

WEST DEVON BOROUGH COUNCIL

NAME OF COMMITTEE	Resources
DATE	10 December 2013
REPORT TITLE	Budget Update for 2014/15 to 2017/18
Report of	Head of Finance & Audit and Chief Accountant
WARDS AFFECTED	All

Summary of report: To provide an updated forecast of the budget situation for the year 2014/15 and an updated forecast for the four years to 2017/2018. 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 December Resources report indicate the level of savings needed in each financial year to produce a balanced budget. The budget gaps are (per Appendix B):

2014/15	£224,583
2015/16	£370,914
2016/17	£(532,117)
2017/18	£113,779
Cumulative	£177,159

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 the Committee is recommended:

1. To note the considerable progress made by the Council on the four year Budget process covering 2014/2015 to 2017/2018.
2. To consider the Council minute (CM88) from 16th April 2013 and the Community Services Committee minute (CS25) from 12th November 2013 regarding the economy service (see 1.3 to 1.5) and for the Members of the Resources Committee to recommend either:-
 - i) To agree the reduction in the Economy Service of £20,000 for 2014/15 or
 - ii) To defer the reduction in the Economy Service of £20,000 for 2014/15, and instead for this to be considered as part of the T18 Programme.

3. To consider the £7,500 contribution for the Walk and Talk programme as detailed in section 2.8 and for the Members of the Resources Committee to recommend either:-
 - To agree to continue the programme and include this as a cost pressure in the 2014/15 budget process
or
 - To cease supporting this programme.

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1. BACKGROUND

1.1 At the Council meeting on 8th October 2013, Members agreed to;

- The minimum level of Unearmarked General Fund Revenue Reserves being maintained to at least £750,000.

The current level stands at £1,030,000. At Council on 4th November 2013, Members agreed to transfer £200,000 from the General Reserve into an Earmarked Reserve for T18.

The budget monitoring report (another item on this Agenda) predicts the underspend at the end of the financial year, to be £150,000. The table below shows that the level of general reserves would then stand at £980,000.

	£
General Reserve balance as at 31 st March 2013	1,030,000
T18 Allocation (Report to Council 4 th November 2013)	(200,000)
Predicted underspend – Revenue Budget Monitoring (Report to Resources Committee 10 th December 2013)	150,000
Predicted balance of reserves 31st March 2014	980,000

1.2 Members have provided 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 over 13%)
- b) To increase Council Tax by 1.9%.

- 1.3 Economy Service – **The Council Minute CM88** (Council meeting 16th April 2013) stated (relevant parts are highlighted in bold):-

In respect of Unstarred Minute: RC 43 – Meeting the Financial Challenge

It was then moved by Cllr R E Baldwin, seconded by Cllr R J Oxborough, and upon being submitted to the Meeting, was declared to be **CARRIED** and **“RESOLVED** that:

(i) the broad thrust of the presented 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, unless there is a good reason to, as they arise from 2013/14 and beyond and further efficiency savings;

(ii) the following potential savings discussed at paragraph 3.4.3 of the presented report should be pursued to enable early notice to be given to affected staff, stakeholders and partners;

a) cessation of Borough Council funding to the TICs and officers to pursue alternative means of innovative service delivery

b) economy service reduction

c) discretionary rate relief

- 1.4 On 12th November 2013 the Economy Service was considered by the Community Services Committee and the relevant minute (CS25) is shown below:-

CS 25 ECONOMY SERVICE DELIVERY

The Economy Manager presented a report (page 6 to the Agenda) detailing for the Committee how the Economy Service was currently delivered for the Council and proposals for future delivery. The Economy Team’s agreed weekly workload currently equated to 14.25 days, however, the current officer resource equated to 11.75 days per week. In April 2013, the Council requested that the Economy budget be reduced by a further £20,000 which equated to 3 days a week equating to 8.75 days per week as of April 2014.

In the ensuing discussion, the Committee questioned whether the proposed staffing reduction was premature in the light of the proposals contained within Transformation 18 where the budget gap may be filled via other means. Given this discussion, it was **RESOLVED** that the proposal to reduce the current staffing level be deferred pending the budget discussions on the Council’s budget for 2014/2015.

- 1.5 In light of the Council minute (CM88) and the Community Services Committee minute (CS25) regarding the economy service, Members of the Resources Committee are asked to recommend either:-

- i) To agree the reduction in the Economy Service of £20,000 for 2014/15 or
- ii) To defer the reduction in the Economy Service of £20,000 for 2014/15, and instead for this to be considered as part of the T18 Programme.

