

# CABINET

## Budget and Policy Framework Update 2015/16 02 December 2014

### Report of Chief Officer (Resources)

PURPOSE OF REPORT			
This report provides an update on the Council's financial position to help inform development of Cabinet's budget proposals.			
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
		Referral from Officer	<input checked="" type="checkbox"/>
Date of notice of forthcoming key decision	2 November 2014		
This report is public.			

#### OFFICER RECOMMENDATIONS:

1. That Cabinet notes the draft budgetary position for current and future years as set out in the report, accepting that this is an interim update.
2. That the update be referred on to December Council for information.

#### 1 INTRODUCTION

- 1.1 This report builds on the Quarter 2 financial monitoring included elsewhere on the agenda, to provide a more up to date assessment of the Council's budgetary position in view of its financial strategy. Given that the Local Government Settlement has not yet been received and other budgetary work is not yet scheduled for completion, the report is an interim update only, primarily for information.

#### 2 STRATEGIC CONTEXT

##### 2.1 THE COUNCIL'S POLICY FRAMEWORK

- 2.1.1 For its 2014/16 Corporate Plan, the City Council retained its priorities as:

- Economic Growth
- Health and Wellbeing
- Clean, Green and Safe Places, and
- Community Leadership

- 2.1.2 These are now underpinned by an ethos aligned to being an Ensuring Council.
- 2.1.3 In Cabinet approving this year's budget timetable, it was acknowledged that the focus of any budget and planning proposals would be to redefine and reduce activities against existing priorities, rather than there being any fundamental changes being developed. It has already been recognised that big financial challenges still lie ahead and that the Council's contribution to each priority will be significantly affected in future by reductions in Government funding. Furthermore, the impact of other authorities' (County, Fire & Police) and other stakeholders' budget decisions are expected to have major direct implications for the district, with knock on implications for the City Council and its own delivery of services.
- 2.1.4 To help tackle these financial challenges, as part of its Medium Term Financial Strategy (MTFS) the Council continues to take savings decisions in year where possible, and as a result the Strategy explicitly states that underspendings should be expected to arise during the course of the year, in revising the current year's budget as well as at outturn. The budget update should be considered in this context.

## **2.2 LOCAL GOVERNMENT FINANCE SETTLEMENT**

- 2.2.1 The provisional Local Government Finance Settlement is not expected to be announced until sometime after the Chancellor's Autumn Statement, which is scheduled for 03 December. A briefing note will be produced for all Members once the Settlement has been received and its impact assessed, subject to timing. In any event, it will be reported formally into January's Cabinet meeting.
- 2.2.2 The content of the Autumn Statement is expected to influence both the impact and timing of the Settlement. As a recap:
- The MTFS approved back in February assumed that the Settlement Funding Assessment (SFA) from Government would reduce by £1.7M or 16.0% in 2015/16 in cash terms, and by a further £0.5M (5%) the year after.
  - The 2015/16 figure was a specific estimate as provided by Government; the 2016/17 figure was an Officer indicative estimate only, in the absence of any firmer information.
  - As a broad measure, every 1% change in Government funding amounts to around £90K for 2015/16, or around 1.2% in city council tax terms.
- 2.3 The outcome of the Settlement could have a direct bearing, therefore, on the Council's short and medium term planning and the scope or nature of its future priorities.

## **3 GENERAL FUND REVENUE BUDGET: SUMMARY**

### **3.1 CURRENT YEAR POSITION**

- 3.1.1 In support of the existing Corporate Plan, at Council on 26 February Members approved the current year's budget at £18.540M, excluding parish precepts, giving rise to a council tax requirement of £7.6M. Since then, various changes have

become apparent through monitoring and more significantly, numerous savings measures have been taken in preparation for future years' challenges.

3.1.2 To draw these together, an in-depth update of the current year budget has now been completed, the results of which are included at **Appendices A and B**. Net spending of £17.764M is now forecast, giving a projected net underspending of £776K, prior to the review of provisions, reserves and Balances. The position is explored further in section 5 of this report.

