

Cabinet



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Budget and Council Tax Setting: 2015/2016 and Medium Term Financial Strategy	
Report No:	CAB/SE/15/005	
Report to and date/s:	Cabinet	10 February 2015
	Council	24 February 2015
Portfolio holder:	David Ray Portfolio Holder for Resources and Performance Tel: 01359 250912 Email: david.ray@stedsbc.gov.uk	
Lead officer:	Rachael Mann Head of Resources and Performance Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	This report sets out details of the Council's proposed revenue and capital budgets for 2015/16 for Cabinet's consideration and recommendation to full Council.	
Recommendations:	<p>It is <u>RECOMMENDED</u> that, subject to the approval of full Council:</p> <p>(1) the revenue and capital budget for 2015/2016 attached at Attachment A to Report No: CAB/SE/15/005, and as detailed in Attachment D, Appendix 1-5 and Attachment E be approved;</p> <p>(2) 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) and the Medium Term Financial Strategy (MTFS) (Attachment D), particularly the Scenario Planning and Sensitivity Analysis (Attachment D and Appendix 5) and all other information contained in this report,</p>	

Recommendations (continued)	<p>Cabinet establish the level of council tax for 2015/2016;</p> <p>(3) the Head of Resources and Performance, in consultation with the Portfolio Holder for Resources and Performance, be authorised to transfer any surplus from the 2014/2015 revenue budget to the Invest to Save Reserve as detailed in paragraph 1.8.4, and to vire funds between existing Earmarked Reserves (as set out at Attachment D, Appendix 3) as deemed appropriate throughout the year; and</p> <p>(4) that the use of the Council’s discretionary power (S47 Local Government Finance Act) to provide the transitional relief be approved and delegated authority be given to the Head of Resources and Performance, in consultation with the Portfolio Holder for Resources and Performance, to determine the final guidelines for the operation of the transitional relief for 2015/2016 and 2016/2017 following the current scheme and guidance issued by Government (Attachment F), as set out in paragraphs 1.4.3 to 1.4.7 of Report No: CAB/SE/15/005.</p>
Key Decision:	No, it is not a Key Decision - <input checked="" type="checkbox"/> Full Council decisions
Consultation:	<ul style="list-style-type: none"> As detailed in the body of this report
Alternative option(s):	<ul style="list-style-type: none"> The council is legally required to set a balanced budget.
Implications:	
<i>Are there any financial implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> As detailed in the body of this report
<i>Are there any staffing implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> Staffing implications are considered as part of any proposed structure changes.
<i>Are there any ICT implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none">
<i>Are there any legal and/or policy implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> As detailed in the body of this report
<i>Are there any equality implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> To be considered as part of implementation of service changes

Risk/opportunity assessment:	A risk assessment is included at Attachment C as part of the report by the Head of Resources and Performance (Chief Finance 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 2015/2016 budget plans. Cabinet and Council are advised to have regard to this report when making their decisions on the 2015/2016 budget.
Ward(s) affected:	All Wards
Background papers: <i>(all background papers are to be published on the website and a link included)</i>	<p><u>PAS/SE/14/010</u> Delivering a Sustainable Budget 2015-16 and Budget Consultation Results -26 November 2014</p> <p><u>PAS/SE/15/005</u> Budget Monitoring 1 April 2014 – 31 December 2014 -29 January 2015</p> <p>West Suffolk Medium Term Financial Strategy http://www.westsuffolk.gov.uk/Council/Finance_and_Statistics/upload/MediumTermFinancialStrategy2014-16.pdf</p>
Documents attached:	See list at Section 4 of this report.

1. Key issues and reasons for recommendations

1.1 Local government funding

1.1.1 The financial landscape for central government funding remains one of uncertainty. The December Autumn Statement outlined further reductions in the Local Government Department spending, with the medium term projections being subject to confirmation by any new administration from May 2015. Further and potentially steeper reductions appear highly likely.

1.2 Local Government Finance Settlement 2015/2016

1.2.1 The Local Government Finance Settlement was announced on 18 December 2014. This only covered 2015/2016, unlike the previous year which provided us with a two-year funding settlement. Pressure is mounting on any incoming government to commit to earlier settlement announcements and to multi-year settlements as local authorities are no longer in the realms of making annual savings, but rather implementing long term strategies to meet the financial future of continued austerity. To do this with little or no knowledge of the long term settlement is extremely difficult.

