

WEST DEVON BOROUGH COUNCIL

NAME OF COMMITTEE	Resources
DATE	17 September 2013
REPORT TITLE	Medium Term Financial Strategy for 2014/15 to 2017/18
Report of	Chief Accountant
WARDS AFFECTED	All

Summary of report: To provide an updated forecast of the financial situation for the four-year period to 2017/18. The forecast is intended to provide a framework within which decisions can be made regarding the future service provision and council tax levels whilst building an approach that guarantees West Devon Borough Council's longer term viability.

FINANCIAL IMPLICATIONS:

The budget gaps identified in this report indicate the level of savings needed in each financial year to produce a balanced budget. The budget gaps are (per section 2.2):

2014/15	£760,078
2015/16	£562,344
2016/17	£540,204
2017/18	£512,181
Cumulative	£2,374,807

The budget gaps must be reduced to zero each year in order to set a balanced budget in each financial year. This reports sets out the strategy and options available to close the budget gap.

RECOMMENDATIONS:

That Council be recommended that:

1. The Financial Strategy be accepted as a foundation document for the Council's budget setting process.
2. The minimum level of Unearmarked General Fund Revenue Reserves is maintained to at least £750,000. The current level stands at £1,030,000 (section 3.2).
3. Members provide a set of "minded to" views in order to guide the 2014/15 budget process;
 - a) on the level of Council Tax Support Grant to be passed on to Parish and Town Councils (being the percentage reduction in the Council's government funding for 2014/15 – currently 13.66%)
 - b) to increase Council tax by 1.9%.

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1. BACKGROUND

- 1.1 At the Resources Committee on 23 July 2013, Members acknowledged a £2.2m budget gap over the four financial years 2014/15 to 2017/18.
- 1.2 A number of events and announcements have taken place recently which impact upon the financial position of the authority and the budget gap going forward. These are summarised below:
- 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 identified savings of £199,643 which will help close the budget gap. Members approved for these savings to be taken in the July 2013 committee.
 - 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 the next few years

2. THE MEDIUM TERM CHALLENGE

Comprehensive Spending Review

- 2.1 The Government released a two year settlement in December 2012. Along with another subsequent announcements, this has resulted in a reduction of 13.66% of government funding (referred to as SUFA - start up funding assessment) for West Devon for 2014/15.

In June 2012 a Comprehensive Spending Review covering 2015/16 was announced by the Chancellor which included a number of announcements which impact upon the Council's budget for 2015/16 and beyond. These are summarised below:

- Although it is widely reported that Local Government funding overall will fall by 10% in 2015/16, the DCLG has provided indicative figures which show that in reality, West Devon's government funding will reduce by about 15.5% - this is due to a number of 'top slices' that the Government will make to provide pots of funding for specific areas mostly in the area of social services.
- Council Tax Freeze Grant was announced for the next two years equivalent to a 1% increase. The Council tax referendum threshold remains at 2% for 2014/15 and 2015/16.
- 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:

<u>Budget Gap Analysis</u>	2014/15	2015/16	2016/17	2017/18	Cumulative gap
Budget Gap	728,626	454,329	423,671	512,181	2,118,807
	(reported to Council in February 2013)				
Further reductions in Government Grant	31,452	108,015	116,533		256,000
New Budget Gap	760,078	562,344	540,204	512,181	2,374,807

- 2.3 The table shows an additional £256,000 of funding reductions over the three years. 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 (table in paragraph 4.1) which means that the New Homes Bonus by itself can't be the solution to a balanced budget in the medium term.

3. CLOSING THE 2014/15 BUDGET GAP

- 3.1 The table in **Appendix A** sets out some of the options that may bridge the gap and the 2014/15 to 2017/18 remaining budget gaps.
- 3.2 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.
- 3.3 **Council Tax from additional properties.** This is based on an average band D equivalent of £200.69. The current 5 year land supply statement (another item on this agenda) shows a housing trajectory below;

2014/15	2015/16	2016/17	2017/18
134	184	329	374

These additional properties have been used to calculate the amount of additional Council Tax and also the potential for New Homes Bonus (see paragraph 4.2).

- 3.4 **Council Tax Support Grant** – The assumption currently is that the Council will recover the cost of the Council Tax Support, which would make the scheme cost neutral based on the government's Council Tax Support Funding – saving of (£63,359). This would put West Devon in line with a majority of Councils nationally. Members decided to adopt a scheme for 2013/14 that maintained the existing level of support given to residents under Council Tax Benefit due to a number of reasons.

These included the implementation of a new Revenue and Benefit system as well as staff resource requirement in implementing other welfare reform changes. It has allowed the Council to monitor the emerging national picture and identify any best practise from other Local Council Tax Support schemes.

