

Forest Heath District Council

(This report is not a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules)

Report of the Cabinet Member for Resources, Governance and Performance

CABINET

18 FEBRUARY 2014

CAB14/133

BUDGET AND COUNCIL TAX SETTING: 2014/2015 AND MEDIUM TERM FINANCIAL STRATEGY 2014-2016 (Decisions Plan Reference: SEP12/07)

1. Summary and reasons for recommendation(s)

- 1.1 This report sets out details of the Council's proposed revenue and capital budget for 2014/2015 and the Cabinet is required to consider the 2014/2015 budget for the Authority and recommend to Council the level of Council Tax required to fund this budget.
- 1.2 The proposed 2014/2015 net revenue budget is £8.476m compared to the 2013/2014 net budget of £8.346m, which includes savings totalling £0.578m, arising from shared services with St Edmundsbury Borough Council together with other local savings initiatives.
- 1.3 It is estimated that £7.060m will be spent on the Council's capital programme during 2014/2015, to be funded from a combination of grants and contributions (£0.215m), and usable capital receipts reserve (£6.845m).
- 1.4 The Council faces a number of financial challenges and opportunities for the future. The Medium Term Financial Strategy (MTFS), attached at Attachment D sets out in general terms how the Council proposes to respond to these over the coming years.
- 1.5 The most significant challenge that the Council faces is both the continuation of public expenditure cuts and the reduction in central government grant funding and the changing landscape of local government financing such as the business rate retention scheme. The Council also faces a number of local challenges in ensuring that its expenditure is constrained in the face of declining interest receipts and increased demand on front line services such as Housing Benefits and homelessness.

2. Recommendation(s)

2.1 That, subject to the approval of full Council:-

- (i) **the net revenue budget for 2014/2015 attached at Attachment A, together with the shared services and local savings proposals (detailed at Attachment B) be approved;**

- (ii) the revised capital programme, detailed at paragraphs 4.23- 4.28 and attached at Attachment D, Appendix 2, be approved;
- (iii) agree to maintain a general fund balance of £2m as detailed in paragraph 5.1.
- (iv) the Fees and Charges as set out in attachment E be approved and the statutory notices be placed where required;
- (v) the Head of Resources and Performance, in consultation with the Portfolio Holder for Resources, Governance and Performance, be given delegated authority to agree those Fees and Charges for 2014/2015 that relate to sensitive, commercial or otherwise, services such as trade refuse and housing.
- (vi) having taken into account the conclusions of the Head of Resources and Performance's report on the adequacy of reserves and the robustness of budget estimates (Attachment C), including the Scenario Planning and Sensitivity Analysis (Attachment D, Appendix 5) and Medium Term Financial Strategy (MTFS) attached (Attachment D) and all the other information contained in this report, Cabinet establish the level of Council Tax for 2014/2015;
- (vii) the Head of Resources and Performance, in consultation with the Portfolio Holder for Resources, Governance and Performance, be authorised to transfer any surplus on the 2013/14 revenue budget to the General Fund, and to vire funds between existing Earmarked Reserves (as set out at Appendix 3) as deemed appropriate throughout the year.
- (viii) award relief to all businesses that fall within Government's criteria equally; and to delegation be given to the Head of Resources and Performance in consultation with the Portfolio Holder for Resources, Governance and Performance to determine the final guidelines for the operation of the relief following publication of the final scheme by Government.
- (ix) approve the West Suffolk Medium Term Financial Strategy 2014-16, Attachment D and all appendices, including the Prudential Indicators for the period 2013/2014 to 2017/2018 and the use of the CFR method for calculating the Minimum Revenue Provision for supported capital expenditure.

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3. Corporate priorities

- 3.1 The interaction between the strategic plan and MTFS will be particularly important in the setting of budgets for 2015-2016, as the councils' priorities will be used to inform real choices about the allocation of resources.