1.2.2 The Council's total formula grant for 2015/2016 (including Revenue Support Grant, Baseline Funding from retained business rates, Local Services Support Grant and Council Tax Freeze grant) is £4.168m. The Borough has seen a 49.8% cumulative cut in revenue support grant funding over the two years from 2013/2014 to 2015/2016.

1.3 The Government's Council Tax freeze and referendum requirements 2015/2016

1.3.1 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 for one year only. The impact (financial contribution from central government) 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/ 2012 £000	2012/ 2013 £000	2013/ 2014 £000	2014/ 2015 £000	2015/ 2016 £000
Grant awarded in 2011/12*	167	167	167	167	167
Grant awarded in 2012/13*	n/a	168	0	0	0
Grant awarded in 2013/14*	n/a	n/a	67	67	67
Grant awarded in 2014/15*	n/a	n/a	n/a	61	66
Grant offered in 2015/16					66
Total grant received if we freeze council tax in 2015/2016	167	335	234	295	366

* Grant awarded in 2011/2012, 2013/2014 and 2014/2015 now forms part of the formula grant

- 1.3.2 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 (MTFS).
- 1.3.3 The Government has stated that any increase of 2% or more in council tax would trigger a local referendum, as was the case in 2014/2015, giving the local electorate the opportunity to approve or veto the increase. For information - a 2% increase in an average Band D property for St Edmundsbury Borough Council would equate to income of approximately £122,000 for 2015/2016.
- 1.3.4 Should Cabinet and full Council decide to set a 0% increase on council tax, the Borough Council will have frozen council tax for six out of the last seven years, as set out in Table 2.

Table 2: St Edmundsbury - Council Tax level since 2009/2010

	2009 /2010	2010 /2011	2011 /2012	2012 /2013	2013 /2014	2014 /2015	2015 /2016
Council tax increase	0%	1.9%	0%	0%	0%	0%	0% (proposed)

1.4 **Business rates**

Business rates retail relief 2015/2016

- 1.4.1 The Government has continued, as announced in the Autumn Statement 2014, to offer support for business rate bills in 2015/2016 by offering small

business rate relief for an extra year, a 2% cap on the inflation increase for the second consecutive year and increased temporary discounts for shops, pubs and restaurants (with rateable values below £50,000) from £1,000 to £1,500.

- 1.4.2 Business rates retail relief was introduced from April 2013 by the Borough Council in line with Government's guidelines and expectations, as detailed in Cabinet Report E272 'Budget and Council Tax Setting 2014-15 and MTFS 2014-16'. The Autumn Statement 2014 has proposed to increase the total relief from £1,000 a year to £1,500. The implementation of this change is covered under the existing delegations to the Head of Resources and Performance given by Council at the Budget Setting last year (full Council: 26 February 2014 - minute 76 (4) refers) and will be implemented in time for 2015/2016 business rate bills using the revised figure. The changes are cost neutral as the 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.

Business rates transitional relief 2015/2016 to 2016/2017

- 1.4.3 Until recently a Non-Domestic Valuation List was valid for five years after which time a re-valuation exercise was carried out to re-assess the Rateable Value based on the rental value of the premises. The Government always ensures a zero impact of a re-valuation nationally by adjusting the rate in the pound, however locally there are always 'gainers' and 'losers'.
- 1.4.4 In order to restrict the impact of the re-valuation on business, a Transitional Relief scheme was introduced by Central Government to last five years. The scheme was self-financing nationally and meant that a cap was placed on increases and decreases in bills above a certain percentage. This percentage increased year on year so that over time the full rates bill was being paid. The cost of this scheme was borne by the Government.

