

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 Chief Financial Officer (Section 151 Officer)

**PERFORMANCE AND
AUDIT SCRUTINY
COMMITTEE**

24 SEPTEMBER 2013

PAS13/015

DELIVERING A SUSTAINABLE BUDGET 2014-2015

1. Summary and reasons for recommendations

1.1 It is essential that the Council's financial and budgetary strategies are sufficiently robust to enable it to deliver a sustainable budget position in the short and medium term. The Council continues to face significant financial challenges due to on-going public sector funding cuts. This Committee has a key role in the scrutiny of the budget process and proposals for achieving a balanced budget.

1.2 This report sets out the context of the 2014-2015 budget.

2. Recommendation

2.1 Members are asked to note the progress made on delivering a balanced budget for 2014-2015.

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3. How will the recommendations help us meet our strategic priorities?

3.1 The budget underlies all services provided by the Council and the recommendations meet the objectives of its Strategic Plan particularly the priority of being an efficient and effective Council.

4. Key issues

4.1 The Budget Context

4.1.1 Forest Heath District Council have made significant local savings and through shared services savings with St Edmundsbury Borough Council. However there is no let up on the financial pressures we face, and it is therefore critical that we continue to deliver savings and create new income opportunities by adopting a more commercial approach.

4.2 Future budget pressures and uncertainties

4.2.1 Spending Round 2013

4.2.1.1 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 2014/15 and 2015/16.

4.2.2 New homes bonus (NHB)

4.2.2.1 The Government introduced the NHB from 2011/2012. It is an additional amount of money linked to Council Tax on new properties in the Borough, so the more properties that are brought into occupation in a council area the more money that council receives. This grant is currently non-ring fenced, which means it can be spent on any council service. The Council received total NHB grant of £0.562m in 2011/2012 and £1.435m in 2012/2013, and expects to receive £1.678m in 2013/2014 and £1.678m in 2014/2015.

4.2.2.2 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.

4.2.2.3 Central Government are currently consulting on a proposal for the NHB allocations themselves to be top sliced from 2015/16 for the pooling of £400m for a Local Growth Fund through Local Enterprise Partnerships.

4.2.3 Business Rate Retention

4.2.3.1 The new scheme of Business Rates Retention (Report No CAB13/062 refers) is intended to provide incentives for local authorities to drive economic growth, as the authorities will be able to retain a share of the growth generated in business rates revenue in their areas.

- 4.2.3.2 The Local Government Finance Act also allows local authorities to form pools for the purpose of business rates retention. The Council has signed up with the other Suffolk districts and the County Council to be designated as a Suffolk pool. Pooling offers the potential to deliver more benefits to Suffolk and promote closer working between authorities.
- 4.2.3.3 As part of the funding arrangements, the Department for Communities and Local Government (DCLG) has allocated each council with an amount of business rates that they are expected to retain in 2013/2014 if no changes occur, known as the business rates baseline.
- 4.2.3.4 Any additional income generated over the baseline will be subject to a 50% levy rate with Central Government. The Council's annual forecast of non domestic rates income (NDR1 return to DCLG) has recently been completed and it is estimated that the Council will benefit from an additional £0.093m in business rates to be retained by the Council after paying the 50% levy to the government. There is an expected additional benefit of £0.042m to the Council arising from membership of the Suffolk pool. Both of these amounts have been included in the medium term financial strategy (MTFS) from 2013/2014 onwards.
- 4.2.3.5 The new Business Rates Retention scheme came into effect from April 2013 and as such it is still early days with regards to monitoring the overall schemes impact for the current and future years of the MTFS. Officers across the Council are working together to ensure that the budget assumptions in respect of this new scheme are reviewed as part of the 2014/15 budget process.

4.2.4 Local Council Tax Reduction Scheme

- 4.2.4.1 Another change came into effect when the 2012 Welfare Reform Act abolished Council Tax Benefit (CTB) and replaced it with a requirement for local authorities to create their own Local Council Tax Support (LCTS) scheme, to come into effect in April 2013. The Council's LCTS scheme was approved by full Council on 16 January 2013 (Report No COU13/610 refers) and, in line with the Government announcements, provides for a reduction of Council Tax benefits for working age claimants (claimants to pay a minimum of 8.5% of the Council Tax) and the abolition of second adult rebates. Whereas Council Tax Benefits were previously 100% funded by Central Government, Government funding of the LCTS scheme will be through a cash limited annual grant, the amount of which is at least 10% less than previously received under the Council Tax Benefit scheme. The shortfall in funding is to be met by the above changes to benefit entitlements, discounts and exemptions.
- 4.2.4.2 Officers are working together to understand how the scheme is performing in practice and modelling the impact of the case load and collection rates with a view of continuing to drive forward a cost neutral scheme for 2014/15

4.2.5 Pension

- 4.2.5.1 One of the major budget pressures is the pension deficit contribution rate. This will be confirmed by the actuary at the end of September. Early

discussions with Suffolk County Council indicate this could be a cumulative 2% increase per annum over and above the last actuary's report. A 1% increase would equate to approximately £60k per annum, we will update the impact of this if necessary as soon as it has been confirmed and report to this committee.