2. MEDIUM TERM CHALLENGE AND CLOSING THE 2014/15 BUDGET GAP

- 2.1 The table in **Appendix A** details the budget gaps for the 2014/15 to 2017/18.
- 2.2 **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 approximately £78,000. 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. (A Report on Council Tax Support is another item on this Agenda).
- 2.3 **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 over 13% for 2014/15 (see 2.1). By maintaining the same level of parish grant as 2013/14 the Council would be effectively subsidising by over 13% of this support. The Council is proposing that the 13% reduction will be passed on to the Towns and Parishes and their council tax support grant will be reduced by this amount. Town and Parish Councils have been informed of this proposal.
- 2.4 **Triennial Pension Revaluation** – The Council's Pension Fund is valued every three years by actuaries. A revaluation was undertaken in March 2013 and the results are due to be released before the end of the year, with any changes being reflected in the next report to the Resources Committee. The financial effect of the T18 transformation programme has been factored into the business case but the actual effect will only be clarified as the programme proceeds.
- 2.5 **Price Inflation** – To be able to produce a meaningful resource plan, a number of assumptions have to be made regarding prices. Consumer Price Index (CPI) in October 2013 was 2.2% (Retail Price Index was 2.6%). A budget pressure of £15,000 has been included within Appendix A to allow for inflation on expenditure, in particular, premises costs.
- 2.6 **Parish contributions to public conveniences** – a cost pressure of £25,000 has been included to realign the public conveniences budget to be in line with the expected income from parishes.
- 2.7 **Swimming Pool contract inflation** – the swimming pool contract was renegotiated in 2013 and the management fee reduced by £22,000. Indexation will not be applied until 1st April 2014.

- 2.8 **Walk and Talk Programme** – The contribution of £7,500 per annum ceases at the end of the current financial year and this currently is a contribution towards the salary costs of the shared Walk and Talk Co-ordinator and related on-costs. Members are asked to consider the £7,500 contribution for the Walk and Talk programme and to recommend either:-
- i) To agree to continue the programme and include this as a cost pressure in the 2014/15 budget process, or
 - ii) To cease supporting this programme.

Three “Walk and Talk” schemes operate in Tavistock, Okehampton and Horrabridge. These are weekly, fortnightly and/or monthly in each location of led walks at “short” or “moderate” level to provide exercise relating to health. In total just short of 300 individual walks per annum. The programme and background to the national scheme can be found at: <http://www.macmillan.org.uk/Cancerinformation/Livingwithandaftercancer/Physicalactivity/Waystogetactive/Walkingforhealth.aspx>.

- 2.9 **Pay Inflation** – For budgeting purposes the Council has modelled a 1% pay offer for 2014/15. This offer is currently being negotiated with the unions. An estimate of £50,000 has been included in Appendix A as a cost pressure.

- 2.10 **Housing Benefit Administration subsidy** – On 13 November 2013, the Department of Work and Pensions (DWP) issued HB circular S9/2013 and the Department of Communities and Local Government (DCLG) issued a Revised Council Tax policy information note. These provided details of the distribution of subsidy grant in 2014/15, for what had previously been housing benefit/council tax benefit administration subsidy. A budget pressure of £40,000 has been included within Appendix A for this reduction.

- 2.11 **Council Tax** - The last two years’ Council Tax is detailed below.

	2012/13	2013/14
DCC	1,116.36	1,116.36
WDBC	196.95	200.69
Police	159.73	162.92
Fire	73.92	75.39
Parishes & Towns	54.24	55.62
	1,601.20	1,610.98

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.

Members are now minded to increase the level of the West Devon element of the Council Tax by 1.9%. This would result in the West Devon element increasing to £204.50. This would be an increase of £3.81 per year.

- 2.12 **Business Rates** - The Government introduced the Business Rates Retention Scheme on the 1 April 2013. This system enables the retention of a proportion of the business rates revenue generated in a local area by the relevant local authorities. Business rates now form a major element of the local government finance funding. Current indications are that the income from business rates may exceed the Government “baseline” grant figure. Although the system carries with it a significant risk of volatility, it is considered appropriate to include an additional £125,000 in the forecast.
- 2.13 **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. This is a joint transformation programme with South Hams District Council with whom the Council has been sharing services with since 2007. The joint investment costs for both Councils required for the T18 programme are £4.85 million, generating annual recurring revenue savings of £3.8 million. The Programme will be self-financing from the end of year 2 (2015/16) onwards. The payback period for the Programme is 2 years. The costs have been calculated to ensure that each Council pays its own share.

Both Councils have now made the decision to proceed with the programme and the major financial implication the Council has agreed to, is to “Approve an investment budget of £1.9 million for the T18 Programme (WDBC’s share of the overall budget of £4.85 million), to be released at three key milestones, to deliver annual recurring revenue savings of £1.3 million (WDBC’s share of the savings of £3.8 million)”

- 2.14 The business case demonstrated that T18 can deliver a major contribution to the budget gap faced by the Council to 2018. Making reasonable assumptions, based on current knowledge, the results from this are included in the financial model seen in Appendix A.

3. NEW HOMES BONUS

- 3.1 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. The Government are currently consulting on this top slice and the results will be incorporated in the next report. No final decision has yet been announced by the Government.