Current situation

- 1.4.5 The re-valuation that was due in April 2015 has been postponed until April 2017; however the transitional scheme, contained in statute, will end on 31 March 2015 to coincide with the original re-valuation cycle. In order to continue to support businesses the Government has decided to extend transitional relief for properties under £50,000 RV; however they are going to achieve this through use of an authority's discretionary powers to grant a Local Discount under section 47 of the Local Government Finance Act rather than through Regulation.
- 1.4.6 The Scheme guidance has been issued by Department for Communities and Local Government (DCLG) setting out the eligibility criteria for relief, based on the existing scheme; however as this is a discretionary power, a local scheme should be adopted.
- 1.4.7 Any relief granted under these provisions will be fully funded by Central Government through a grant under Section 31 of the Local Government Finance Act 2003 so there is no financial impact on the Council. The

number of properties which will fall under these provisions is likely to be minimal as in most cases transitional relief has already been phased out. State Aid rules will also apply.

1.5 **Setting the budget – 2015/2016**

- 1.5.1 The Council continues to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. In this context, and like many other councils, difficult financial decisions have to be made. The Council has an excellent track record of achieving substantial year-on-year budget savings and generating new income.
- 1.5.2 The approach for delivering the 2015/2016 budget has been that the Council's resources for 2015/2016 should be allocated according to its strategic priorities. In practice, this meant prioritising the projects, actions and themes outlined in the West Suffolk Strategic Plan for 2014-2016, as well as the essential work that the Council needs to do, including statutory functions.
- 1.5.3 The process of allocating resources according to priorities and essential services has helped to identify areas of the Council's work which could either be scaled back or where further opportunities for generating more income could be pursued. The process then focused on non-priority areas, and challenged whether the Council should continue with the activities at all, or in their current form, in order to ensure they provided value for money to council tax payers.
- 1.5.4 It should also be noted that savings achieved through sharing services with Forest Heath District Council have to date been predominately delivered through the joining up of services and staff structures. During September business partners and advisors from the Resources and Performance team held a number of budget challenge meetings with heads of service and portfolio holders. The focus of these meetings was to review all supplies, service and income budgets across West Suffolk. This review took into account previous spending patterns, but more importantly what the projected spending and income requirement under a shared service for 2015/2016 would look like. The challenge meetings also provided the opportunity to consider potential contractual savings as a result of joining up contracts across West Suffolk.
- 1.5.5 A significant number of the proposals generated from the process outlined in paragraphs 1.5.3 and 1.5.4 above are relatively straightforward to implement with minimal impact on service delivery as these items fall mainly in the categories of contract, supplies and service efficiencies, further shared service savings and income generation opportunities from making better use of council assets.
- 1.5.6 However, other proposals require more detailed analysis in order to develop options and to provide clarity as to the potential savings/income. Indeed, some proposals required input from users and the public and were therefore explored as part of this year's budget consultation carried out over the summer of 2014.

- 1.5.7 The purpose of the budget consultation was to inform the budget setting process and help councillors to make decisions about the 2015/2016 budget. It was also used to gauge public opinion on the main savings/income generating options and to test views on a range of issues relating to the council priorities and themes in the MTFs, such as channel shift, families and communities and our commercial approach.
- 1.5.8 The exercise included three public focus groups and three town and parish council focus groups. This provided qualitative feedback which helped to shape the content of the public survey. Quantitative information came from sending the survey to 3,000 randomly-selected households across the borough.
- 1.5.9 The results of this budget consultation assisted Members of the Performance and Audit Scrutiny Committee in November 2014 (Report PAS/SE/14/010 'Delivering a Sustainable Budget 2015-16 and Budget Consultation Results') with their recommended saving proposals through to Cabinet and Full Council on 16 December 2014 (Report COU/SE/14/012). These savings proposals are included within the proposed budget for 2015/2016 as contained at Attachment A, and have been summarised in Attachment B for ease of reference.
- 1.5.10 The Performance and Audit Scrutiny Committee has a key role in the scrutiny of the budget process and proposals for achieving a balanced budget. At the January 2015 meeting the Committee received Report PAS/SE/15/005, which detailed the remaining saving/income proposals required in order for a balanced budget to be achieved. The complete list presented to the Committee in November 2014 and January 2015 has been summarised in Attachment B for ease of reference.
- 1.5.11 Attachment A is the revenue budget summary, which provides an overview of the proposed net service expenditure, (net revenue position after income, expenditure and recharges) for 2015/2016. The total proposed net revenue expenditure in 2015/2016 is £12.757million.