- 4.2.5.2 A further significant pressure on the budget is the changes to the Pensions Act 2008 regarding workplace pensions. As a result of this, all employees will be automatically enrolled into the Council's pension scheme. The impact of this will be modelled during the budget process, this could equate to in the region of an additional £0.5m from November 2013 to October 2017.

4.3 Budget Gap

- 4.3.1 Table 2 below shows the budget gap as reported in paper D302 Budget and Council Tax Setting 2013/14 adjusted to take no contribution from the general fund from 2015/16 and 2016/17, previously shown as £0.6m per annum, reducing the general fund to £1.75m by 2016/17. This is before taking into account any impact of the above mentioned items or additional shared services savings.

4.3.2 Table 2: Budget Gap for 2014/15-2016/17

	2014/15	2015/16	2016/17
Budget Gap per annum	£0.4m	£0.6m	£0.4m
Budget Gap cumulative	£0.4m	£1.0m	£1.4m

- 4.3.3 There is still a lot of uncertainty around the assumptions and budget pressures contained within the Council's MTFS. Members should note that small changes in the assumption percentages can have significant impact on the budget. The service assumptions will be reviewed and challenged as part of the 2014/15 budget process.

- 4.3.4 We will continue to update the assumptions as we progress through the budget cycle, and an updated MTFS will be presented to this committee in November.

4.3.5 Other Budget Pressures

- 4.3.5.1 In order to respond to the cuts in Government funding and other economic pressures, the Council has had to make significant savings. The Council has an excellent track record of achieving substantial year on year budget savings/new income.

4.4 Delivering the savings

- 4.4.1 Whilst there may be additional pressures which will result in a larger budget gap, the work that has been done in delivering the shared services savings will go some way to meeting this gap. So far shared services across both Councils have delivered in total £3.5m in savings, for Forest Heaths share of this is an additional £300k above the amount already assumed within the MTFS.

4.4.1.1 In addition to the need to deliver savings from shared services, work has continued to secure a range of other local savings

4.5 Local Savings Themes

4.5.1 A number of areas have been identified to deliver the local savings as follows:

- Office space partnership –more efficient use of existing sites
- Continuing to review existing structures
- Procurement and review of budgets – including reviewing controllable supplies and services budgets moving to cost based accounting
- Being more commercial – including income generation, prudential borrowing, and invest to save projects.

These local savings will be worked through with officers and the results will be reported to this committee.

4.5.2 At this point in time, we believe the 2014/15 budget is achievable through additional shared services savings and local saving.

4.6 Budget Timetable

4.6.1 The table below outlines the timetable of budget information through the committees

4.6.2 Table 3: Budget Timetable

Task	Deadline
Performance and Audit Scrutiny Committee Consideration of local savings and MTFS position in Delivering a Sustainable Budget report	28 th November 2013
O&S consideration of draft MTFS	19 th December 2013
Council approval of the 2014/15 Tax Base	11 th December 2013
Council approval of Local Council Tax Reduction Scheme 2014/15	11 th December 2013
Performance and Audit Scrutiny Committee Consideration of local savings and MTFS position in Delivering a Sustainable Budget report	30 th January 2014
2014/15 Budget and MTFS consideration at Cabinet.	18 th February 2014
2014/15 Budget and MTFS approved at Full Council.	26 th February 2014

5. Other options considered

5.1 Not applicable

6. Community impact

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

6.1.1 Not applicable

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

6.2.1 Not applicable

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

6.3.1 Not applicable

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

6.4.1 Not applicable

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

7.1 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.

7.2 Plans are currently in progress for budget consultation for setting the 2014/15 budget.

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

8.1 As set out above

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

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	High/Medium/Low		High/Medium/Low
Savings projections are not achieved resulting in budget deficit	Medium	Budgetary control, including reporting of variances to members. Use of general fund reserves to cover budget deficits.	Low

10. Legal and policy implications

10.1 The Local Government Finance Act 1988 (Sc 114) - requires the chief finance officer to report to councillors if there is or is likely to be an unbalanced budget.

11. Ward(s) affected

11.1 All

12. Background papers

12.1 Business Rates Retention (Report CAB13/062)

12.2 Local Council Tax Support (Report COU13/610)

13. Documents attached

13.1 Not applicable