3.1.3 Taking account of the changes, Revenue Balances would stand at £4.031M as at 31 March 2015. This is £1.053M higher than expected back in February, but there is still time for the revised budget position to change further over the coming weeks.

### 3.2 FUTURE YEARS' FORECASTS

3.2.1 The first draft of next year's budget has also been produced, in accordance with Financial Regulations and the MTFs. Currently it stands at £17.066M for 2015/16, as shown in **Appendix A**.

3.2.2 In the same vein, forecasts for 2016/17 and 2017/18 have also been updated. In simple terms the outlook is as follows:

	2015/16 £'000	2016/17 £'000	2018/18 £'000
Original Budget Limit	18,877	19,154	n/a
Less Original Forecast Use of Balances	(1,000)	-	
<b>Net Revenue Budget</b>	<b>17,877</b>	<b>19,154</b>	
<b>Current Net Forecast</b>	<b>17,066</b>	<b>18,399</b>	<b>18,962</b>
<b>Reduction in forecast Net Spending</b>	<b>(959)</b>	<b>(755)</b>	<b>n/a</b>
<b>Reduction in forecast Use of Balances</b>	<b>148</b>	<b>--</b>	<b>n/a</b>

3.2.3 A number of key points are highlighted:

- Base budget changes in respect of pay, price and other economic conditions have been provided for. Pay inflation is based on the recent national pay proposals and estimated at 1% per year thereafter. General inflation is provided for at 1.6% per year, but this was determined before the Bank of England's November Inflation report was received, and therefore general inflation factors are likely to change again for reporting and fixing in January. The update on the Council's fees and charges policy has been deferred, to allow for reconsideration of inflation expectations.
- Whilst operational savings have been built in, the draft position does not include any specific savings proposals that Cabinet may wish to consider, nor does it

allow for any new growth options (or the continuation of previous fixed term ones).

- New Homes Bonus income estimates have been updated, reaching a maximum of £1.7M in 2017/18. For eligible properties, the bonus is paid for six years and as the scheme started in 2011/12, from 2017/18 the early years' allocations are starting to drop out. At present, this is not impacting adversely on the Council's medium term planning but it is something to keep under review. It is not known whether, or to what extent, the NHB scheme will remain as a permanent feature or how its future might impact on other future Government funding streams.
- Capital financing costs have been updated to reflect the latest draft capital programme, set out later in this report.
- At this stage the budget is based on previously approved use of Balances, i.e. a one-off £1M contribution being used in 2015/16 but adjusted down by £148K to balance off the budget, given the net savings that have been identified to date.

3.2.4 On a more specific matter, the Council has approximately £22K of grant remaining in relation to mortgage rescue, or preventing homeowners from losing their homes. Whilst this specific scheme has now finished, the budget provides for these funds being used to extend the fixed term staffing resource for homelessness prevention until the end of 2015/16; this is on the basis that the posts involved would deal specifically with any homeowners facing repossession, as well as other homelessness prevention work. The business case and means by which this homelessness prevention capacity could be made permanent are also being explored.

3.2.5 Undoubtedly the budget position will change further in the coming weeks and more information will be fed into the January Cabinet meeting.

#### **4 PROVISIONS, RESERVES AND BALANCES (GENERAL FUND)**

4.1 Other than reviewing the Retained Business Rates Reserve and allowing for the normal in-year application of funds, there has been no wider review of reserves and provisions as yet.

4.2 In terms of Balances, as indicated above next year's budget still allows for the use of £852K. This use is reasonable and manageable in the circumstances, but it should not be overlooked. Without it, the Council would have to identify more savings to cover the funding gap.

