

## **FINANCIAL PROSPECTS AND BUDGET STRATEGY 2015/16 AND BEYOND**

### **Cabinet – 11 September 2014**

Report of	Chief Finance Officer
Status:	For Decision
Also considered by:	Finance and Resources Advisory Committee – 2 September 2014
Key Decision:	No

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#### **Executive Summary:**

This report sets out the major financial pressures the Council is likely to face over the next ten years, together with a proposed strategy for setting a balanced and sustainable budget for 2015/16 and beyond. The Council has an excellent track record in identifying, planning for and addressing financial challenges. In light of the challenging financial position facing all authorities four years ago, for 2011/12 the Council produced a 10-year budget together with a savings plan for the first time. This will be the fifth year this method has been used and provides the Council with a stable basis for future years.

Building on the considerable progress made over recent years, this report updates Members on significant risk areas as well as setting out the way forward for the budget setting process.

The overall emphasis is on building on the strong framework provided by the 10-year budget, whilst taking into account any new Government funding and policy announcements as well as changes in the economy that have an impact on budget assumptions. This report also provides Members with the proposed timetable for the budget setting process.

It is increasingly difficult to produce an accurate forecast at this stage due to the level of uncertainty remaining high. The assumptions currently included take into account the latest information and are intended to start the debate. They will be updated as more accurate information becomes available during the budget setting process.

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**Recommendation to Finance and Resources Advisory Committee:**

Advise Cabinet with views on the ten-year financial planning approach and principles set out in this report.

**Recommendation to Cabinet:**

- (a) That subject to the views of the Finance and Resources Advisory Committee, endorse the ten-year financial planning approach and principles set out in this report;
- (b) request Advisory Committees to review Service Plans and advise Cabinet of possible growth and savings options;
- (c) request officers to continue to review the assumptions in this report and report back to Cabinet on 11 December 2014; and
- (d) note the budget timetable set out in Appendix A.

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**Introduction and Background**

- 1 The Council's financial strategy over the past ten years has worked towards increasing financial sustainability and it has been successful through the use of a number of strategies including:
  - implementing efficiency initiatives;
  - significantly reducing the back office function;
  - improved value for money;
  - maximising external income;
  - the movement of resources away from low priority services; and
  - an emphasis on statutory rather than non-statutory services.
- 2 Over this period the Council has focused on delivering high quality services based on Members' priorities and consultation with residents and stakeholders. In financial terms, the adoption of this strategy has to date allowed the Council to move away from its reliance on general fund reserves which has ensured that the general fund reserves have remained largely unchanged.
- 3 Due to the level of funding and other potential changes and uncertainties, it is increasingly difficult to anticipate with sufficient accuracy what the level of Government settlement is likely to be after 2015/16. However, using the data sources available to the Council, this report sets out a budget deficit figure over the 10-year period but recognises that this is a constantly changing situation and more accurate data will become available in future months.
- 4 In setting its budget for 2011/12 onwards, the Council recognised the need to address both the short-term reduction in Government funding as well as the longer-term need to reduce its reliance on reserves. The outcome was a 10-year

budget, together with a four-year savings plan, that ensured the Council's finances were placed on a stable footing but that also allowed for flexibility between budget years.

- 5 With the amount of Revenue Support Grant provided by Government continuing to reduce at a significant rate it is important that the council aims to become more self-sufficient by having a balanced economy with local solutions. These solutions include:
  - continuing savings;
  - below inflation increases;
  - council tax; and
  - increased income.
- 6 The intention of this report is to enable Members to give early consideration to the pressures likely to be faced by the Council and put in place a long-term solution that ensures service reductions are minimised. This report sets out the high level approach and principles but a report to Cabinet on 11 December 2014 will provide further budget details along with analysis of the areas the Cabinet has requested officers to consider in assisting the balancing of the budget, as well as feedback from advisory committees on proposed service plans for 2015/16 onwards.

## **Financial Pressures 2015/16 to 2024/25**

### Overall Summary

- 7 In the medium term, the Council will have to progress its savings plan and maintain tight control over net expenditure in order to deliver its 10-year budget.
- 8 Looking at expenditure, inflation is running at 1.6% (CPI at July 2014). Included within the Government's 2014/15 settlement announcement were illustrative figures for 2015/16 which show the Revenue Support Grant reducing by 32%, from £2.225m to £1.503m.
- 9 The 10-year budget attached at Appendix B shows a current shortfall of £0.647m. This position is likely to change as Chief Officer's review the growth and savings requirements for their services.
- 10 The paragraphs below set out the position in more detail and assess the impact on the current 10-year budget.

### Income

- 11 **Government Support: Revenue Support Grant** (£2.2m in 2014/15) – This formula based grant has significantly reduced over recent years as the emphasis of Government Support has changed. The illustrative amount provided by Government for 2015/16 suggests a 32% reduction and a 10% reduction has been assumed for all later years.

