

**REPORT TO THE SCRUTINY PANEL for RESOURCE AND PERFORMANCE
MEETING OF 16th JANUARY 2014**

Status: Discussion
Title: Council Budget 2014/15
Originator: Head of Finance and Assets (S151 Officer)
Where from: Executive
Where to next: Executive

Objective: to discuss the revenue budget and funding proposals for 2014/15 and provide comments for Executive to consider at its meeting on 10 February 2014.

1. Outcome sought from Panel
 - 1.1 Comments for Executive to consider.
2. Background
 - 2.1 The DCLG announced the provisional Local Government Finance Settlement in late December which showed a reduction in Revenue Support Grant and increasing reliance on locally generated growth funds. The Executive approved on 10th January a provisional 2014/15 budget for consultation. There is now the requirement for a period of scrutiny prior to the Executive meeting on 10th February and the setting of the Budget Requirement and Council Tax on 24th February
3. Points for discussion
 - 3.1 The attached budget report of the Executive of 10th January includes background to changes in Government funding, budget assumptions and the impact of previous year budget decisions. Scrutiny are requested to review and consider
 - (a) The proposed budget strategy
 - (b) The Growth, Savings and Income Targets (Appendix A of the Executive Budget Report)
 - (c) Risks in delivering the budget strategy.
4. Equality Impact Assessment Implications/Outcomes (attach completed EIA)
 - 4.1 None arising directly from this report.

5 Impact on Communities

- 5.1 None arising directly from this report. The Council's final budget and Corporate Delivery Plan will determine the services and the way they will be delivered to the communities. As such there will be an impact on the communities which will be assessed as part of the individual or collective service(s) consideration.

6 Legal Issues

- 6.1 The Council has to set a balanced budget in order to set the Council Tax for the district.

7 Resource Issues

- 7.1 The Council is required to set a balanced budget

8 Community Safety Implications

- 8.1 None arising directly out of this report.

9 Carbon Management Implications

- 9.1 None arising directly out of this report.

10 Risk Management Implications

- 10.1 The management and monitoring of the risks attached to the 2014/15 budget will be critical to ensuring the future financial standing of the Council.

11 Consultation

- 11.1 Consultation on the 2014/15 budget proposals is being undertaken with Scrutiny, Employee Relations (including Trade Unions) and hopefully business rate payers

12 Background Papers

- 12.1 **None**

Previous report(s): None

Information Issued Under Sensitive Issue Procedure: N

REPORT TO THE EXECUTIVE MEETING OF 13th January 2014

Meeting: Executive
Date: 13th January 2014
Subject: Draft Budget 2014/15
Report of: Head of Financial Services
Portfolio Holder: Councillor Dr Bremner
Status: Decision to issue budget for consultation.
Relevant Ward(s): All

1 Purpose of the Report

- 1.1 To advise Executive of the projected base budget position for 2014/15 based on the provisional grant settlement for 2014/15.
- 1.2 To review the savings and growth proposals put forward for the year 2014/15, and to begin a period of consultation.

2 Recommendations:

- 2.1 **That the Executive endorses the proposed Budget for 2014/15 for consultation.**

3 Summary of Reasons for the Recommendations

- 3.1 To provide the opportunity for consultation on the 2014/15 budgets as well as potential pressures and savings.

4 Key Facts

4.1 Financial Background

- 4.1.1 This draft budget has been prepared for consultation following the provisional local government finance settlement issued by the Department for Local Government & Communities on the 18 December 2013 and announcements in the Autumn Statement on the 5 December 2013. The final budget will be

presented to Executive on the 10th February following receipt of the final local government finance settlement, expected in late January.