4.3 It is also worth highlighting too that such reliance on the use of Balances is a comparatively recent addition to the Council's financial planning arrangements, the approved principles being to:

- use some surplus Balances to help protect key services to the public for a period;
- leave remaining Balances to help address the fundamental budget challenges that are expected beyond 2015/16; and
- reduce the budgeted call on Balances if the Council makes extra savings.

- 4.4 Taking account of the current year's forecast underspending and next year's usage, this would leave £2.179M of Balances available, if advice on minimum levels remains unchanged. These matters will be explored further in the coming weeks.

## **5 LOCAL TAXATION**

### **5.1 Council Tax Rates and Targets**

- 5.1.1 Alongside the Settlement announcement, Government is expected to confirm its proposals regarding future council tax freeze compensation schemes and council tax referendum thresholds.
- 5.1.2 Drawing on last year's experience, a local referendum threshold of just below 2% (1.99%) is still assumed, in line with existing MTFs targets. A 1% change in council tax now amounts to around £77K.
- 5.1.3 Regarding the tax freeze compensation scheme, back in February Government announced that compensation broadly equivalent to 1% would be available for 2015/16. Such compensation entitlement is to be built into the spending review baseline, the inference being that authorities who freeze council tax will not see such funding dropping out automatically in future. Nonetheless, there would still be a net income gain of approaching 1% readily available to those councils that choose to increase tax rates, unless the referendum threshold further reduces.
- 5.1.4 Once Government has made the relevant announcements, the various scenarios will be presented to Cabinet in order that informed recommendations can be made regarding future council tax rates and targets. This is scheduled for January Cabinet.

### **5.2 Localised Council Tax Support (LCTS)**

- 5.2.1 Following on from Council's decision to retain existing support levels, the expected financial impact from the scheme has continued to be monitored. Latest estimates are that the cost of the scheme continues to fall slightly; in this year effectively a projected cost of £9.8M has been allowed for. In future years, the impact is simply expected to rise in line with council tax rates, i.e. a little under 2%. The outcome of the scheduled national review should help to inform future policy on this matter.

### **5.3 Council Tax Collection**

- 5.3.1 Council tax income (i.e. the amount collectable) continues to rise in year by more than estimated. The increase is the net result of all the various changes that occur in the tax base during the year, be they in relation to new homes being built, empty properties coming back into use, changes in LCTS awarded from that budgeted, and the myriad of other banding, discount and exemption changes that occur on a daily basis. Furthermore, actual collection is holding up reasonably well.
- 5.3.2 These points result in the current estimated surplus of around £1M on the Collection Fund, to be shared with other major precepting authorities. £130K would be due to the City Council and this is reflected in the 2015/16 draft budget. Figures will be finalised in January, in line with statutory requirements.

5.3.3 Looking ahead for next year onwards, the council tax base projections have been provisionally updated as follows:

- in 2015/16, the base has increased from 38,200 to 38,500, equating to £61,000 additional income;
- in 2016/17, the base has increased from 38,450 to 39,100, equating to £135,000 additional income;
- this trend has been factored into 2017/18 also.

5.3.4 It is impossible to forecast the tax base with absolute certainty and so risks will always exist. Nonetheless, the exposure is considered manageable and in any event, all indications are that housing needs will continue to grow.

5.3.5 On the downside, a bigger population increases the demand for council services. As far as possible these have been considered in drafting the budget but this is not an exact science and it will need to be kept under review.

#### 5.4 **Business Rates Income**

5.4.1 Getting behind the Business Rate Retention Scheme continues to be a major challenge for informing General Fund budget setting and financial strategy. The Council's hugely disproportionate exposure to rating appeals looks set to continue into 2017 and probably beyond. Although options for more fundamental reform of the system may be considered at some point, realistically the outcome would be a matter for the longer term.