- 12 **Government Support: Retained Business Rates** (£1.9m) - The basis for allocating Government Support from 2013/14 changed to the Business Rates Retention Scheme. This scheme initially allows billing authorities, such as this council, to keep 40% of Business Rates received, however tariffs and top ups are applied to ensure that initially each local authority is not significantly affected by this change.
- 13 In the first year of this scheme, it was assumed that this council would receive funding at the safety net level as no significant increase in the amount of Business Rates collected was expected. Future projections continue to take this prudent approach and further analysis will be completed when more information is available.
- 14 **New Homes Bonus** (£1.4m) – the Government started this new funding stream in 2011/12 with the intention that local authorities would be rewarded for new homes being built over a six-year period. It is anticipated that this funding stream may be reduced by 40% from 2017/18, after the initial period has ended.
- 15 **Council Tax** (£9.0m) – The Government referendum limit was set at 2% in 2014/15 and this will continue until 2015/16. The assumptions in the 10-year budget are for a 1.99% increase in 2015/16 and 3% for later years.
- 16 It has also been assumed that there will be an increase to the tax base each year resulting in additional Council Tax income. This is due to the general increase in the number of residential properties and future developments as well as the continuing work to check the validity of Council Tax discounts awarded.
- 17 **Investment income** (£0.2m) – returns are continuing to be significantly lower than they were a few years ago due to low interest rates and the revision of the Council's current Investment Strategy towards a low risk approach. The latest assumption is for the following returns: 0.8% in 2015/16, 1.1% in 2016/17 and 1.3% in later years based on the Bank Rate estimates provided by our treasury advisors.
- 18 **Variable income sources** – The Council receives income in fees and charges from a number of sources. This includes (income figures are shown gross):
- Land Charges (£0.2m);
  - Development Control (£0.7m);
  - Building Control (£0.5m);
  - Car parks (£2.0m); and
  - On-street parking (£0.7m)
- 19 The first three are linked to some extent to activity in the housing market and remain vulnerable; however, they are all above budget at 31 July 2014. On-Street Parking is currently above budget but Car Parks are below budget due to the loss of income from Pembroke and Old Blighs Car Parks.

- 20 **External Funding** (£0.5m) - the Council has been very successful in securing external funding across a range of services, based on it delivering a wide range of innovative services, often in partnership with other agencies, to local residents. The Council's officers continue to seek new opportunities for funding. As financial constraints are put on public services the funding available from health and other public bodies is expected to reduce.
- 21 **Partnership working** - Various services have included savings from partnership working in recent years budgets and this continues to be an area that is being investigated. The Council successfully works in partnership with other authorities in a number of areas, including Revenues, Benefits, Internal Audit and Anti Fraud, Finance, IT, Licensing and Environmental Health. Further partnership working ideas will continue to be investigated but opportunities are becoming limited.
- 22 **Use of reserves** – One of the principles of the Financial Strategy is to make more effective use of the remaining earmarked reserves. When this strategy was first used in 2011/12, it was agreed that the remaining balances in the Asset Maintenance and Superannuation Fund Deficit Reserves would be moved to a new Financial Plan Reserve and used over the initial 10-year budget period. The Budget Stabilisation Reserve was also set up at the same time to manage the fluctuations between years to ensure that an overall balanced budget remained for the 10-year period. This reserve has been increased by surpluses achieved on the revenue budget since 2009/10.

#### Expenditure

- 23 **Pay** costs total £13m. The national 2014/15 pay award has not yet been finalised. The 10-year budget assumes the pay award for 2015/16 will be 1%; 1.5% in 2016/17 to 2017/18 and 2% in later years.
- 24 **Superannuation fund** - the last pension fund triennial valuation, which was the second by the actuaries Barnett Waddingham, took place in November 2013. The minimum annual contribution to fund the deficit remains similar to that recommended in the previous valuation. Increases have been built in to the 10-year budget for the next two triennial valuations in 2017/18 and 2020/21 as the future position remains unclear.
- 25 **Non-pay costs** – the budget assumes non-pay costs will increase by an average of 2.25% in all years. In practice, items such as rates and energy costs have risen at a higher rate, so other non-pay items have been allowed a much lower inflation increase. Inflation is currently at 1.6% (CPI – July 2014).
- 26 **Welfare reform changes** - the changes affecting Housing Benefits regarding Universal Credit were looked at by a Member Scrutiny Group in 2012. It is still uncertain as to how the final scheme will operate, whether staffing and funding levels will reduce, the timescales involved and whether this Council will need to provide additional resources to support our residents.
- 27 The change to the Local Council Tax Support Scheme from 1 April 2013 was seen by many as one of the biggest changes to local government since the community charge. In the current economic climate, the cost of benefits will continue to fluctuate and the impact on district councils both financially and from a social

wellbeing perspective is likely to be significant and unsustainable. The full effect of both of these changes will potentially have an adverse financial impact.