- 3.5 **Council Tax grant for parishes.** Last year the government provided £119,453 of Parish Council Tax Support. In 13/14, this has been passed in full to the parish and town councils. However, this grant has now been aggregated with all Government funding and the latest figures show a reduction of 13.66% for 2014/15 (see 2.1). By maintaining the same level of parish grant as 2013/14 the Council would be effectively subsidising 13.66% of this support. It should also be noted that the Secretary of State has indicated that parishes and towns will not be capped in 2014/15. This will allow the parish and towns to manage any decrease in support from the Council by increasing their precept. The current assumption is that this reduction to the Council will be passed on to the Parishes and their grant be reduced by the same amount. This will reduce the budget gap by £16,000. **Appendix B** –sets out how this change would affect each parish based on the current taxbase.
- 3.6 **Budget Gap** The original budget gap for 2014/15 was £760,078. Now Members have agreed to use the budget scouring of £199,643 and to pursue the deferred savings of £87,000 the budget gap is now reduced to £473,435. If all the potential measures are taken £191,827 (Appendix A) the budget gap further reduces to £281,608. However, when we look at the five year view the Council is still faced with a gap of over £1.5million by 2017/18
- 3.8 **Transformation Programme (T18).** Because of the unprecedented scale of financial challenges demonstrated in this report, Members have been considering a Transformation Programme (T18) which is viewed as the primary driver to achieve the savings required over the next few years. On 26 March 2013, a report was presented to the Resources Committee on the proof of concept work. The programme is currently being designed to deliver a long term organisational vision which will prevent the need to attempt to deal with the budget gap through an annual services and financial planning process. It seeks to create financial capacity to continue to meet the Council's aspiration to deliver quality services and enhance the lives and communities of West Devon.
- 3.9 On 26 March 2013, a report was presented to the Resources Committee on the proof of concept work. In summary the proof of concept concludes that the total cost of implementing the Programme across both Councils is estimated to be approximately £4.7m, with an anticipated combined annual saving of approximately £3.5m which equates to 20% of the combined net revenue expenditure. Payback on the initial investment could be achieved in approximately two years.
- 3.10 It is anticipated that Members will make a decision on whether to progress with the Transformation Programme during the Autumn, but in the meantime, Members will note the progress report which is also on this agenda.

- 3.11 The report to Full Council in the Autumn will include specific details about how T18 could be financed. Officers are confident at this stage that a sound financial investment strategy can be developed for both Councils which would finance the Programme over its lifetime.

4. NEW HOMES BONUS

- 4.1 The table below 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
2011/12	323,920	323,920	323,920	323,920	323,920	323,920		
2012/13		568,622	568,622	568,622	568,622	568,622	568,622	
2013/14			132,403	132,403	132,403	132,403	132,403	132,403
	323,920	892,542	1,024,945	1,024,945	1,224,945	1,324,945	1,101,025	132,403
Loss - Top Slice	0%	0%	0%	0%	-35%	-29%	-28%	-28%
Forecast NHB	323,920	892,542	1,024,945	1,024,945	666,214	727,711	504,738	95,330

4.2 NEW HOME BONUS ALLOCATION

	2012/2013	2013/2014	2014/2015	2015/16	2016/17	2017/18
Amount received	892,542	1,024,945	1,024,945	666,214	727,711	504,738
New build potential						
2014/15 134 properties			167,339	167,339	167,339	167,339
2015/16 184 properties				154,766	154,766	154,766
2016/17 329 properties					299,722	299,722
2017/18 374 properties						345,073
Estimate to fund the capital programme	(600,000)	(495,000)	(600,000)	(600,000)	(600,000)	(600,000)
Capital released (See <i>Capital Programme report on this Agenda</i>)		290,000				
Invest to save reserve	(52,292)					
Revenue budget	(200,000)	(353,076)	(353,076)	(353,076)	(353,076)	(353,076)
Dartmoor national park (estimate for 14/15 onwards)	(40,250)	(43,460)	(46,960)	(50,460)	(53,960)	(57,460)
Balance not committed	NIL	423,409	192,248	(15,217)	342,502	461,102

5. CONCLUSION

- 5.1 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 continuing reductions in Government Funding.
- 5.2 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.

6. LEGAL IMPLICATIONS

- 6.1 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.

7. RISK MANAGEMENT

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

8. 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:	N/A
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 23 rd July 2013 Meeting the Financial Challenge
Appendices attached:	Appendix A – Potential measures to bridge the Gap Appendix B – Examples of Parish Grant reduction

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. 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	<p>The figures for income from Business Rates are best estimates at this date (the NNDR1 return forecasts Business Rates for the forthcoming year).</p> <p>Predictions could vary by</p>	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 projections. Any variances will be highlighted to</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>£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>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	↔	<p>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.</p> <p>The budget process is laid down in the Council's Constitution.</p>	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 ↓ ↑ ↔