4. Key issues

Spending Round 2013

- 4.1 The Comprehensive Spending Review 2010 covering the three year period to 2014/2015 did not deliver the anticipated economic recovery, therefore a further Spending Round was outlined in June 2013 covering the year 2015/2016, which will put further funding pressures on the Council's budget, announcing a headline funding reduction of 10%, however the Council Tax Freeze Grant is to be extended for 2014/2015 and 2015/2016.
- 4.2 No assumptions have been made with regard to NHB allocations beyond 2014/2015 as there is a likelihood that future payments of the NHB will be funded at a national level by top slicing revenue support grant or by retaining a proportion of Business Rate monies that otherwise would be available locally.

Local Government Finance Settlement 2014/2015

- 4.3 The Local Government Finance Settlement was announced on 18 December 2013. The settlement covered 2014/2015 and included indicative figures for 2015/2016.
- 4.4 The Council's total formula grant for 2014/2015 (including Revenue Support Grant, Baseline Funding from retained business rates, Local Services Support Grant and Council Tax Freeze grant – but excluding the new Local Council Tax Support grant) is £3.804m. The revenue support grant has been cut by 24% from 2013/2014 to 2014/2015. The indicative revenue support grant settlement for 2015/2016 shows a further 33% cut in funding. This represents a 49% cumulative cut in revenue support grant funding over the 2 years from 2013/2014 to 2015/2016.

The Government's Council Tax Freeze and Referendum requirements 2014/2015

- 4.5 The Government has once again offered to subsidise all councils which agree to freeze council tax levels by providing a grant equivalent to 1% council tax increase (based on the previous method for calculating the tax base for the district). Unlike the 2011/2012 council tax freeze grant, which was awarded for four years, (ie. a payment of 2.5% of council tax is made to the council every year for four years) and the 2012/2013 grant which was a one off award, the 2014/2015 grant will be paid to all participating Councils in the same way as the 2013/2014 grant, for 2 years (ie 2014/2015 and 2015/2016). The impact of accepting the council tax freeze grant is shown in Table 1 below:

Table 1: Impact of accepting council tax freeze grant

Council Tax Freeze Grant	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Grant awarded in 2011/12 *	61	61	61	61	
Grant awarded in 2012/13 *	n/a	63	0	0	0
Grant awarded in 2013/14 *	n/a	n/a	25	25	25
Grant offered in 2014/15	n/a	n/a	n/a	23	23
Total grant received if we freeze council tax in 2014/15	61	124	86	109	48

* Grant awarded in 2011/12 now forms part of the 2012/13 formula grant. Likewise for the 2012/13 grant which forms part of the 2013/14 formula grant.

- 4.6 It should be noted that accepting successive years' council tax freeze grants provides only a short term solution and has a cumulative detrimental impact on the Council's finances as year on year council tax levels fail to rise in line with inflation. This impact has already been factored into the Medium Term Financial Strategy.
- 4.7 The Government is yet to announce the level of which a council tax increase would trigger a local referendum, giving their local electorate the opportunity to approve or veto the increase. For 2013/2014 the level was set at 2% so it is expected to either remain at this level or even at a reduced level for 2014/2015.
- 4.8 Should Cabinet and Council decide to set a 0% increase on council tax, the Council will have frozen council tax for the last four years, as set out in Table 2 below.

Table 2: Council tax increases over the four years to 2014/2015

	2011/12	2012/13	2013/14	2014/15
Council tax increase	0%	0%	0%	0% (proposed)

Business rates retail relief 2014/2015- 2015/2016

- 4.9 The retail sector is changing, particularly due to internet shopping, and many high streets are experiencing challenges as they look to adapt to changing consumer preferences in how people shop. The Government wishes to support town centres in their response by providing particular support to retailers.
- 4.10 The Government announced in the Autumn Statement on 5 December 2013 that it will fully fund a relief of up to £1,000 to all occupied retail properties with a rateable value of £50,000 or less in each of the years 2014/2015 and 2015/2016.