5.4.2 The completion of last year's accounts now gives certainty in terms of that year's position, however. This and other information has been used to update future years' assumptions and budget projections. The following points should be noted:

- Of the £1.7M Business Rates Reserve opening balance for this year, around £400K should be available to underpin the Council's budget projections. The remaining £1.3M is expected to be used to offset the Council's share of the Collection Fund (Business Rates) deficit existing as at the same date.
- In terms of the potential £2M growth (over and above the Council's baseline funding level) identified as part of Quarter 2 monitoring, this looks likely to reduce to around £1.4M taking account of more recent information. It is clear though that current year's growth could continue to fluctuate and in any event it will not be finalised until September 2015, when the final Government returns are completed.
- In effect, there is a two-year delay between the year in which growth is identified, and it being certain enough for it all to be built into the next budget round (e.g. any 2014/15 actual growth in income will be available to help support the 2016/17 budget).
- Assuming that the Council continues to experience a trend of increasing growth in business rates, however, and as long as reserves can support the position, it is reasonable to start budgeting for Business Rates income at the baseline, rather than at the safety net. This helps the Council's budget by almost £400K per year, and it is now factored in from the current year onwards.

- Risks around this new approach will be managed through the Business Rates Reserve. The remaining £400K opening balance, and almost £400K of additional income now recognised in the current year, have been retained in the Reserve for this purpose.

5.4.3 All the above points will be tested further and there is a major caveat attached, in that the forthcoming Settlement and associated Government returns due to be received and completed in January could fundamentally change current assumptions. It remains a very complex and uncertain situation.

## 6 VARIANCE ANALYSIS: WHY HAVE BUDGET PROJECTIONS CHANGED?

6.1 To draw informed conclusions about the robustness or otherwise of the Council's budgeting, it is necessary to understand more on the nature and reasoning behind the variances, and to understand the comparators.

6.2 At the highest level, movements against the previously identified budget funding gaps (or savings requirements) can be analysed simply as follows:

	2015/16 £'000	2016/17 £'000
Reduction in Net Spending (allowing for Balances)	(959)	(755)
Estimated Collection Fund (Council Tax) Surplus	(131)	-
Forecast increase in Council Tax Base (in £ terms)	(61)	(135)
<b>Total Savings Identified to date</b>	<b>(1,151)</b>	<b>(890)</b>
Original Funding GAP / Estimated Savings Requirement <i>(MTFS, February 2014)</i>	1,003	2,527
Difference: either <b>Reduction in call on Balances</b> or <b>Updated Savings Requirement / Funding Gap</b>	<b>148</b>	<b>1,637</b>

6.3 It can be seen that changes in council tax income have an effect, and these have already been explained in section 5.3.

6.4 In terms of net spending, a fuller analysis is attached at **Appendix B**. The main reasons for variance are considered to be:

- active management and development of the budget, in support of the Council's financial strategy;
- changes in demand for services, and price factors; and
- changes in the estimated timings of various initiatives and spend patterns.

- 6.5 It is pleasing to note that underspendings continue to arise from proactive savings measures, as well as other budgetary changes. Making savings during the year is an important and accepted element of the Council's approved financial strategy.
- 6.6 As in previous years, the salaries budget has again delivered the largest savings. This is inevitable given the size of the budget (£20M) and the extent of change ongoing. As an example and on top of planned restructurings, rather than fill all vacancies immediately when turnover arises, typically services are considering whether and how to address the reduction in staffing resource, and this often adds to turnover savings.
- 6.7 Another angle to consider is the scale of any under- or overspending. Whilst it is typically expressed as a percentage of the net revenue budget, this does not give a full picture – not least because the Council's gross budget (and therefore the scope for variances arising) is much higher, at around £100M per year.
- 6.8 When compared against the gross budget position, underspendings appear much lower in percentage terms – at less than 1%. In light of the Council's financial strategy and budgeting approach, this is considered good performance.
- 6.9 Nonetheless, it is important that the Council challenges its budget setting approach to ensure that it remains fit for purpose, and to identify any further scope for improvement. For instance:
- Does the Council's approach to budgeting cause any undue adverse impact on service delivery, to warrant any major changes in the approach?
  - Are there any significant variances that could have (and should have) been foreseen and allowed for in setting the budget?
- 6.10 Chief Officers are considering such questions, as services develop their business plans. Other than undertaking a further review of vacant posts and turnover provisions, no major improvements or changes put forward by Officers at this time. Also, more minor improvements are achieved through the usual budget review processes. Cabinet is requested to consider its views on this.