1.6 **Capital programme**

- 1.6.1 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.
- 1.6.2 It is estimated that £8.832 million will be spent on capital programme schemes during 2015/2016 which are to be funded by a combination of grants and contributions (£2.214 million), earmarked revenue reserves (£3.209 million) and the useable capital receipts reserve (£3.409 million).
- 1.6.3 Looking ahead, the total value of the capital programme over the next four years is approximately £18.716 million. Attachment D, Appendix 2 shows the planned capital expenditure in financial year 2015/2016 and future years, together with information on the funding of that expenditure (that is, grants and contributions, use of earmarked revenue reserves and useable capital receipts reserve) and is summarised in Table 3 below.

1.6.4 **Table 3: Planned capital expenditure over four years to 2018/2019**

	2015/16 millions	2016/17 millions	2017/18 millions	2018/19 millions	Total
Gross capital expenditure	£8.832	£6.266	£2.234	£1.384	£18.716
Funded by:					
Grants and contributions	£2.214	£0.250	£0.250	£0.834	£3.548
Earmarked revenue reserves	£3.209	£2.216	£1.434	£ Nil	£6.859
Capital receipts reserve	£3.409	£3.800	£0.550	£0.550	£8.309
Total	£8.832	£6.266	£2.234	£1.384	£18.716

1.7 **Disposal of assets**

1.7.1 Part of the funding arrangements for the capital programme is the disposal of surplus assets. The Council has an agreed programme of asset disposals, which has already been affected by the national economic situation. Table 4 is a summary estimate of the likely level of income from asset disposals over the period 2015/2016 to 2018/2019.

1.7.2 **Table 4: Estimated income from asset disposals 2015/2016 to 2018/2019**

	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
Estimated income from asset disposals – Council share of Right to Buy receipts	£408,000	£408,000	£408,000	£408,000

1.7.3 The above capital programme and asset disposals programme will, in the short to medium term, reduce the Borough Council's useable capital receipts reserves from £12.7 million to £6.0 million. However, this approach still does not address the funding of longer term requirements for major capital repairs to key Borough Council assets including, for example, the £11 million for major repairs and refurbishment of the Borough Council's two leisure centres. Consideration of the affordability of these major capital expenditure proposals, including options for funding, will need to be included in the options and investment appraisals for these projects.

1.7.4 The Council has a number of projects on the horizon that have the potential to require significant capital investment, such as the Public Sector Village (PSV) Phase II (Cabinet Report CAB/SE/14/010) and the potential relocation of the Depot facilities to a new Shared Facility (Cabinet Report F51). Consideration of the affordability of these major capital expenditure proposals, including options for funding, will need to be included in the

options and investment appraisals for these projects and will be subject to Full Council decisions.

- 1.7.5 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. However, the Interest Equalisation Reserve does allow for some change in the budgeted levels of income from interest to be accommodated. 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.

1.8 **Revenue reserves and balances**

General Fund

- 1.8.1 The revenue budget, Attachment A, based on current budget projections, shows a balanced budget position for 2015/2016. However, many of the assumptions supporting the budget projections for 2015/2016 (and future years) are subject to significant uncertainty. This includes assumptions regarding:
- (a) sustainability of income stream estimates (including commercial property rental income and planning income);
 - (b) impact of Business Rates Retention scheme and Suffolk pooling arrangements;
 - (c) impact of the Local Council Tax Reduction Scheme; and
 - (d) pay inflation and employer's pension liabilities.
- 1.8.2 The Borough Council holds General Fund balances as a contingency to cover the cost of unexpected expenditure during the year. The Borough Council agreed as part of 2014/2015 budget process and development of the MTFs to hold a General Fund balance at the level of £3 million, which is 24% of the 2015/2016 net expenditure. As in previous years, the Borough Council can use balances above this minimum to support revenue expenditure and to reduce the level of council tax.
- 1.8.3 The recommended level of general fund balance has been established by taking into account the following:
- (a) allowance for a working balance to cushion the impact of any unexpected events or emergencies;
 - (b) the new risks placed at a local level under the new business rates retention scheme, such as appeals;
 - (c) the addition of greater income targets linked to being more commercial and the selling of councils' services; and
 - (d) other risks detailed in the Scenario Planning and Sensitivity Analysis provided at Attachment D, Appendix 5.