- 4.11 On 24 January Government issued draft guidance (available at the following link:www.gov.uk/government/publications/business-rates-retail-relief) to support a wide range of retail outlets from 1 April, with final guidance to follow, that must have regard to State Aid Law.
- 4.12 Retail Relief is a measure for 2014-2015 and 2015-2016 only, the Government is not changing the legislation around the relief available to properties. Instead the Government will, in line with the eligibility criteria, reimburse local authorities that use their discretionary relief powers, introduced by the Localism Act (under section 47 of the Local Government Finance Act 1988, as amended) to grant relief.
- 4.13 As a consequence, it will be for individual local billing authorities to adopt a local scheme and decide in each individual case when to grant relief under section 47. Government will fully reimburse local authorities for the local share of the discretionary relief using a grant under section 31 of the Local Government Act 2003.
- 4.14 Government anticipates that local authorities will include details of the relief to be provided to eligible ratepayers for 2014/2015 in their bills for the beginning of that year. However, as the grant of the relief is discretionary, the Council could choose not to grant the relief if it considers that, for example, granting the relief would go against the Council's wider economic objectives. It is proposed to treat all businesses that fall within Government's criteria equally.
- 4.15 It is proposed that Forest Heath award's relief to all businesses that fall within Government's criteria equally; and to seek delegation to the Head of Resources and Performance in consultation with the Portfolio Holder for Resources, Governance and Performance to determine the final guidelines for the operation of the relief following publication of the final scheme by Government.

Setting the Budget

- 4.16 Attached at attachment A is the revenue budget Summary, which provides an overview of the proposed net service expenditure for 2014/2015. The total proposed net revenue expenditure after reserves in 2014/2015 is £10.240m.
- 4.17 The external economic pressures referred to above have put new and changing demands on the revenue budget. Undoubtedly the most significant change is in the cut in government grant (set out in 4.4 above).

Savings – Shared Services and Local Savings Proposals

- 4.18 In order to respond to the cuts in Government funding and other economic pressures, the Council has had to make significant savings. The key strategy to deliver savings to date is the shared services initiative between Forest Heath District Council and St Edmundsbury Borough Council, together with a range of other local savings initiatives (ie. savings which are not related to shared services).
- 4.19 The Council's Performance and Audit Scrutiny Committee has a key role in the scrutiny of the budget process and proposals for achieving a balanced budget. In September 2013 the Committee received report PAS13/015 "Delivering a

Sustainable Budget 2014-2015" which set out the context of the 2014/2015 budget, including details of local savings themes, additional shared service savings achieved and additional pressures for 2014/2015. On 27 November 2013 the Committee also received an updated Report No PAS13/022 which included assumptions used in the budget process, and provided an update on progress made towards closing the budget gap.

Shared Services

- 4.20 So far shared services across both Councils have delivered in total £3.5m in savings across both Councils. During the year the remaining shared services business cases have been implemented including leisure and cultural services, resources and performance, legal, democratic services, human resources, policy, customer services and waste management, with additional savings for Forest Heath of £412k being realised above those shared service savings already assumed in the 2014/2015 budget. Forest Heath's share of the £3.5m total is £1.4m, calculated on the basis of the saving sharing model with St Edmundsbury Borough Council.
- 4.21 For clarity, Members should be aware that the shared service savings figures quoted above do not include the cost of change, such as redundancy/early retirement payments and ICT investment costs. It should be noted that the costs of change are "one-off" costs whilst the resultant savings recur every year. It is proposed that Forest Heath's share of these costs will mainly be met from the Council's Cost of Change Reserve which has been set up specifically to fund the costs of delivering the shared services agenda.

Local Savings

- 4.22 In addition to the need to deliver savings from shared services, work has continued to secure a range of other local savings which include cost savings (staffing and other expenditure) together with opportunities to generate additional income (including review of: local budgets; contractual spend; and the use of the Council's main office building). Taken together these local savings initiatives are estimated to produce savings of £0.166m in 2014/2015.

