CAUTION – All figures yet to be finalised. Will only be confident once establishment, salary and re-charge costs built in

AGENDA ITEM 5

WEST DEVON BOROUGH COUNCIL

AGENDA ITEM 5

NAME OF COMMITTEE	**RESOURCES**
DATE	**26 MARCH 2013**
REPORT TITLE	**MEETING THE FINANCIAL CHALLENGE**
Report of	**CHIEF EXECUTIVE and ACTING HEAD OF FINANCE & AUDIT**
WARDS AFFECTED	**ALL**

Summary of report: The purpose of this report is to offer a way forward to overcome the 2014/15 budget gap of £728,000 and to build an approach that guarantees West Devon Borough Council's longer term viability.

RECOMMENDATIONS:

That the Resources Committee **RECOMMENDS** to Council:

(i) that the broad thrust of this report be accepted to bridge the 2014/15 gap by a combination of measures including the use of New Homes Bonus; a presumption not to fill vacant posts as they arise in 2013/14 and further efficiency savings;

(ii) which, if any, of the potential savings discussed at 3.4.3 should be pursued to enable early notice to be given to affected staff, stakeholders and partners;

(iii) those elements of earmarked reserves and capital where expenditure trends or commitments indicate it is safe to do so be stripped out, as set out at Appendix A, to free up New Homes Bonus.

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1. BACKGROUND

1.1 At the Resources Committee on 29 January 2013 Members acknowledged a £2.1m budget gap over the four financial years 2013/14 to 2016/17. Council subsequently approved a budget for 2013/14 reducing the gap by £355,000. The 2014/15 gap of £728,000 was described as particularly challenging and we agreed that work would start immediately to develop a strategy that would close the 2014/15 gap.

1.2 We intend to report to each Resources Committee this financial year, refining our approach and estimates as we go, seeking Members' approval to specific measures in the year. This will enable us to:

- provide maximum warning of any service reductions to partners and stakeholders
- explore alternative ways of delivering services at a reduced cost
- potentially drive out greater efficiencies; particularly if we revise our approach to holding contingencies in corporate pots rather than in individual service areas

2. THE MEDIUM TERM CHALLENGE

2.1 For the two years beyond 2014/15 we expect savings or further income generation to come from a more focussed Transformation Programme designed to meet the financial challenge. A report elsewhere on this agenda seeks funding to invest up front to carry out "proof of concept" work to help us design a new operating model. One approach advocated in this report will ensure adequate provision is made for future investment to save work.

3. CLOSING THE 2014/15 BUDGET GAP

3.1 The budget gap for 2014/15 reported to Resources Committee on 29 January 2013 was £728,000.

3.2 The gap outlined above takes consideration of known cost pressures netting to £279,000; this takes account of known contractual inflationary increases (eg. Waste contracts), salaries increases and pension liability increases. There are other, as yet uncosted, potential cost pressures in the pipeline such as the leisure contract renewal. As the year progresses, any such pressures will be costed and added to the gap analysis.

Paragraph 3.3 follows on the next page.

3.3 The table below sets out come cautious assumptions about how the gap might be bridged. Members will want to express views at this stage.

DESCRIPTION	2014/15 £000s	COMMENTS
Budget Gap	728	As set out in Appendix B of the Resources Committee report of 20 January 2013.
Measures to bridge the gap		
Council Tax Increase	56	This assumes that Councillors agree to a 1.5% increase in Council Tax in 2014/15.
Increase Council Tax Collection Rate by 0.25%	5	Improvement in performance on Council Tax Collection will enable a higher proportion of Council Tax to be factored into the budget setting process.
Council Tax Support – charging claimants proportion of Council Tax	40	By charging previous Council Tax Benefits to cover the reduction in funding to the Council associated with Council Tax Support. In 2013/14, previous Council Tax Benefit claimants receive no Council Tax bill.
Rates Growth	25	Estimate based on modest business rates growth. This estimate will be reviewed throughout 2013/14 as the localised business rates system becomes established.
Rates Pooling	30	Estimate based on advice by external consultants on the benefits which will accrue from the Devon Business Rates Pooling arrangements.
Scouring Budgets for Savings	100	Early tentative estimate based on an on-going exercise to look at budgets on a line by line basis as well as an organisation wide basis. Estimate based on possible savings where lines have consistently underspent in previous three years or where establishment posts have remained vacant for a significant period of time.
Vacancies Freeze	91	See 3.4.1 below. Based on presumption that all future vacancies that arise will not be filled, other than in exceptional circumstances.
New Homes Bonus	100	Additional New Homes Bonus for year four based on additional reward in year three.
Potential Deferred Savings	102	As set out in 3.4.3, a number of savings were identified as part of the 2013/14 budget setting process but were deferred for consideration over the next year
Total of Measures to Bridge the Gap	**551**	
New Homes Bonus that will be needed to balance the 2014/15 budget	177	

