

DRAFT BUDGET 2015/16

Cabinet – 11 December 2014

Report of Chief Finance Officer

Status: For Decision

Key Decision: No

Executive Summary: 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.

This report sets out progress made in preparing the 2015/16 budget and updates Members on key financial information.

Since the last report on 11 September 2014, the Advisory Committees have proposed additional growth and savings items.

There remains uncertainty over the level of Government Support; therefore a further report will be presented to Cabinet on 15 January 2015 subject to settlement figures being received in time.

The Cabinet will make its final recommendation on the budget at its meeting on 5 February 2015, after taking into account any updated information available at that date.

Portfolio Holder Cllr. Ramsay

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Recommendation to Cabinet:

- (a) Consider and respond to comments and recommendations of the Advisory Committees.

Reason for recommendation: It is important that the views of the Advisory Committees are taken into account in the budget process to ensure that the Council's resources are used in the most suitable manner.

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 position over the 10-year period but recognises that this is a constantly changing situation.
- 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 Local Government generally appears to be feeling the impacts of the Government funding reductions and the impact of the recession. However, productivity and morale within this Council remain high which has a positive impact on the financial bottom line.

- 7 At the Cabinet meeting on 11 September 2014, Members considered a report setting out the Council's financial prospects for 2015/16 and beyond. That report set out the major financial pressures the Council is likely to face, together with a proposed strategy for setting a balanced and sustainable budget for 2015/16 and beyond.
- 8 As part of the budget process officers put forward their Service Overviews to the Advisory Committees in October and November, which set out a summary of current and future issues or pressures. The Advisory Committees recommended new growth and savings items which will be considered at this meeting.

Updates to the Financial Prospects Report

- 9 The Financial Prospects report considered in September raised a number of financial risk areas for the Council. These are updated below and Members will be aware that this is a rapidly evolving situation, and the Council needs to be prepared to act flexibly in response to changes in economic conditions.

Government Support

- 10 **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. The Government is not expected to provide updated figures until later in December.
- 11 **Council Tax Support Funding for Town and Parish Councils** – Council resolved on 13 May 2014 that no funding be passed to Town and Parish Councils for Council Tax Support in 2014/15. The 10-year budget currently assumes this will continue in later years, however Members will be asked to decide this later in the process. The Government has not yet stated whether they will show a separate amount for Town and Parish Councils in the grant settlement.
- 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 Several Kent districts have joined up with Kent County Council and Kent Fire and Rescue Service to form a Business Rates Pool as there are financial benefits to them from doing this. It is not beneficial for this council to join the pool at this stage as the safety net protection would be lost resulting in less Business Rates income staying with the council. This position will be reviewed each year taking into account future Business Rates projections.

- 15 *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.

Council Tax

- 16 The assumptions in the 10-year budget are currently 2% for 2015/16 and 3% for later years.
- 17 The tax base has been increased using the latest information available.

Interest Receipts

- 18 Interest receipts have been reviewed with our treasury advisors, Capita Asset Services, modelling different scenarios to see which option is the most viable and realistic. The current assumption uses the Capita Bank Base Rate Forecast and adds 0.1%. The increases in this area are due to higher balances pending use in the property investment strategy.

Use of Reserves

- 19 One of the principles of the Financial Strategy is to make more effective use of the remaining earmarked reserves. The Budget Stabilisation Reserve was also set up to manage the fluctuations between years to ensure that an overall balanced budget remains for the 10-year period. This reserve has been increased by surpluses achieved on the revenue budget since 2009/10.
- 20 A more detailed review of reserves will be included in the February Cabinet report.

Pay

- 21 The pay settlement for 2014/15 and 2015/16 has now been agreed resulting in a 2.2% increase from 1 January 2015 and small non-consolidated payments in December 2014. The previous assumption was for a 1% increase in both years, therefore it has been required to include an additional £37,000 in 2015/16 and £28,000 in later years
- 22 The assumptions for later years remain unchanged at 1.5% in 2016/17 to 2017/18 and 2% in later years.