## **7 BALANCING THE BUDGET AND LONGER TERM EXPECTATIONS**

- 7.1 Given that the Settlement announcement is imminent, at this stage there is little point in modelling any alternative scenarios for next year or thereafter. From this budget update, it is clear that attention must focus predominantly on 2016/17 and beyond but it is unknown to what extent this period will be covered by the Government's forthcoming announcements, if at all.
- 7.2 There is another significant cautionary note also. The recently announced public consultation on the County Council's budget proposals helps to highlight the issue, and perhaps it helps make the expectation of future budget setting difficulties more real. Just drawing on one such budget proposal, the end of the cost-sharing agreement in connection with waste management will add around £1.1M to the City Council's own funding gap in 2018/19, which is currently just beyond the Council's current revenue planning horizon. Although really good progress continues to be made in balancing the budget for the short term, fundamentally the expected impact



of medium to longer term austerity measures has not gone away. Work continues therefore on developing an organisational development / change programme, for consideration by Members in due course.

## 8 GENERAL FUND CAPITAL PROGRAMME

- 8.1 Alongside updating revenue expectations, the capital programme has been updated for known changes to date as well as being rolled forward a year into 2019/20. Gross capital investment of £36.8M is currently forecast over the period, resulting in an increase in the Capital Financing Requirement (or underlying need to borrow) of £14.5M. This is now £2.4M higher, predominantly as a result of asset renewals.
- 8.2 In line with the practice adopted a year ago, vehicle, plant and equipment acquisitions are now assumed to be financed as outright purchase, rather than by operating lease, hence this represents the bulk of essential investment. It is still expected that from 2017 or so, all lease arrangements will need to be treated as capital or “on balance sheet”. Nonetheless, in the meantime options appraisal will continue as appropriate under delegated authority, with revenue and capital budgets being updated accordingly following decision.
- 8.3 £159K is now included to meet old contractual liabilities in respect of West End properties, to be financed from the Capital Support Reserve in line with its delegated use. This is listed in the programme as Adactus Top Up Grants.
- 8.4 A full capital programme summary is included at **Appendix C**, and the movements to date are summarised below.

	Gross Programme	Change in Underlying Borrowing Need: CFR
	£000	£000
<b>Original Approved 5 Year Programme (to 2017/18, excluding last year)</b>	<b>21,568</b>	<b>+12,106</b>
<b>Key Changes:</b>		
Wave Reflection Wall ( <i>Cabinet April 2014, minute 103</i> )	9,097	-
Approved Slippage ( <i>Cabinet July 2014, minute 28</i> )	1,706	+698
Quarter 2 Monitoring: Officer Delegated Changes	50	-
Affordable Housing Related Schemes ( <i>S106 and officer delegation</i> )	239	-
Vehicle, Plant and Equipment Renewal Updates (provisional)	3,374	+3,166
2019/20 Assumed Extension of Disabled Facilities Grants	783	-
Other Net Changes in Externally Funded Schemes	-33	-
Additions / Increases in Other Council Funded Schemes	93	-
Net Increase in Forecast Capital Receipts (used to reduce borrowing need)	-	-1,421
<b>Total Changes</b>	<b>15,309</b>	<b>+2,443</b>
<b>Resulting Draft 6 Year Capital Programme (to 2019/20)</b>	<b>36,877</b>	<b>+14,549</b>

8.5 As stated each year, all of the Council's capital investment plans need to be affordable, sustainable and prudent, and capital investment is intrinsically linked to the revenue budget. As such, the draft programme will continue to be updated during January and February as Cabinet's budget proposals develop.