3.4 It would be helpful to secure decisions at this meeting on:

3.4.1 The presumption against filling vacant posts. At the moment each vacancy is reviewed but the presumption is in favour of refilling. It would be beneficial to agree with immediate effect a revised policy that presumes vacant posts are **not** filled unless SMT agrees, based on specific criteria around impacts on performance, income generation, etc. Our cautious estimate is that six vacancies left unfilled over a year will generate savings of £168,000 per annum based on £28,000 average salary and on costs. We presently budget for a vacancy factor of £77,000. This approach will therefore provide a further net £91,000

3.4.2 The principle of using New Homes Bonus to underpin the base budget. This was not the original intention of New Homes Bonus but its use in this way will ensure we remain viable until further savings or income generation replace it in future budgets.

3.4.3 The potential savings deferred from the 2013/14 budget, ie:

Closure of TICs	potentially saving £50,000 pa
Economy Service reduction	potentially saving £20,000 pa
Ending Giro payments	potentially saving £18,000 pa
CVS grant reduction	potentially saving £8,500 pa
Discretionary rate relief reduction	potentially saving £5,500 pa
Total Potential Savings	**£102,000 pa**

The above list is not exhaustive and does not preclude additional initiatives for identifying potential further savings or additional income.

3.4.4 A different approach to capital and earmarked reserves.

Having looked at three year expenditure trends, SMT concludes that we should be much more aggressive in our monitoring to ensure that if budgets set aside are not spent or committed within a reasonable timescale they should be re-directed. The schedule at Appendix A shows a substantial one off saving that can be redirected:

(a) to help bridge the 2014/15 revenue budget gap, and

(b) to invest to save opportunities to meet the new Transformation Programme requirements.

3.5 The budget scouring figure of £100,000 is indicative at this stage. SMT believes it is achievable by tightening up on a number of historic budget heads that get lost in individual service budgets but when tackled corporately have the potential to release more savings. Additionally, a decision to remove long held vacancies from the establishment will release budgetary savings. This theory can be tested by applying new disciplines to the 2013/14 budget. If it works there will be a bonus saving leading into the 2014/15 budget.

3.6 However, we need to be cautious because in previous years actual expenditure has usually been very close to budget. There is a risk that we overspend but we will mitigate this by tight monitoring and more flexible use of the general reserve in future.

3.7 The opportunity has been taken during this exercise to ensure that budget lines and amounts reflect actual expenditure, viring as necessary within the Council's delegated arrangements. The opportunity has also been taken to ensure budgets, such as car park income, that have been over optimistically set, have been re-adjusted to deal with future risks.

3.8 As 2013/14 progresses we will be taking other steps to:

- ensure we are putting options to Members to recover full costs of services like licensing, land charges and building control fees where we are allowed by statute to recover these costs;

- revise the way Members monitor revenue, capital and the use of earmarked reserves to provide more information on commitments as well as actual expenditure.

3.9 Taken together the savings outlined in the table in 3.3 and the deferred savings set out in 3.4.3 amount to £551,000. All things being equal, this would necessitate the use of an additional £177,000 in New Homes Bonus. However, with the resources released from earmarked reserves and capital programme underspends, as set out in 3.4.4, there is financial headroom should Members want to reconsider the measures set out in the table at 3.3.

4. CONCLUSION

4.1 In conclusion we can say that our concern about long term viability recedes if we adopt this approach but it relies on even tighter control of expenditure and a political decision to use significant amounts of New Homes Bonus to support the base budget.

4.2 The more optimistic medium term challenge therefore becomes "how can we drive out efficiencies so that New Homes Bonus reliance is reduced?" rather than "how do we remain viable?"

