achieving the above objectives within the resources available in particular further freezing of council tax.

2.8 With spending restraint likely to be with all Councils for some time the budget round has necessarily focussed again on where savings can be made that have least impact on priorities. The overall priority has continued to be the prudent management of the Council's finances to avoid unplanned service reductions.

Financial Strategy

2.9 Corporate Business Scrutiny Committee on 27th August 2013 considered a draft updated financial strategy 2014/15 to 2017/18 which was subsequently endorsed by the Executive. Key planning assumptions have subsequently been amended as detailed in Section 1 of this report. These can be summarised as follows:

- Announcements on our provisional settlements for 2014/15 and 2015/16 from Central Government
 - Reversal of the New Homes Bonus Top-Slice
 - 50% of prior year Localisation of Council Tax funding awarded to Town and Parish Councils plus committing 25% of estimated future years New Homes Bonus throughout the life of the MTFP
 - Priority Spend budgets for New Homes Bonus amended to be 25% of total award rather than capped at 2011 levels.
 - Amended for the results of the budget challenge sessions held with Heads of Service.
 - Revision of the Council Tax Base and future New Homes Bonus levels in line with future planning projections published by East Herts.
 - Impact of the Triennial Pensions review included in the model
 - Implications of the new Investment strategy included in the model.
 - New savings, growth and special items have been identified and included in the model
- 2.10 The MTFP retains contingency sums for 2014/15 through to 2015/16. Given the increased uncertainty due to funding changes and the fact that the settlement is still provisional then it is appropriate to retain some form of contingency. This sum would also fund any implications for in-year growth items and would ideally be used to pump prime any invest to save opportunities identified throughout those years, to generate new savings that are still to be identified for 16/17 and 17/18.
- 2.11 The MTFP also contains assumptions around the delivery of efficiency savings and it will be important to ensure that these are closely monitored to ensure that they are delivered on time.
- 2.12 The revised financial model for the MTFP is set out at **Essential Reference Paper B**.

Revenue Support Grant Settlement

- 2.13 The 2014/15 grant settlement was announced in December 2013 but remains provisional until the end of January 2014. Announcements on funding for 2015/16 have also been made, although these remain provisional until January 2014.
- 2.14 In 2013/14, the system for financing Local Government has changed. In prior years the way that East Herts was funded was as follows:
- Our share of Council Tax collected which we bill and collect on behalf of ourselves, Hertfordshire County Council, the Police Authority and our towns and Parishes
 - A revenue support grant that was the difference between our assumed level of spending need and our share of Council Tax and Business rates that we collected according to Government calculations.
 - A share of the yield from Business Rates (also known as NNDR) that the District collects on behalf of Government. The amount to be collected is set by the valuation office and we have no influence over the amount that the rates are set at.
 - Other specific grants, usually awarded with specific outcomes expected. Examples of this are Council Tax Freeze and Homeless grants as well as New Homes Bonus.
 - Any income that we are able to raise ourselves through fees and charges or investing the cash that we have in the bank through our treasury management strategy.
- 2.15 From 2013/14 the way we are funded changes in that the business rates that we collect are now used to fund our services. The main change for 2013/14 and future years is that the funding from Business Rates will no longer be a share of the National Pool and instead the Business Rates that we collect are shared between us as the billing authority, and precepting authorities and Central Government. The actual rates payable by a business are still determined nationally.
- 2.16 In the first year of the new arrangements, 2013/14, there is a gap between the Government's overall spending control totals and the

anticipated level of the local Business Rates share. This difference is made up by Revenue Support Grant (RSG). It is anticipated that the level of RSG will reduce in future years in-line with the forecasts for public spending outlined in the last Spending Review and the 2013 Autumn Statement. Certain special and specific grants for each authority have been amalgamated to give authorities more control over how they may be used.

- 2.17 Monitoring and forecasting the levels of business rate collection in 2013/14 and future years is therefore much more important than in previous years,
- 2.18 In addition to the changes in funding, the system by which vulnerable residents are able to receive support to pay their Council Tax bills has changed. Council Tax Benefit which was nationally funded and set, has been replaced by a locally determined Council Tax Support system. Funding for this forms part of the overall budget for 2013/14 and future years and the implications of a reduction in funding of the scheme have been included in the calculation of the overall budget.