**9 COUNCIL HOUSING (HOUSING REVENUE ACCOUNT- HRA)**

9.1 As reflected in the MTFs, Cabinet's current rent policy for council housing is based on:

- an average rent of £69.91 for 2014/15, representing a 1% increase on the previous year;
- target average rent increases of 2% in 2015/16, with 3% each year thereafter.

9.2 The aim of this policy is to strike a balance between keeping rents affordable, managing financial risks, and increasing and improving council housing provision. For information a 1% change in rent equates to around £135K.

9.3 As part of the current budget process both revenue and capital estimates have been updated, reflecting the above rent policy. The latest draft position is as follows:

	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>
Draft Housing Revenue Account (Surplus) for Year	(41.0)	(41.6)	(489.2)	(773.4)

9.4 The latest projections represent a net overspending of £32K in the current year, when compared with the original projected surplus of £73K, and at present this has simply been met from Balances. For information, the current recommended minimum level for HRA balances is still £350K, subject to formal review.

9.5 Cabinet may recall that the 30-year business plan currently works on the basis that monies will be set aside in the earlier years, to offset higher costs in the latter years. This principle accounts for the large surpluses showing in 2016/17 and beyond.

9.6 The biggest issue that has been tackled in the budget review so far is that of budgeting for responsive repair and maintenance costs. This budget has been increased by over £400K per year, financed through reducing the annual contributions to some equipment reserves, and reducing revenue financing for the capital programme. This is considered manageable in the medium term at least.

9.7 The HRA capital programme has been updated as normal to reflect business plan needs and price changes, but these are fairly minor. More significant changes will come through in due course to reflect the outcome of the recent stock condition survey, but the timescales for completing this work are not yet finalised. Furthermore, the programme does not yet include provision for delivering new council housing within the district.

9.8 With regard to future rent policy, back in October Cabinet resolved that a review be undertaken to ensure that it is fit for purpose going forward, in light of Cabinet's

stock expansion plans as well as existing business planning needs. Provisionally it is assumed that will be a matter for the 2016/17 budget, as by then plans should be clearer.

- 9.9 Of more immediate concern, full HRA budget proposals for 2015/16 will be presented to Cabinet in the New Year.

## 10 DETAILS OF CONSULTATION

- 10.1 Consultation on General Fund matters will be undertaken with relevant stakeholders through the Budget and Performance Panel meeting in January, prior to Budget Council in early March. Consultation on council housing matters will be undertaken through the District Wide Tenants' Forum. This is in line with the Council's consultation strategy.

## 11 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 11.1 Given that this report is primarily for information, no specific options are put forward.

## 12 CONCLUSION

- 12.1 The Council is making really good progress in delivering budget savings in a constantly changing and difficult environment, whilst trying to minimise the impact on local communities. It is right to challenge the approach and robustness of budget setting, but it also right to recognise the efforts and achievements of all those involved.
- 12.2 Those achievements have still not negated the reliance on using Balances to help support next year's General Fund budget, however, and this is not sustainable for the longer term. It is hoped, but by no means guaranteed, that forthcoming Government announcements will give greater certainty in terms of the Council's financial outlook – but in any event the medium to longer term budget challenges are still expected to be huge, even allowing for the Council's healthy levels of reserves and balances.
- 12.3 Finally, an important part of those future challenges will be to manage communities' expectations, and it is thought that as other public services providers' budget reductions start to bite, this will gain momentum.

<b>RELATIONSHIP TO POLICY FRAMEWORK</b>
The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.
<b>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc)</b>
None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.
<b>FINANCIAL IMPLICATIONS</b>
As set out in the report.

**SECTION 151 OFFICER'S COMMENTS**

The section 151 Officer (as Chief Officer (Resources)) has produced this report as part of her responsibilities.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no observations to make on the report.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

None. Background information has previously been published as part of earlier committee reports, as appropriate.

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