4.3 We will need a more focussed Transformation Programme to cover the additional funding gap from 2015/16.

4. LEGAL IMPLICATIONS

4.1 In accordance with the Council's Delegation Scheme, the Resources Committee is responsible for recommending to Council the budgetary framework. The Council is required to adopt the revenue budget.

5. RISK MANAGEMENT

5.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template.

6. OTHER CONSIDERATIONS

Corporate priorities engaged:	A balanced budget underpins the Council's capacity to delivers its corporate priorities.
Statutory powers:	Local Government Act 1972, Section 151
Considerations of equality and human rights:	At the time of writing, an equality impact assessment of this report is being undertaken and the results of this will be reported verbally at the meeting.
Biodiversity considerations:	None directly related to this report.
Sustainability considerations:	None directly related to this report.
Crime and disorder implications:	None directly related to this report.
Background papers:	Report to Resources Committee on 29 January 2013 on Revenue Budget 2013/14.
Appendices attached:	Appendix A – Earmarked Reserves and Capital Programme Underspends where resources are unlikely to be used Appendix B – Further information on Tourist Information Centres (para 3.4.3 refers) Appendix C - Further information on Economy Service (para 3.4.3 refers) Appendix D - Further information on CVS (para 3.4.3 refers)

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Robustness of medium term financial strategy and service blue-prints	Not achieving financial savings as anticipated 2014/15 will see a further significant reduction in formula funding. External change to the national economic environment which may impact on our funding expectations. Implications of changes to the funding of local government through locally collected business rates and revenue support grant. Effect of the localisation of council tax. Achieving anticipated income targets in the current financial climate.	5+	3	**15**	⇔	Corporate engagement in the development of the medium term financial strategy. Service commitment to business planning processes. Robust horizon scanning to monitor changes in Government policy. The Council responded to the consultation on the localisation of business rates and will carry out regular monitoring during the financial year to ascertain the effect of the new scheme on the Council's finances. (see Risk No. 2 below) Monitoring of corporate income streams and revenue budgets.	H of Finance & Audit Corporate Director (TW) Corporate Director (AR) H of F&A H of F&A
2	Income	The figures for income	5	3	**15**	⇔	The position will be monitored by	H of F&A

No	Risk Title	Risk/Opportunity Description	Inherent risk status: Impact of negative outcome	Inherent risk status: Chance of negative outcome	Inherent risk status: Risk score and direction of travel		Mitigating & Management actions	Ownership
	from Business Rates	from Business Rates are best estimates at this date (the NNDR1 return forecasts Business Rates for the forthcoming year). Predictions could vary by £100,000. The figures are subject to volatility both from business rating appeals and from the economic climate. It is understood that a number of city based local authorities have threatened a Judicial Review in respect of the appeals allowance built into the localised business rates system. A successful Judicial Review might impact unfavourably on West Devon's localised rates position and the amount that is retained locally.					the Head of Finance and Audit. The quarterly Revenue Budget Monitoring reports will monitor Business Rates income against projections. Any variances will be highlighted to Members at an early stage. The Council is part of a Devonwide Pooling arrangement for business rates and the anticipated gains from pooling of £29,000 have not been built in the base budget funding as this income is not guaranteed.	
3	Setting a lawful budget	Failure of the Council to set a lawful budget	5	1	5	⇔	The Budget is compiled in accordance with best practice guidelines issued by CIPFA and the Government. The final budget report includes an assessment from the Section 151 Officer on the	Head of Finance and Audit

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
							adequacy of the Council's reserves and the robustness of the estimates made. The budget process is laid down in the Council's Constitution. Resources Committee and Council meetings are timetabled to meet the Statutory deadlines for setting the Council Tax.	
4	Corporate Priorities	Failure to target budgets to service priorities	5	3	15	⇔	Service priorities will be reviewed and reduced. Budget reductions include a section on their impact on council priorities and a risk assessment. The budget is subjected to extensive consultation with all Members, the public and the business community. Adequate levels of appropriately trained staff. Thorough planning and monthly monitoring of performance to management, quarterly to the Resources Committee.	Head of Finance and Audit

Direction of travel symbols ⇩ ⇧ ⇔