Capital Programme

- 4.23 The capital expenditure of the Council has an impact on the revenue budget and is part of the overall preparation of the revenue proposals for the coming year.
- 4.24 It is estimated that £7.060m will be spent on capital programme schemes during 2014/2015 which are to be funded by a combination of grants and contributions (£0.215m) and usable capital receipts reserves (£6.845m).
- 4.25 Looking ahead, the total value of the capital programme over the next four years is approximately £10.890m. Attachment D, Appendix 2 shows the planned capital expenditure in the current year 2014/2015 and future years, together with information on the funding of that expenditure (ie. grants and contributions, use of earmarked revenue reserves and usable capital receipts reserve) and is summarised in Table 3 below:

Table 3: Planned Capital Expenditure over four years to 2017/2018

	2014/15	2015/16	2016/17	2017/18	Total
Gross capital expenditure	£7.060m	£2.428m	£0.565m	£0.837m	£10.890m
Funded by:					
Grants and Contributions	£0.215m	£0.215m	£0.215m	£0.080m	£0.725m
Earmarked Revenue Reserves	£ Nil	£0.162m	£0.080m	£0.352m	£0.594m
Capital receipts reserve	£6.845m	£2.051m	£0.270m	£0.405m	£9.571m
Total	£7.060m	£2.428m	£0.565m	£0.837m	£10.890m

- 4.26 During 2014/2015, the capital programme will also be reviewed taking into account both the emerging priorities for West Suffolk detailed in our 2014-2016 Strategic Plan, and the six key themes of the Council's response to the challenges and opportunities highlighted within the MTFS, attached at Attachment D.
- 4.27 Members will be aware that while depreciation is charged to the net cost of services there is an adjustment to replace these costs with the Minimum Revenue Provision (MRP).
- 4.28 The MRP included in the revenue estimates is as follows:

Table 4: Minimum Revenue Provision over four years to 2017/2018

Minimum Revenue Provision (MRP)	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
MRP	138	133	128	128

- 4.29 The Treasury Management and Annual Investment Strategy included elsewhere on this agenda (Report No CAB14/134) and the Prudential Indicators, provide a framework within which the borrowing limits for the Council are established and will confirm our MRP policy for 2014/2015. The current position is that the level of capital reserves and the current borrowing are sufficient for the short term programme of expenditure.
- 4.30 During 2014/2015, the capital programme will also be reviewed taking into account both the emerging priorities for West Suffolk detailed in our 2014-2016 Strategic Plan, and the six key themes of the Council's response to the challenges and opportunities highlighted within the MTFS, attached at Attachment D.
- 4.31 The above capital programme should, in the short to medium term, reduce the District Council's usable capital receipts reserves from £14m to £5m. However consideration of the affordability of any new major capital expenditure

proposals, including options for funding, will need to be included in the options and investment appraisals for these projects.

- 4.32 The calculation of interest income used in the MTFS is based on the use of existing and anticipated capital expenditure and receipts. Changes in the level and timing of these cashflows have a direct impact on investment returns and revenue funding requirements. The Prudential Code for Capital Finance and matters relating to the affordability of the Capital Programme are addressed in Attachment D, Appendix 4. The revenue cost of the capital programme is achievable without significant Council Tax rises provided the savings indicated in the MTFS and set out in Attachment D, Appendix 1 are implemented.

5 Revenue Reserves and Balances

General Fund

- 5.1 The Council holds General Fund balances as a contingency to cover the cost of unexpected expenditure during the year. As part of this year's budget process and development of the MTFS, the recommendation is to hold a general fund balance at the level of £2m, which is 25% of the 2014/2015 net expenditure. As in previous years the Council can use balances above this minimum to support revenue expenditure and to reduce the level of Council Tax.
- 5.2 The recommended level of general fund balance has been established by taking into account the following:
- allowance for a working balance to cushion the impact of any unexpected events or emergencies;
 - the new risks placed at a local level under the new business rates retention scheme i.e. appeals;
 - the addition of greater income targets linked to being 'more commercial' and the selling of council services; and
 - other risks detailed in the Scenario Planning and Sensitivity Analysis provided at Attachment D, Appendix 5.
- 5.3 The budget monitoring report to the Performance and Audit Scrutiny Committee on 30 January 2014 (Report No PAS14/027) included an estimate of the year end budget underspend of £0.058m, which has been incorporated within the MTFS at Attachment D, Appendix 1. It is proposed to transfer the final year-end surplus in its entirety to the General Fund. On this basis it is estimated that there will be £2.047m in the General Fund balance at the start of the 2014/2015 financial year.
- 5.4 The revenue budget, Attachment A, based on current budget projections, is a balanced budget position for 2014/2015. However, many of the assumptions supporting the budget projections for 2014/2015 (and future years) are subject to significant uncertainty. This includes assumptions regarding:
- sustainability of income stream estimates (including industrial unit rental income and planning income);
 - impact of Business Rates Retention scheme and Suffolk pooling arrangements;
 - impact of the Local Council Tax Support Scheme; and
 - pay inflation and employers' pension liabilities.