The revenue Budget 2014/15

- 2.19 The budget 2014/15 can be summarised as follows:

	£000	£000
Neighbourhood Services	3,289	
Customer and Community Services	5,775	
Finance and Support Services	3,955	
- capitalised salaries	-26	12,993
Investment income net of interest payable		(208)
Further efficiency savings and fees net of growth		318
Contingency		513
Net Expenditure		13,616
Movement in Pension Reserve (Deficit contribution)		600
Contributions to reserves		(129)
Net Expenditure after reserves		14,807
Funded by:		
Collection Fund (Surplus)/deficit		0

RSG / Retained NNDR	(5238)
Grant to freeze council tax	(94)
General Revenue Grants	(16)
Leaving:	
Demand on Collection Fund	8739

Band D tax base	55,469
Band D tax	£157.54

Note 1 The service estimate figures exclude capital charges (see separate report) which will be added prior to publication of detailed estimates. Costs to be added relate to pension strain costs and pension contributions to fund the deficit which is not included in current costs.

2.20 The MTFP savings are set out at **Essential Reference Paper B**. Total ongoing savings for 2014/15 total £430k of which

- Additional proposals subject to confirmation £64k
- Savings achieved and included in detailed estimates £366k

2.21 In refreshing the MTFP the savings proposals in respect of 2014/15 have been varied from earlier proposals included in the Budget Strategy as follows:

£000

Amended Proposals

Planning and Building Control – reduction of savings by 72

Democratic and legal services, savings deferred to 14/15 13

Revenue affects of new Capital Schemes (addition of) (23)

Net reduction of 62

2.22 The contingency for 2014/15 at £513k has reduced from the figure reported in September at £692k.

Council Tax

2.23 We are assuming that Council Tax Freeze Grant, equivalent to 1% of the rise will be available to the Council should it choose to

freeze in 2014/15. The model assumes both a grant to cover the freeze in 2014/15 and 2015/16 and the corresponding Council Tax freeze. If this is not forthcoming, this will cost £94k.

Reserves

- 2.24 The proposals in this budget include one call on the general reserves, to fund the one-off contribution to the Pension fund. More detail can be found in **Essential Reference Paper D**.

The General Fund Balance is unchanged at £3,854k over this period. There is no planned call on the general fund in the period 2014/15 to 2017/18.

- 2.25 Movement on the General Reserve in 2013/14 based on the probable outturn is as follows:

	£000
Balance 1 April 2013	4,255
Add	
Planned use 2013/14 budget	0
Approval to use some of the 2011/12 under spending	-80
Net variance	558
Estimated balance 31 March 2013	4,733

- 2.26 In setting the budget for 2013/14 and MTFP it was previously planned to draw on earmarked reserves and these intentions are broadly retained. Some additional appropriations are now anticipated relations to the use of LABGI and Environmental Pollution.

- 2.27 The consequent (additions to) and withdrawal from reserves will result in year end balances as set out in the table below.

Reserve	Bal at 31/3/14 £000	Bal at 31/3/15 £000	Bal at 31/3/16 £000	Bal at 31/3/17 £000	Bal at 31/3/18 £000
Interest Equalisation	2,144	2,110	2,110	2,110	2,110
Insurance Fund	10	10	10	10	10
Emergency Planning	36	36	36	36	36
VAT partial exemption	146	146	146	146	146

Service Improvement	610	610	610	610	610
LDF /Green belt	734	714	444	384	324
Housing condition survey	79	43	57	71	71
Council Elections	50	75	0	25	50
LABGI	94	94	94	94	94
Leisure utilities/pensions	300	300	300	300	300
Restructure	33	33	33	33	33
Performance Reward Grant	35	0	0	0	0
Pension Strain costs	0	0	0	0	0
Waste recycling income volatility	275	275	275	275	275
Footbridge River Stort	150	150	150	150	150
Cost of Change	1127	1127	1127	1127	1127
DCLG Preventing Repossessions	30	30	30	30	30
Environmental Pollution	29	0	0	0	0
New Homes Bonus Priority Spend	313	313	313	313	313
Total	6,195	6,066	5,735	5,714	5,679

Robustness of estimates and adequacy of reserves

- 2.28 Section 25 of The Local Government Finance Act 2003 requires the Section 151 Officer to report on the adequacy of reserves and robustness of the estimates. The balance of this section represents the judgement of the Section 151 Officer.
- 2.29 The Council adopted a strategy in regard to reserves in September and the proposals as they currently stand breach that policy. However, given that there are a number of risk areas that need to be considered then it is the judgement of the Section 151 Officer that this level of reserves is adequate and not excessive. The increased level of uncertainty in funding going forward and the impact on the Council's services of the substantial changes in

Welfare Reform have added financial risk to the Council. Consideration is also given to the fact that this settlement is based on provisional information from DCLG.