- 4.1.2 The draft budget is prepared against continued reduction in Government funding as the Government addresses the public sector deficit. The Comprehensive Spending Review in the summer highlighted significant reductions for 2014/15 and 2015/16 with many commentators forecasting further and significant reductions in the next parliament.
- 4.1.3 The Council is and will be increasingly reliant on funding sources arising from growth (New Homes Bonus and Business Rates) alongside opportunities for income generation. In 2013/14, new schemes for business rate retention and localisation of Council Tax were introduced. There remains significant volatility in these funding streams, especially in relation to Business Rates due to the high levels of appeals and backlogs within the Valuation Office.
- 4.1.4 The Council Tax Support scheme will be in its second year for 2014/15 with the contribution rate for affected claimants remaining at 15% as in 2013/14. The Revenue Support Grant (RSG) for 2014/15 includes an amount from central government to cover some of the impact on the Council and some of the towns and parishes, but the actual amount is not separately identified by the government. The Government has made it clear that it is intended that the Council will distribute the grant to those towns and parishes that received it in 2013/14. Council on the 16 December 2013 approved 'passporting' of funds in 2014/15 to parishes at the 2013/14 level, but with a clear indication that in future this will be reduced in line with the reductions in RSG.
- 4.1.5 The Council has since 2010/11 made significant savings in its net budget, reducing net expenditure by £1.8m. The Budget for 2014/15 builds in the full year impact of transformation initiatives and the Council's major property project, The Symington Building. The budget therefore consolidates these initiatives and prepares for 2015/16 when further reductions in Government funding are known.
- 4.1.6 The Budget continues to utilise reserves on a recurrent and non recurrent basis to support delivery of corporate priorities and promote localism through an extension for two years of the passporting a share of the 'gains' from New Homes Bonus to parishes. In the medium term there is a commitment to remove the use of reserves to support recurrent expenditure. This is consistent with the Medium Term Financial Strategy approved by Council on the 20 August 2013.

4.2 Revised Estimate

4.2.1 The Council set a Net Expenditure budget requirement of £10,223K in 2013/14. The budget assumed utilisation of £375k of the General Reserve Fund. The latest forecast for 2013/14 spend indicates an underspend of £340k against the approved budget. The underspend therefore will potentially largely negate the requirement for any utilisation of reserves in 2013/14.

4.3 Budget Assumptions

4.3.1 The budget is approved annually each year. The budget is prepared on the basis of a series of estimates on Government funding, cost pressures and income forecasts. In addition, the Executive is proposing a series of growth and savings proposals. These proposals aim to deliver the Council priorities within a reducing level of funding overall.

The key Budget assumptions are

(a) Inflation:

The UK inflation rate as measured by the consumer prices index (CPI) was 2.1%, having dropped from 3.2% in September. It is expected that inflation will be between 2% to 2.5% during 2014/15. The following inflation assumptions are included within the budget.

		£000's
Income Inflation	3.2%	(63)
Contract & other price Inflation	Per Individual Contract	142

(b) Employee Costs

Provision has been made in the budget for increases in net pay costs (excluding any growth proposals.)

		£000's
Pay Award (Estimate)	1%	52
Increments	Based on Actual Costs	44
Additional Employer Pension Contribution	2%	105

Every three years a review of the Pension Fund is undertaken. The most recent review undertaken during 2013/14 requires further additional employer

pension contributions of 2% in 2014/15, 2% in 2015/16 and a further 1.9% in 2016/17.

(b) Level of Government funding

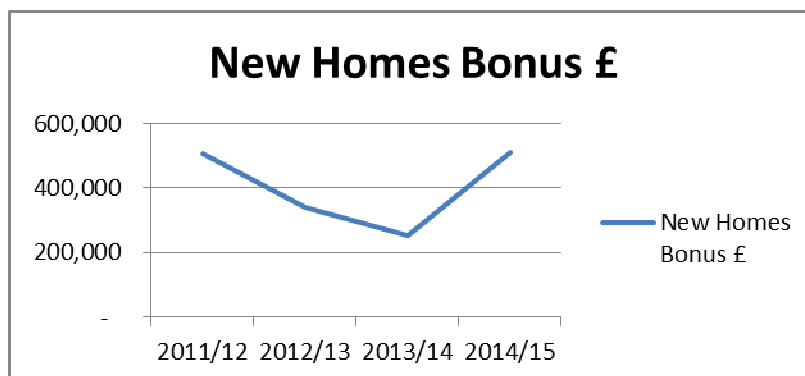
The provisional local Government finance settlement provides indicative figures for 2014/15 and 2015/16. The provisional level of formula funding is £3,426k a 12.8% decrease on 2013/14.

	£000's
Revenue Support Grant (RSG) (includes previous Council Tax Freeze Grants)	1,849
National Share of Business Rates (NNDR)	1,577
Total Provisional Settlement Funding	3,426

The provisional settlement also gave indicative figures for 2015/16 which indicates a reduction of 15% in 2015/16 and the potential cessation of a number of the grants, for example New Burdens Grant.

(d) New Homes Bonus

The Government in 2011/12 introduced the New Homes Bonus to incentivise Councils in respect of housing growth. The current scheme is based on Councils receiving money for 6 years following the level of completions in the previous year. The Government has confirmed the New Homes Bonus allocation of £535,985 for 2014/15. This is an increase on the previous year and builds in the benefits of a review to bring empty homes back into use. The graph below shows the improved trend.



