

WEST DEVON BOROUGH COUNCIL

NAME OF COMMITTEE	Resources
DATE	23 July 2013
REPORT TITLE	Meeting the Financial Challenge
Joint Report of	Chief Executive and the 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:

It is recommended that the Committee:

1. agrees £199,643 of savings identified for 2014/5 by the budget scouring exercise as outlined in paragraph 2.5; and,
2. notes the contents of the report which set out the outcomes from the Comprehensive Spending Review and the consequent additional financial difficulties arising from greater than anticipated funding cuts and the significant loss of New Homes Bonus from 2015/16 onwards.

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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 At the subsequent Resources Committee on 26 March 2013, a first edition of this 'Meeting the Financial Challenge' report was considered in which we undertook

to refine our approach in working towards a balanced budget, 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

1.3 Since the initial report in March, a number of events and announcements have taken place which impact upon the financial position of the authority and the budget gap going forward. These are summarised below and developed in more detail in this report:

- Completion of the final accounts provides a clearer view of the Council's outturn position and reserves position
- The budget scouring exercise has been completed and this has identified savings which will close the budget gap. Member approval for these savings is sought (see recommendation)
- The Comprehensive Spending Review announcement was made by the Chancellor of the Exchequer on 26 June 2013 which has a significant impact on funding over next few years

2. THE MEDIUM TERM CHALLENGE

Comprehensive Spending Review

2.1 The Comprehensive Spending Review included a number of announcements which impact upon the Council's budget over the next five years. These are summarised below:

- As anticipated, Local Government funding is to reduce by 10% in 2015/16. Equivalent real terms cuts in funding were also announced for each year of the next parliament
- Council Tax Freeze Grant was announced for the next two years equivalent to a 1% increase. The percentage increase in Council Tax that will trigger a referendum remains at 2%
- In 2015/16, a £400m top slice of New Homes Bonus will part fund a £2bn economic growth pot for Local Enterprise Partnerships (LEPs) – this will significantly reduce the Council's New Homes Bonus grant from 2015/16 onwards
- An additional £100m Transformation Programme is to be made available to all Councils – this is an eleven fold increase on the £9.2 million programme to which West Devon and South Hams have made a joint bid

2.2 The impact of the Comprehensive Spending Review announcement on the budget gap analysis, originally considered at the February Resources Committee, is shown below:

	2014/15	2015/16	2016/17	Cumulative gap	2017/18
Budget Gap (reported at Committee in February 2013)	728,626	454,329	423,671	1,606,624	
Further reductions in Government Grant	31,452	108,015	116,533	256,000	
New Budget Gap	760,078	562,344	540,204	1,862,626	512,183
<i>Reduction in Budget Gap if Council Tax Freeze Grant is accepted</i>					
Council Tax Freeze Grant	(38,072)	(38,173)	76,245	0	0
Budget Gap	722,006	524,171	616,449	1,862,626	512,183
<i>Reduction in Budget Gap if Council Tax is increased by 1.9% each year</i>					
Increased Council Tax income	(72,338)	(73,903)	(75,498)	(221,739)	(77,146)
Budget Gap	687,740	488,441	464,706	1,640,887	435,037
New Homes Bonus forecast	1,124,945	796,214	940,711		792,738

2.3 The table shows an additional £256,000 of funding reductions over the three years. This is based on 10% reductions in each of those years. It also shows two scenarios for Council Tax. If the Freeze Grant is taken, savings of £1.863m will be required over the three years. A Council tax increase of 1.9% in each of the next three years would reduce this gap to £1,641m. The figures in bold show that the cumulative gap for the three years actually exceeds the predicted level of New Homes Bonus for 2016/17 which means that New Homes Bonus by itself can not be the solution to a balanced budget in the medium term.