- 2.30 This judgement has regard to the Council's record of containing spending within budget, it having identified saving options in excess of the sum needed to balance the MTFP and its prudent approach to risk management. Consideration has been given to potential calls on reserves to meet external "shocks" – from environmental, economic, and operational uninsured losses having regard to the Council's activities and scale of operations. A more detailed stress test is included at **Essential Reference Paper C**.
- 2.31 The Council retains very substantial investments in relation to its annual spend and has brought forward a paper in regard to considering a new Investment Strategy which is currently being considered and will be brought forward for further decisions in 2014. It is prudent to retain above minimum levels of reserves in these circumstances.
- 2.32 The relative risks to budget assumptions are set out below together with a judgement of relative risk of actual experience differing from current assumptions. The potential direction of variance needs to be considered e.g. the risk to pay and inflation assumptions is on balance that current planning assumption may prove optimistic.

Area of Risk	Factor	Comment and Mitigation	Illustrative Cost of variation
Volatility of grant income	Medium/High	Although the RSG element of formula grant is certain for 2014/15 retained business rate grant income is subject to changes in debit collectable.	A 5% reduction in RSG/NNDR Income = £262k
Localisation of council tax support replacing	High	In setting our local scheme	Each 1% increase in

Council Tax Benefit		there are risks about the increasing needs of our residents and there is a possibility that increasing numbers of individuals may come forward for support	spend on CTS would cost East Herts an additional £8k
Discretionary Rate Relief	Low	No provision is made in the MTFP to respond to proposed freedoms to extend discretionary NNDR relief. Any awards now directly impact on the Councils funding	The policy for 2014/15 has now been set.
Income achievement	Medium	Income levels are reviewed annually as part of the fees and charges report where Heads of Service will estimate the expected levels of income for their service areas based on the most up-to-date performance information that they have.	A 5% shortfall on car park income = £160k A 5% shortfall in other income = £85k

Achieving savings	Medium/High	Targets become increasingly challenging over the MTFP and public acceptability of some proposals may be difficult to achieve.	A 10% under achievement of total planned savings to 17/18 = £113k
Interest rates	High	There are divergent views on the direction of short term rates reflecting different assumptions about the impact of markets concerns about sovereign debt and how the UK economy will respond to public sector spending cuts and increased taxes. The MTFP anticipates investment returns consistent with OBR forecasts.	The £10m structured deposit has a floor rate of 3.7%. Other fixed rate deposits range from 0.6-2%. With varying terms to August 2014. The balance of funds (c £25m) are anticipated to return between 0.7% and 2.05% over the period of the MTFP. A 0.5% variance on overall investments equates to around £335k.
Compliance with grant requirements	Low	Recent audits record a good performance	Nil

Vacancy saving	Medium	The provision has been reduced to reflect current lower levels of turnover	The factor allowed is 2% a reduction to 1% would cost £110k
Pay and inflation	Medium	A 1% pay award has been assumed with further increases of 1%, 2.5% and 2.5% from April 15, 16 and 17 respectively	A 1% equates to circa £110k per year
Pension costs	Low	Pension contributions reflect the latest triennial review in 2013 and are therefore as up-to-date as possible. The next review will be in 2016 and will impact in 2017/18	Pension costs are not variable from 2014/15 to 2016/17
Council tax increases	Low	The target for zero increases is determinable by the Council.	A 1% increase = £94k
Changing Council priorities	Low	The Council has refined its key priorities and fine tuning rather than significant revision is likely.	Not quantifiable

2.33 The estimates are considered sufficiently robust for the Council to set a budget and council tax for 2014/15

2.34 **Essential Reference Paper C** sets out a stress testing of the MTFP by considering different scenarios by which the Council might be subject to unexpected financial pressures. The intention is to illustrate how resilient the Council's finances would be to a single or series of incidents.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**).

Background Papers:

Bank of England Inflation Reports

OBR reports

Local Government Finance Settlement December 2012.

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