- 1.8.4 The budget monitoring report to the Performance and Audit Scrutiny Committee on 29 January 2015 (Report PAS/SE/15/005 refers) included an estimate of the year end budget underspend of £108,000. It is proposed to transfer the final year-end surplus in its entirety to the Council's Invest to Save reserve to support the Council share of the cost of change associated with the current leadership and service management restructure.

Earmarked reserves

- 1.8.5 At the end of the 2015/2016 financial year, the Council will have an estimated £10.971 million in earmarked reserves. The current level of earmarked reserves and contributions during 2015/2016 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 2015/2016.

Strategic priorities and MTFS Reserve

- 1.8.6 This reserve will act as a one-off fund to provide the financial capacity, either through direct investment (revenue and/or capital) or through servicing external borrowing, for the West Suffolk authorities to drive forward the delivery of a sustainable Medium Term Financial Strategy (MTFS) and the West Suffolk Strategic Plan priorities.
- 1.8.7 The Council received a total New Homes Bonus (NHB) grant of £0.268 million in 2011/2012, £0.559 million in 2012/2013, £0.757 million in 2013/2014, £0.888 million in 2014/2015 and expects to receive £1.219 million in 2015/2016. These NHB allocations have all been put into this Strategic Priorities and MTFS reserve.
- 1.8.8 No assumptions have been made with regard to NHB allocations beyond 2015/2016 as there is a likelihood that future payments of the NHB will be funded at a national level by cutting our funding elsewhere, such as top-slicing revenue support grant or by retaining a proportion of business rate monies that otherwise would be retained locally.
- 1.8.9 The 2015/2016 budget and MTFS includes a number of proposed draws on this reserve, some of which are still to be quantified and will require further reports to full Council. Attachment E summarises the proposed draws on this reserve as part of the 2015/2016 budget.

Adequacy of reserves

- 1.8.10 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 24 February 2015. The full statement is attached in Attachment C.

1.8.11 In summary, the Section 151 Officer's overall assessment is that the estimates are robust (taking into account known risks and mitigating strategies) and reserves are adequate for the 2015/2016 budget plans.

2. Medium Term Financial Strategy (MTFS)

2.1 It should be noted that by 2018/2019 the projected budget gap amounts to £2.5 million for St Edmundsbury (that is, £1.3 million 2016/2017, £0.8 million 2017/2018, and £0.4 million 2018/2019). Should any of the assumptions within the MTFS change significantly, the gap would also change.

2.2 The six themes within our agreed MTFS (link below) relate to areas of the West Suffolk councils' business which will support sustainability in a more financially constrained environment.

http://www.westsuffolk.gov.uk/Council/Finance_and_Statistics/upload/MediumTermFinancialStrategy2014-16.pdf

2.3 The themes are:

- aligning resources to the councils' strategic plan and essential services;
- continuation of the shared services agenda and transformation of service delivery;
- behaving more commercially;
- encouraging more use of digital forms of customer access;
- taking advantage of new forms of local government finance (for example, business rate retention); and
- considering new funding models (for example, becoming as an investing authority).

2.4 Some of the budget consultation areas (discussed as part of the Performance and Audit Scrutiny Report PAS/SE/14/010), such as the Bury St Edmunds bus station building and investing in housing, still require further work and are likely to be the subject of individual business cases over the coming months. These areas are likely to inform the Council's 2016/2017 budget.

3. Legal implications

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

- (a) 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.
- (b) 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 24 February 2015. This is included as Attachment C of the report.

- (c) Sections 28 and 29 of the Act place a statutory duty on local authorities to monitor their budgets and take such action as considered necessary in the case of overspends and shortfalls of income.
- (d) 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. No such report has been produced for St Edmundsbury this year.

4. Documents attached

- 4.1 **Attachment A:** Revenue Budget Summary
- Attachment B:** Summary of major budget changes
- Attachment C:** Report by the Head of Resources and Performance
- Attachment D:** (not attached) – Medium Term Financial Strategy
http://www.westsuffolk.gov.uk/Council/Finance_and_Statistics/upload/MediumTermFinancialStrategy2014-16.pdf
- 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:** Strategic Priorities and Medium Term Financial Strategy (MTFS) Reserve
- Attachment F:** CLG Transitional Relief guidance