Earmarked Reserves

- 5.5 At the end of the 2014/2015 financial year the Council will have an estimated £5.842m in Earmarked Reserves. The current level of Earmarked Reserves and contributions during 2014/2015 has been reviewed and where appropriate annual contributions have been adjusted. Attachment D, Appendix 3 provides details of the proposed contributions to, and projected expenditure from, Earmarked Reserves during 2014/2015.

New Homes Bonus (NHB)

- 5.6 The Council received total NHB grant of £562k in 2011/2012, £1,436k in 2012/2013, £1,679k in 2013/2014 and expects to receive £2,155k in 2014/2015. No assumptions have made with regard to NHB allocations beyond 2014/2015 as there is a likelihood that future payments of the NHB will be funded at a national level by top slicing revenue support grant or by retaining a proportion of Business Rate monies that otherwise would be available locally.
- 5.7 NHB allocations for 2011/2012 to 2013/2014 have been taken to earmarked reserves. It is proposed that the 2014/2015 allocation is also taken to reserves. The use of the New Homes Bonus will be considered as part of delivering a sustainable Medium Term Financial Strategy and the delivery of the new Strategic Plan.
- 5.8 In line with the report "Strategic Plan 2012-2016" (Report No CAB12/001) which was taken to Cabinet and subsequently approved by Council on 21 June 2012 (Report No COU12/575), a significant proportion of the New Homes Bonus from 2011/2012 and 2012/2013 has been allocated to support the delivery of corporate priorities.

Adequacy of Reserves

- 5.9 Section 25 of the Local Government Act 2003 requires the Section 151 Officer (Head of Resources and Performance) to report to Council, as part of the tax setting report, her view of the robustness of estimates and the adequacy of reserves. The Council is required to take these views into account when setting the Council Tax at its meeting on 26 February 2014. The full statement is as attached in Attachment C.
- 5.10 In summary, the Section 151 Officer's assessment overall, is that the estimates are robust (taking into account known risks and mitigating strategies) and reserves are adequate for the 2014/2015 budget.

6 Medium Term Financial Strategy (MTFS)

- 6.1 The Medium Term Financial Strategy (MTFS), at Attachment D, provides a high-level assessment of the financial resources required to deliver the council's strategic priorities and essential services. It considers how the council can provide these resources within the financial context and constraints likely to be faced.
- 6.2 The draft of the West Suffolk MTFS was presented alongside the West Suffolk Strategic Plan, to Overview and Scrutiny Committee on 22 January 2014,

(Report No OAS14/445) and again on 5 February 2014 (Report No OAS14/449). The attached MTFS at Attachment D includes changes discussed at both meetings.

- 6.3 The interaction between the strategic plan and MTFS will be particularly important in the setting of budgets for 2015-2016, as the Councils' priorities will be used to inform real choices about the allocation of resources. Although Forest Heath and St Edmundsbury are two councils, with two separate budgets there are, however, similarities in our approach to meeting the financial challenges. We are therefore working together, as West Suffolk, to build common strategies and to share learning from one another in designing new approaches, although how these approaches apply to the different localities in Forest Heath and St Edmundsbury, may still vary.
- 6.4 It should be noted that by 2017/2018 the projected budget gap amounts to £1.95m for Forest Heath (i.e. £1.16m 2015/2016, £0.64m 2016/2017, and £0.15m 2017/2018). Should any of the assumptions within the MTFS change significantly, the gap would also change.
- 6.5 Our proposed approach to responding to these challenging financial times is outlined within the MTFS document, Attachment A and includes the following themes:
- Aligning resources to the councils' new strategic plan and essential services;
 - Continuation of the shared service agenda and transformation of service delivery;
 - Behaving more commercially;
 - Considering new funding models (e.g. acting as an investor);
 - Encouraging the use of digital forms for customer access; and
 - Taking advantage of new forms of local government finance (e.g. business rate retention).
- 6.6 A considerable amount of work has already taken place, across the above themes, as we now focus on establishing a balanced budget for 2015/16. The Joint Leadership Team will continue to work with Portfolio Holders, with a further report being presented to Cabinet in due course.