(e) Business Rates

The Government introduced in 2013/14 a Business Rate Retention Scheme with the aim of incentivising local growth, with the ability to retain at least 25% of the business rate growth locally. Through a pooling agreement with the other Leicestershire Districts and the County there is also the benefit of a share of business rate growth being retained regionally and targeted at economic growth through the LLEP.

Business Rate Growth is an integral part of local government funding with the assumption that this will partially compensate for the reduction in central government funding (RSG). As we are in a pool the final figures for growth will not be confirmed until September 2014. At this stage £250k of business rate growth is built into the budget for 2014/15. Nationwide there are a significant number of appeals lodged with the valuation office that brings significant volatility and uncertainty to forecasting the benefits of business rate growth. The timing of the resolution of these appeals makes forecasting difficult.

(f) Council Tax

The Chancellor's autumn statement confirmed the Government's intention to continue the Council Tax Freeze Grant for 2014/15 and 2015/16. The grant is similar to previous years where the Council will receive a grant equal to a 1% increase. For Harborough, this equates to £52k. The Government has indicated that the Grant will be included in the baseline for future years. If Council's were to set an 'excessive' increase there would be the requirement to hold a referendum. The Government is still to announce the thresholds for such a referendum. The budget issued for consultation assumes that there will be no increase in the District share of Council Tax in 2014/15 and the freeze grant will be received.

(f) Fees and Charges

The Council levies fees and charges for a wide range of services. The budget assumes that collectively income from fees and charges will increase by 3.2% (the inflation rate at September 2013).

4.4 Growth and Savings Proposals

4.4.1 The 2014/15 budget consolidates the major organisational change, property and transformation programmes of previous years. The growth and saving proposals for 2014/15 are attached at Appendix A and summarised below.

	£
Growth Proposals	297,000
Savings Proposals	(107,000)
Income Proposals	(55,000)
Total	135,000

4.5 Utilisation of Reserves

4.5.1 The Council has a series of reserves that have been set aside to deliver Council priorities and to support Medium Term financial planning. In addition, the Council retains a General Fund Reserve which is retained at or above a level recommended by the S151 Officer which will be confirmed in the Annual Budget Report along with the assessment of risks of delivery of the budget proposals.

4.5.2 A initial review of the level of reserves has been undertaken (as required by the Local Government Act, 2003). Based on this there is scope for the use of reserves on a recurrent and non recurrent basis to support the delivery of Council priorities and delivery of a balanced budget in 2014/15. The Medium Term Financial Strategy (MTFS) assumes the removal of reliance on reserves to fund recurrent expenditure by the end of the current MTFS period.

4.5.3 The planned utilisation of reserves is shown below

	Estimated Opening Balance 2014/15	2014/15 Planned Use of Reserves	Estimated Closing Balance 2014/15
	£000s	£000s	£000s
General Fund Balance (includes forecast 2013/14 underspend)	1,313	0	1,313
Earmarked Reserves (excluding General Reserve Fund)	2,820	(250)	2,570
General Reserve Fund	1,577	(197)	1,380
Total Earmarked Reserves	4,397	(447)	3,950
Capital Reserves	678	0	678

4.5.4 The planned use of Reserves of £447k reflects the support of £147k (a reduction from £375k supporting the 2013/14 budget), alongside two specific uses of reserves, these being £250k for New Homes Bonus to Localities, and a one-off £50k to support any specialist advice required for the Waste Contract review.

4.6 2014/15 Revenue Budget

4.6.1 The proposed budget for consultation (based on this report) is attached at **Appendix B**. Following consultation with Scrutiny a further budget report will be considered by the Executive on the 10 February 2014 and by Full Council

on the 24 February 2014, where the Council Tax resolution will be considered. The Council must have set a balanced budget and Council Tax by 11 March 2014.

- 4.6.2 The proposed budget consolidates previous year budget decisions as well as the budget assumptions and proposals detailed earlier in the report. The key movements are summarised below table

	£000s
2013/14 Approved Budget	10,223
Proposed Growth & Savings	135
Employee cost – inflation, Increments & pension	201
Contract & Price inflation	142
Income inflation	(63)
Increase in Debt Charges	266
CT support to Parishes	74
Business Rates Growth estimates	(250)
Net Reserve Movements	(22)
Other Net Movements	(271)
2014/15 Proposed Budget Estimate	10,435

- 4.6.3 In particular, the budget now includes the costs associated with the re-opening of the Symington Building. These include the approved borrowing costs for the refurbishment, reduced operating costs from the co-location and levying of service charges to other partners within the building and rentals from the retail units of £46k in 2014/15 rising to £77k in 2015/16 with further increases when retail unit 3 is let.