An estimate of New Homes Bonus for the next five years is shown below:

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
2011/12	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
2014/15			233,418	233,418	233,418	233,418
2015/16 - estimated 184 properties				149,356	149,356	149,356
2016/17 - estimated 329 properties					291,707	291,707
2017/18 - estimated 374 properties						336,277
	892,542	1,024,945	1,258,363	1,407,719	1,699,426	1,711,783
Loss - Top Slice	0%	0%	0%	-35%	-29%	-28%
Forecast NHB	892,542	1,024,945	1,258,363	915,017	1,206,592	1,232,484

3.2 NEW HOME BONUS ALLOCATION

	2012/2013	2013/2014	2014/2015	2015/16	2016/17	2017/18
Amount receivable	892,542	1,024,945	1,258,363	915,017	1,206,592	1,232,484
T18 (Council 8 th Oct)		(400,000)				
Invest to Save reserve	(52,292)					
Current Revenue budget	(200,000)	(353,076)	(353,076)	(353,076)	(353,076)	(353,076)
Dartmoor National Park (estimate for 14/15 onwards)	(40,250)	TBA	TBA	TBA	TBA	TBA
Estimate to fund the capital programme	(600,000)	(205,000)	(521,000)	(521,000)	(521,000)	(521,000)
Balance not committed	Nil	66,869	384,287	40,941	332,516	358,408

CAPITAL PROGRAMME 2014/15 to 2017/18

3.3 The table below shows the proposed Capital Programme to 2017/18.

	2014/2015	2015/16	2016/17	2017/18
Tenants Incentive Scheme (TIS)	15,000	15,000	15,000	15,000
Village Halls and Community Projects	36,000	36,000	36,000	36,000
Affordable Housing (see 3.4)	200,000	200,000	200,000	200,000
T18 Investment	100,000	100,000	-	-
Disabled Facilities Grants	450,000	450,000	450,000	450,000
Government Grant funding towards Disabled Facilities Grants	<i>(180,000)</i>	<i>(180,000)</i>	<i>(180,000)</i>	<i>(180,000)</i>
Less anticipated slippage on the capital programme	<i>(100,000)</i>	<i>(100,000)</i>	-	-
Potential funding from New Homes Bonus (Required to fund the Capital Programme)	521,000	521,000	521,000	521,000

3.4 The Council is working towards becoming self funding for Affordable Housing from commuted sum receipts (financial contributions from developers). It is anticipated that there could be sufficient commuted sums within the next two years not to require any additional capital contributions. In the above table allocations of £200K have been made for the next four years and the situation will be reviewed to ensure we have accumulated sufficient receipts to negate the need for the allocations in 2016/17 and 2017/18.

4. CONCLUSION AND OPTIONS TO CLOSE THE BUDGET GAP

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 continuing 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.

4.3 There are several elements of this budget report which are currently still unknown and some of which will be firmed up by the end of December. These are

- Government finance settlement for 2014/15
- Final Tax base figures for 2014/15
- The Government decision on the current consultation with regard to the top slicing of new homes bonus
- Further modelling of the Business Rate likely position
- The Actuarial valuation of the Council's pension fund.

- 4.4 **Balancing the budget gap for 2014/15.** The situation will be reviewed in Jan 2014 and the recommendation on how to balance the current resulting budget gap of £224,583 will be a report to the Resources Committee in January 2014, following the government announcement on the final finance settlement. This could be a combination of the final figures from those currently uncertain (as listed in point 4.3) and the balance from New Homes Bonus. (As per 3.2 there is a balance of 384,287 remaining on the New Homes Bonus). **Therefore the strategy for closing the 2014/15 budget gap will predominantly be to use New Homes Bonus.**
- 4.5 The position will be similar for 2015/16 when further prediction of Business Rate growth income will be available and options such as the use of the New Homes Bonus or reserves would be available temporarily to meet the budget gap, in light of the T18 savings which would be delivered in 2016/17.
- 4.6 External Audit Financial Resilience report – The Council was given four green lights (Arrangements meet or exceed adequate standards) in all four areas assessed of;
- Key Indicators of performance
 - Strategic Financial Planning
 - Financial Governance
 - Financial Control

The full report is available on the agenda for the Audit Committee of 10th December 2013.

- 4.7 It was noted that the reports to Members in relation to “Meeting the Financial Challenge” ensured a common understanding of the financial environment and clearly highlighted the scale of the financial challenge, provided updates on funding allocations and progress in closing the budget gap and the link to the T18 Programme. It was also noted that the Council has a very good understanding of the financial challenges it faces and is proactive in planning and taking action to address these issues. The report also recognised that the Council is facing very significant reductions in funding and the decision regarding the future operating model.

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.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	A balanced budget underpins the Council's capacity to deliver 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 17 th September Meeting the Financial Challenge
Appendices attached:	Appendix A – Budget Pressures and Savings Appendix B – Five Year Cumulative Budget Gap

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	<p>The figures for income 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.</p> <p>The figures are subject to</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.</p> <p>Any variances will be highlighted to Members at an early stage.</p> <p>The Council is part of a Devonwide</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			
		volatility both from business rating appeals and the economic climate.					Pooling arrangement for business rates.	
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. Resources Committee and Council meetings are timetabled to meet the Statutory deadlines for setting the Council Tax.	Head of Finance and Audit
4	Corporate Priorities	Failure to target budgets to service priorities	5	3	15	↔	Service priorities will be reviewed. Budget reductions include a section on their impact on council priorities and a risk assessment. The budget is subjected to 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