7. Other options considered

- 7.1 In general, use of reserves to reduce the level of Council Tax in 2014/2015 will require either an increase in the Council Tax in future years or additional efficiency savings above those currently identified.
- 7.2 It is important to note that as the MTFS projection is taken further forward, the degree of uncertainty concerning future budget estimates will increase. This position is even further exacerbated by the unpredictability of the global economic environment.

8. Community impact

8.1 Crime and disorder impact *(including Section 17 of the Crime and Disorder Act 1998)*

- 8.1.1 None.

8.2 Diversity and equality impact *(including the findings of the Equality Impact Assessment)*

8.2.1 Shared service and other local efficiency savings have been considered in the light of diversity and equality issues and officers are confident that there are no significant issues to report.

8.3 Sustainability impact *(including completing a Sustainability Impact Assessment)*

8.3.1 None.

8.4 Other impact *(any other impacts affecting this report)*

8.4.1 None

9. Consultation *(what consultation has been undertaken, and what were the outcomes?)*

9.1 All shared service arrangements are subject to joint agreement between the two councils. Formal consultation exercises are undertaken with trade unions and staff regarding restructuring proposals, including staff redundancies and changes to pay and conditions.

10. Financial and resource implications *(including asset management implications)*

10.1 The financial and resource implications are explained in the body of this report and attached appendices.

11. Risk/opportunity assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

11.1 A risk assessment is included at Attachment C as part of the report by the Head of Resources and Performance (Chief Financial Officer). The Head of Resources and Performance's conclusion is that overall, the estimates are robust, taking into account known risks and mitigating strategies and the reserves are adequate for the 2014/2015 budget plans. Cabinet and Council are advised to have regard to this report when making their decisions on the 2014/2015 budget.

12. Legal and policy implications

12.1 The Local Government Act 2003 imposed duties on local authorities in relation to financial management which covers the following areas:

- A power for the Secretary of State to determine a minimum reserve level for local authorities by regulations. The Government has indicated that their preference is to keep this power in reserve.
- Section 25 of the Act places a requirement on the S151 Officer to report on the adequacy of reserves and robustness of budget estimates as part of the authority's annual budget setting process. The Council is required to take these views into account when setting the Council Tax at its meeting on 26 February 2014. This is included as Attachment C of the report.

- Sections 28 and 29 of the Act place a statutory duty on local authorities to monitor their budget and take such action as considered necessary in the case of overspends and shortfalls of income.
- Section 30 of the Act relates to the provisions preventing local authorities entering into agreements following a Section 114 Report which a S151 Officer must produce when it appears that expenditure of the authority in a financial year is likely to exceed the resources available to meet the expenditure.

13. Ward(s) affected

13.1 All.

14. Background papers

14.1 West Suffolk Medium Term Financial Strategy (MTFS) 2014-16 (Report No OAS14/445)
 Strategic Plan 2012-2016 (Report No CAB12/001)
 Budget Monitoring Report, April to December 2013 (Report No PAS14/027)
 Treasury Management and Annual Investment Strategy (Report No CAB14/134)
 Delivering a Sustainable Budget (Report No PAS13/15) and (Report No PAS13/022)

15. Documents attached

Attachment A – Revenue Budget Summary
 Attachment B – Summary of major budget changes
 Attachment C – Report of the Head of Resources and Performance
 Attachment D – Medium Term Financial Strategy (MTFS)
 Appendix 1 – 5 Year Revenue Budget
 Appendix 2 – 5 Year Capital Budget
 Appendix 3 – Earmarked Revenue Reserves
 Appendix 4 – Prudential Code for Capital Finance
 Appendix 5 – Scenario Planning and Sensitivity Analysis
 Attachment E – Schedule of proposed Fees and Charges 2014/15