4.7 2014/15 Capital Budget

- 4.7.1 In 2013/14 the Council approved significant capital expenditure for the refurbishment of The Symington Building and the Market. In addition, the Council is responsible for Disabled Facility Grants for which a 2014/15 Grant allocation has been confirmed at £158,434, for which the Council plans to make a contribution of £97,566 to maintain the same level of funding as 2013/14. In addition there is likely to be significant slippage from 2013/14 relating to DFG commitments not spent in year.
- 4.7.2 The 2014/15 Capital budget will include residual costs arising from the key capital projects currently being undertaken, for which the financing has already

been agreed by the Council as part of the 2013/14 Budget and subsequent approvals by Executive and Council.

- 4.7.3 There are currently no proposals for new capital schemes in 2014/15 beyond the above requiring additional borrowing. The Council during 2014/15 will establish a capital and asset management group to undertake a strategic assessment of future capital needs.
- 4.7.4 The detailed capital budgets will be included in the February Budget report and will include drawdown of reserves e.g. s.106 and developer contributions and any capital schemes that will be required from a health safety requirement. The February report will also include forecast slippage of expenditure and financing identified as part of the quarter 3 monitoring.

5 Legal Issues

- 5.1 The Council is required to consult on its budget prior to formulating its budget requirement. In setting the final budget requirement the Council is required to set a balanced budget by the 11th March.

6 Resource Issues

- 6.1 There are no direct financial implications from approving this report for consultation. However, when the final budget report is approved then there will be financial implications for the Council. These will form the formal budget resolution to Council in February.

7 Equality Impact Assessment Implications/Outcomes

- 7.1 There are no specific Equalities & Diversity issues affecting the recommendation in this report, though any such issues affecting particular service pressures and savings have been considered when those proposals were submitted.

8. Risk Management Implications

- 8.1 The budget proposals are subject to a risk assessment in their formulation and subsequent delivery. An overall assessment of the risks in the Budget Strategy by the S151 Officer forms part of the report to the Executive on the 10th February and Council on the 24th February.

9 Consultation

- 9.1 Executive is asked to endorse the Budget proposals contained in this report as a basis for consultation. These proposals will be subject to consultation over the period from 13 January 2014 to 10 February 2014. The Resources Scrutiny Panel will consider this report on the 16 January 2014. In addition, consultation will be with:

- Employee Relations Committee (including Trade Unions)
- Local Businesses and Commercial Ratepayers

10. Options

10.1 The Council have to set a balanced budget. The report details the proposed budget for 2014/15 that will be subject to consultation. The outcomes of the consultation and any revisions to the proposed budget for 2014/15 will be reported to Executive on the 10th February.

11 Background Papers

11.1 Budget working papers

Previous report(s): Executive 20th August – Medium Term Financial Strategy

Information Issued Under Sensitive Issue Procedure: N

Ward Members Notified: N

Appendices:

A. Growth and Savings Proposals

B. Proposed 2014/15 Budget

Growth and Savings Proposals

	Budget Amount	Comments
Growth Proposals	£	
Customer Contact Centre provided through Charnwood	80,000	Increase in call volumes requires two additional contact centre staff. The growth bid also updates the full year estimate of the charge (based on cost recovery) from Charnwood.
Strategic Planning Review	90,000	The Council commissioned a review in the autumn of 2013 which will be reported to the relevant committees in February 2014. This review looked at the effectiveness of the planning function (Development Control, Planning Enforcement, Strategic Planning and Planning Committee). A key conclusion of the report is to recruit a Head of Planning linked to a review of staffing and Governance arrangements. The £90,000 is an estimate of the additional costs to implement the key changes arising from the partnership review including the appointment of a new Head of Planning post.
Website Development	22,000	Executive on the 4 th November 2013 approved the business case for the development of the Council's website. There was additional revenue support costs associated with the website upgrade.
Revenues and Benefits Partnership	15,000	The Partnership Management Board has reviewed the budget requirement and the cost allocation for 2014/15. Additional costs have been identified in respect of Pension contributions and IT Costs. The partnership has commissioned a review by the IRRV which will look at the VFM and opportunities going forward for the partnership. This could lead to revisions in the operating model of the partnership in the future with potential for changes in the budget requirement during 2014/15.
Internal Audit Partnership	5,000	A review of the Internal Audit Partnership and the increased complexity of audits require a different skill mix than previously. It is proposed by the Partnership that a vacant auditor post is replaced with an Audit Manager. The £5K represents HDC's share of the additional cost. The staff are employees of Rutland County Council.
Waste and Street Cleansing Contract Renewal	50,000	The Council's waste contract term ends in 2016. There is the option for a renewal of up to 7 years within the existing contract. All Leicestershire Councils are committed to reviewing future opportunities for waste collection and disposal through a task and finish group. This is a one-off £50,000 provision for specialist or external support (for example, legal costs) to assist the Council in securing waste and street cleansing services beyond 2016.
Contingency for Activity Changes	13,000	It is proposed that the Council creates a small contingency to address changes in costs or activity levels in year. This would also include changes in partnerships and contracts.
Political Assistants	22,000	The Council will receive a report on the potential to create