- 28 Town and Parish Councils have also been impacted by this change. In 2013/14 additional funding was clearly identified in the Government Grant Settlement which was fully passed on by this council. In 2014/15, no amount was clearly identified and it was agreed at Full Council on 13 May 2014 that no funding would be passed on to Town and Parish Councils for Council Tax Support. The Government has not yet stated whether they will include an amount for this purpose in 2015/16.
- 29 **Unavoidable service pressures** - One of the lessons to be learnt from previous financial strategies is that there is always a likelihood of unavoidable service pressures and there needs to be a clear strategy in dealing with these. The model does not allow for unavoidable service pressures which could be significant. These will be identified in the Service Plan stage of the budget process.
- 30 **Progress on the savings plan** – 2015/16 will be the fifth year of using the 10-year budget. In those five years, 102 savings items have been identified totalling £5.8m. The majority of these savings have already been achieved and Portfolio Holders, Chief Officers, Heads of Service and Service Managers have worked closely to deliver these savings.
- 31 The following table shows the differences between the 10-year budget agreed by Council on 18 February 2014 and the latest version set out in Appendix B.

<b>10-Year Budget</b>	£m
<b>Previous 10-year budget gap/(surplus)</b>	<b>0.0</b>
Changes:	
10-year budget rolled on by one year	2.0
Base figures updated to 14/15 budget	(0.4)
Financial Plan Reserve balance set up last year to fund year 11 (i.e. 24/25)	(0.8)
Budget Stabilisation Reserve balance from 13/14 underspend	(0.2)
<b>Revised 10-year budget gap/(surplus)</b>	<b>0.6</b>

### **Proposed Business and Financial Planning Strategy**

- 32 In order to maintain a viable Council that continues to deliver on its main priorities and the services it provides to its residents, the Council has already adopted a Financial Strategy that embraces the following principles:

- A ten-year balanced budget;
- Flexible use of the Budget Stabilisation Reserve;
- More effective use of remaining earmarked reserves;
- Structured use of capital receipts; and
- The review and tighter management of inflationary pressures.

33 It is recommended that this strategy continues to be adopted.

### **Process and timetable**

34 Members will note from the timetable set out in Appendix A that this report is being considered by the Finance and Resources Advisory Committee on 2 September 2014 and any comments will be considered along with this report at Cabinet on 11 September 2014. All Advisory Committees will be presented with their Service Plans and Service Change Impact Assessments (SCIAs) in October and November when they may be asked to come up with growth and savings proposals for their areas. Cabinet will receive a Budget Update report on 11 December 2014 taking into account any updated information and feedback from the Advisory Committees. Cabinet will agree its final budget on 5 February 2015 and full Council will consider the budget on 17 February 2015.

### **Consultation**

35 Residents will be consulted as part of the budget process and their views will then be considered prior to decisions being made as to how the budget will be balanced.

### **Key Implications**

#### Financial

All financial implications are covered elsewhere in this report.

#### Legal Implications and Risk Assessment Statement.

There are no legal implications.

An effective integrated policy and priority driven long-term financial and business process is required for the Council to deliver on its priorities and maintain a sustainable budget. It is also essential that continuous improvements are identified and implemented in order to take account of the changing climate within which the Council operates and to meet the expectations of both Government and the public on the quality of service demanded from this Council.

The risks associated with the 10-year budget approach include uncertainty around the level of shortfall and the timing of key announcements such as future grant settlements. The risk will be mitigated by continuing to review assumptions and estimates and by updating Members throughout the process.

## Equality Impacts

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	Not at this stage of the Budget Setting process.	Individual equalities assessments will be completed for all of the Service Change Impact Assessments (SCIAs) to ensure the decision making process is fair and transparent.
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

## Community Impact and Outcomes

Members' early consideration of the issues raised in this report would be beneficial to residents in that a planned approach to achieving a balanced budget should produce the best outcome for the community in limiting the level in budget reductions.

## **Conclusions**

There is no doubt that there are a number of risks associated with this approach, including significant cost pressures that may destabilise the ten-year budget. However, by adopting this approach, many of these will be predictable and more importantly, the Council will be better placed to react to such events. This solution also allows the Council a little more stability and sustainability in delivering its services and dealing with its finances.

The Strategic Financial and Business Planning process has ensured that the Council follows a logical and well considered process and approach in dealing with the many difficult financial challenges which it has faced. The 10-year budget has further improved this process and helped to ensure that the Council is well placed in dealing with more immediate and longer-term financial challenges.

Looking at the medium term, although the Council has made considerable savings in previous years, it is possible that additional savings will be required to meet the expected pressures explained earlier in the report and also for potential growth items. Changes in grant distribution methodology and welfare reform changes are two major factors that are likely to have a significant impact on the Council

The level of Government support this Council is likely to receive in future years remains very uncertain as the Government continues to announce changes to the funding given to