Superannuation Fund

- 23 The next triennial valuation will take place in 2017/18 so no changes have been made to the assumptions this year.

Other Costs

- 24 The inflation assumption for Other Costs (i.e. non-pay costs) has reduced from 2.25% to 1.3% in 2015/16 which is line with the current CPI figure (October 2014).

Current Budget Position

- 25 The following table shows the differences between the 10-year budget included in the Financial Prospects report on 2 September 2014 and the latest version set out in Appendix B.

10-Year Budget	£m
Previous 10-year budget gap/(surplus) at 02/09/14	0.6
Changes:	
Growth: Advisory Committees (see Appendices D & E)	3.9
Savings: Advisory Committees (see Appendices D & E)	(2.8)
Other costs inflation 15/16: reduce from 2.25% to 1.3% (Oct 14 CPI)	(1.1)
Council Tax base: increase	(0.6)
Interest receipts: reviewed	(2.2)
Pay settlement: 2014/15 and 2015/16 agreed nationally	0.3
Revised 10-year budget gap/(surplus)	(1.9)

- 26 The 10-year budget (Appendix B) currently shows a surplus. Due to the uncertainty regarding Government Support and Council Tax a further report will be presented to Cabinet on 15 January 2015 containing a more complete picture.
- 27 The Cabinet will make its final recommendation on the 2014/15 budget at its meeting on 5 February 2015, after taking account of the latest information available at that date.

Collection Fund and Tax base

- 28 The 2015/16 tax base will be agreed at Cabinet on 15 January 2015. At the same time, Members will be presented with an estimate of the Collection Fund balance as at 1 December 2014.

2014/15 Outturn

- 29 Supported by the Finance and Resources Advisory Committee, tight financial monitoring and control has been in place for a number of years and again for 2014/15. Given the constraints being placed on all budgets, and the savings planned for 2014/15 and future years, it will be essential to continue on this basis.

30 Officers have set a target favourable variance of between £400,000 and £500,000 to enable:

- funds to be set aside for development projects and asset maintenance;
- funding of a housing stock condition survey; and
- any further variance to be applied to Budget Stabilisation reserve.

Key Implications

Financial

All financial implications are covered elsewhere in this report.

Legal Implications and Risk Assessment Statement.

There are no legal implications.

For the effective management of our resources and in order to achieve a sustainable budget it is essential that all service cost changes and risks are identified and considered.

Current and future pressures were included in the Service Overviews presented to the Advisory Committees and each Service Change Impact Assessment (SCIA) includes the likely impacts including a risk analysis.

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.

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.

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?	Yes	Individual equalities assessments have been 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?		

Conclusions

The 10-year budget currently shows a surplus, but due to the uncertainty regarding Government Support and Council Tax, an updated position will be reported to Cabinet on 15 January 2015 subject to settlement figures being received in time.

This budget process will continue to be a major financial challenge for a Council that already provides value for money services to a high standard. In making any budget proposals, Members will need to consider the impact on customers, service quality and staff well-being, to ensure that these proposals lead to an achievable 10-year budget that supports the Council's aspirations for customer-focused services.

Appendices

Appendix A – Budget Timetable.

Appendix B – 10-year Budget.

Appendix C – Summary of the Council's agreed savings plan and growth items.

Appendix D – New growth and savings items proposed by the Advisory Committees.

Appendix E – Service Change Impact assessment forms (SCIAs).

Background Papers:

Report to Council 18 February 2014 – Budget and Council Tax Setting 2014/15

Report to Cabinet 11 September 2014 – Financial Prospects and Budget Strategy 2015/16 and

Beyond

Report to Strategy and Performance Advisory
Committee 7 October 2014, Housing and
Community Safety Advisory Committee 8 October
2014, Economic and Community Development
Advisory Committee 21 October 2014, Local
Planning and Environment Advisory Committee 23
October 2014, Finance and Resources Advisory
Committee 11 November 2014 – Budget 2015/16:
Service Reviews and Service Plan Impact
Assessments (SCIAs)

Adrian Rowbotham
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