2.4 The above table also shows a reduction in New Homes Bonus from a high point in 2014/15. This reduction is due to the Government's intention to top slice £400m nationally from allocations in order to fund a £2bn Economic Growth fund. The impact of this top slice is a reduction of New Homes Bonus equal to 35% in 2015/16, 29% in 2016/17 and 28% in the years 2017/18 and 2018/19. An estimate of New Homes Bonus for the next five years is shown below:

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Year 1 - 2011/12	323,920	323,920	323,920	323,920	323,920	323,920		
Year 2 - 2012/13		568,622	568,622	568,622	568,622	568,622	568,622	
Year 3 - 2013/14			132,403	132,403	132,403	132,403	132,403	132,403
Year 4 - 2014/15				100,000	100,000	100,000	100,000	100,000
Year 5 - 2015/16					100,000	100,000	100,000	100,000
Year 6 - 2016/17						100,000	100,000	100,000
Year 7 - 2017/18							100,000	100,000
Year 8 - 2018/19								100,000
	323,920	892,542	1,024,945	1,124,945	1,224,945	1,324,945	1,101,025	532,403
Top Slice Loss	0%	0%	0%	0%	-35%	-29%	-28%	-28%
Forecast NHB	323,920	892,542	1,024,945	1,124,945	796,214	940,711	792,738	383,330
Annual change		568,622	132,403	100,000	-328,731	144,497	-147,973	-409,408

Budget Scouring Exercise

2.5 In March 2013, SMT undertook a budget scouring event. This involved a very focussed and systematic review of all cost centres on a line by line basis; looking at expenditure history over three years and aggregating spend at a corporate level to see whether any further savings could be identified. This exercise identified £199,643 of savings which, with very careful budgetary control, could be made during 2013/14 and count towards the budget gap in 2014/15 and beyond.

2.6 A schedule outlining the savings is included as Appendix A and Members are asked to approve these savings in the recommendations section.

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. In the table on the previous page, we set out a further widening of the gap by £31,452 as a consequence of additional funding reductions announced in the budget.

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 uncoded, potential cost pressures in the pipeline such as the leisure contract renewal. As the year progresses, any such pressures will be coded and added to the gap analysis.

3.3 A number of potential savings were deferred from the 2013/14 budget for further consideration. Work is taking place through the year on these areas of savings and a brief summary on each area is considered in appendix B.

3.4 The table opposite sets out some cautious assumptions about how the gap might be bridged. Members will want to express views at this stage.

3.5 As set out in 2.5, the budget scouring exercise which took place during March has now been finalised and just under £200,000 of savings were identified. Although these savings will make a significant contribution to reducing the budget gap, it should be noted that the further reduction in resource has effectively

removed all contingency from the budget and will therefore necessitate rigorous budget monitoring throughout the year.

- 3.6 In order to take account of the budget gap, the SMT has agreed a vacancy management process. There will be a 'presumption against filling' unless a clear case for recruiting exists based on specific criteria including impacts on performance, service provision, income generation etc. Although this process has identified savings in the first quarter of about £50,000, we do not feel that it is appropriate, until further information is available, to assume any future budget savings over and above the £125,000 already built into the budget. A further position up date will be available at the half year position.

DESCRIPTION	14/15 £000s	COMMENTS
Budget Gap	759	As set out in Appendix B of the Resources Committee report of 20 January 2013 and amended in the table at 2.2 for additional 14/15 funding reductions.
Measures to bridge the gap		
Council Tax from additional properties	10	Based on an increase of 50 band D equivalent properties.
Council Tax Increase	72	The Government has announced in June that it intends to retain the Council Tax 'referendum' limit at 2%. We have increased the assumed Council Tax increase to 1.9% (from 1.5% reported in March).
Lower Collection Fund redistribution	(15)	A lower year end balance on the Collection Fund due to reduced council tax collection will result in a lower Collection Fund surplus redistribution than in previous years. Improvements in collection will minimise any such loss in the future.
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. We have commenced some financial modelling work to understand the impacts of the Council Tax Support and technical changes in 2013/14 and will use this to outline costed options for Council Tax Support in 2014/15.
Rates Growth	25	Estimates remain unchanged from previous report and are based upon external consultant's information. We are now modelling early 2013/14 business rates data in order to establish reliable predictions going forward. However, uncertainty about rates appeals means that it is difficult to establish definitive estimates of additional income from localised rates.
Rates Pooling	30	
Scouring Budgets for Savings	200	We have now finalised this exercise and savings of £200,000 can be factored into reducing the budget gap for 2014/15 – see 3.6.
Vacancies Control	0	See paragraph 3.6. Careful vacancy management might result in budget savings over and above the £125,000 vacancy allowance. Further consideration of this will be made with the benefit of half year financial information.