		political assistants. These posts would be outside the normal officer appointment process and would be established for the period of this Council, i.e. to May 2015. Political assistants (if approved) needs to be offered to all political parties and can be full time or part time. The costs are therefore uncertain. A placeholder has been included within the 2014/15 budget of £22,000. Any additional would need to be met from reserves.
Sub Total	297,000	
Savings Proposals		
Bulky Waste	17,000	The Council revised its contract from the 1 st August 2013 for bulky waste to reflect reduced demand from what was originally within the contract. This represents a reduction of 37% on the original contract value for this part of the service.
Other Waste and Street Cleansing Savings	10,000	Within the original proposals for Waste and Street Cleansing there were a series of proposals for small efficiencies and income generation, for example charging for bins for new developments. Current income levels, and on-going discussions with FCC should deliver this budget target.
Street Cleansing	40,000	Executive on the 30 th September approved changes in street cleansing frequency and specification (especially in relation to zone 7 cleansing – rural roads). This is estimated to save at least £40,000 of savings in a full year.
Grounds Maintenance	30,000	Within the original transformation programme was a target for a reduction of £30,000 in Grounds Maintenance Costs. Discussions are underway with the contractor, FCC to look in changes in specification, frequency of cuts and other options to achieve the required savings. This will also take into account changes in the number of public amenity spaces since the original contract was signed.
Transformation Savings	10,000	A prudent target of £10,000 is included in the budget for 2014/15 for efficiencies arising from the Transformation 2 programme. This target reflects that service reviews are still to be concluded and that the need for consultation and implementation will only deliver part year savings in 2014/15.
Sub Total	107,000	
Income Generation Proposals		
Trade Waste Services	55,000	Based on the successful re-launch of the Trade Waste Service in 2013 and growth in number of customers, a stretch target of £55,000 is proposed for 2014/15. This is based on a combination of increased customer income (8-10%) and continued shift of customers to recycling, thereby reducing landfill costs.
Sub Total	55,000	

Proposed Budget		APPENDIX B
	2013/14 Original Approved Budget	2014/15 Proposed Budget
	A	
	£	£
Portfolio's		
Business Growth	99,680	(9,535)
Corporate Services	3,619,760	3,636,328
Finance, Efficiency & Assets	1,454,190	1,449,220
Plan Environment & Conservation	3,991,500	4,048,637
Health & Community	511,590	802,890
Regulatory & Safety	190,760	265,306
Contingency	68,000	1,022
Vat Shelter	0	0
Growth & Savings Proposals		135,000
Net Direct Cost of Services	9,935,480	10,328,867
Interest Payable	80,000	208,000
Provision for Repayment of External Debt	382,740	520,940
CT Support for parishes		74,475
Contributions to Earmarked Reserves (inc. General Reserve Fund)	250,000	0
Contributions from Earmarked Reserves (inc. General Reserve Fund)	(424,790)	(447,000)
Contributions to General Fund Balance	0	0
Contributions from General Fund Balance	0	0
Business Rates Growth		(250,000)
Net Expenditure / Budget Requirement	10,223,430	10,435,282
Funding		
RSG	(2,012,704)	(1,849,139)
NNDR	(1,338,996)	(1,576,877)
New Homes Bonus	(1,102,700)	(1,638,635)
Council Tax Support Grant	(353,603)	0
Challenge New Burdens Grants	0	(16,500)
Council Tax Freeze Grant	(56,200)	(52,568)
Non-specific Grant Homelessness	(91,950)	0
Collection Fund (Surplus) / Deficit	(10,494)	0
Council Tax	(5,256,783)	(5,301,563)
(Surplus) / Deficit for Year	0	0