Potential Deferred Savings	87	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	449	
Further resource required to close the budget gap	310	

Reducing reliance on New Homes Bonus via the Transformation Programme

- 3.7 The table shows potential estimated savings of £449,000 which leaves a further £310,000 to find in order to balance the budget for 2014/15. If further savings are not found then, as in past years, an increased use of New Homes Bonus (NHB) will be needed as a balancing figure. The Council received £1.025m in NHB in 13/14 and a further £100,000 is anticipated for 2014/15. However, Members have signalled an intention to become less reliant on NHB to balance the budget going forward and the Transformation Programme (T18) is viewed as the primary driver to achieve the savings required over the next few years.
- 3.8 The table above does not include any savings from the Transformation programme. Key decisions on accommodation and organisation over the next year should deliver savings and reduce the Council's reliance on NHB in order to balance the budget. The Council's Financial Strategy, which will be considered at the September Resources Committee, will provide details of anticipated savings from the Transformation Programme over the next four years.

The Reserves Position

- 3.9 Since the previous report, the Council's final accounts process has been completed. Subject to audit, the accounts show an increase in the General Fund Reserve to £1,030m. This is significantly higher than the £750k agreed as the minimum level to cover unforeseen circumstances.
- 3.10 Additionally, there is an earmarked reserve of £52,000 for New Homes Bonus which Members have agreed will be designated as an Invest to Save reserve aimed at providing 'up front' resource in order to deliver future savings via the Transformation Programme. Additionally, a review of the year end position of the capital programme suggests that up to £250,000 of New Homes Bonus could be released from the programme and redirected to the 'Invest to Save' reserve.
- 3.11 A full reserves strategy will be incorporated into the Financial Strategy to be considered by this Committee at its September meeting.

4. CONCLUSION

- 4.1 As previously concluded, the Council can remain financially viable through careful financial management and a focus on the Transformation Programme. This is not to understate the considerable financial pressures that the Council will face through the relentless reductions in Government Funding.

4.2 The Council's well above average performance in terms of New Homes Bonus provides an essential 'stop gap' in funding which allows the Council to deliver significant transformation savings via a well managed programme of change which aims to minimise any reductions to services.

5. LEGAL IMPLICATIONS

5.1 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.

6. RISK MANAGEMENT

6.1 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:	
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 26 th March 2013 Meeting the Financial Challenge
Appendices attached:	Appendix A – Summary of budget scouring savings Appendix B – Update on Deferred Savings from 2013/14 budget

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	<p>Not achieving financial savings as anticipated</p> <p>External change to the national economic environment which may impact on our funding expectations.</p> <p>Implications of changes to the funding of local government through locally collected business rates and revenue support grant.</p> <p>Effect of the localisation of council tax.</p> <p>Achieving anticipated income targets in the current financial climate.</p>	5+	3	15	↔	<p>Corporate engagement in the development of the medium term financial strategy.</p> <p>Service commitment to business planning processes.</p> <p>Robust horizon scanning to monitor changes in Government policy.</p> <p>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)</p> <p>Monitoring of corporate income streams and revenue budgets.</p>	<p>H of Finance & Audit</p> <p>Corporate Director (TW)</p> <p>Corporate Director (AR)</p> <p>H of F&A</p> <p>H of F&A</p>
2	Income from Business Rates	The figures for income from Business Rates are best estimates at this date (the NNDR1 return forecasts Business Rates for the forthcoming year).	5	3	15	↔	<p>The position will be monitored by the Head of Finance and Audit.</p> <p>The quarterly Revenue Budget Monitoring reports will monitor Business Rates income against</p>	H of F&A

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			
		<p>Predictions could vary by £100,000.</p> <p>The figures are subject to volatility both from business rating appeals and from the economic climate.</p> <p>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.</p>					<p>projections. Any variances will be highlighted to Members at an early stage.</p> <p>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.</p>	
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 adequacy of the Council's reserves and the robustness of the estimates made. The budget process is laid down in the Council's Constitution.	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			
							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	↔	<p>Service priorities will be reviewed and reduced.</p> <p>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.</p>	Head of Finance and Audit

Direction of travel symbols ↓ ↑ ↔