

AGENDA
ITEM

9

SOUTH HAMS DISTRICT COUNCIL

AGENDA
ITEM

9

NAME OF COMMITTEE	Executive
DATE	11 December 2014
REPORT TITLE	Revenue Budget Proposals 2015/16
Report of	Finance Community of Practice Lead (Section 151 Officer)
WARDS AFFECTED	All

Summary of report:

1. To update Members on the revenue budget position for 2015/16 and provide a framework for consultation with the Scrutiny Panel Groups. The report and consultation process will help the Executive identify priorities, prepare the revenue budget and maximise the use of resources.
2. To provide an updated forecast of the financial situation for the four-year period to 2018/19. The forecast is intended to provide a framework within which decisions can be made regarding future service provision and council tax levels.

Financial implications:

The report sets out an anticipated budget gap for 2015/16 of £381,000 (Appendix A).

The budget gap must be reduced to zero 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 Executive resolves that:

The views of the Scrutiny Panel Groups on the budget issues contained within this report are requested

Officer contacts:

Lisa Buckle, Finance Community of Practice Lead
lisa.buckle@swdevon.gov.uk

1. BACKGROUND

1.1 At its meeting on 11 September 2014, the Executive resolved that Council be recommended to consider the following 'minded to' views in order to guide the 2015/16 budget process:

1. In light of the projected T18 savings, Members are 'minded to' not increase Council Tax for 2015-16 at this stage
2. New Homes Bonus should be used to support the Revenue Budget for 2015-16 unless other ways to support the budget arise in the meantime;
3. A 10% reduction in Council Tax Support Grant be passed on to town and parish councils as shown in Appendix D of the presented report; and
4. Other budget savings were to be looked for and considered.

1.2 The Senior Management Team (SMT) has been focusing on implementing the Transformation Programme (T18) to generate significant savings for the Council.

1.3 The following table illustrates the funding position from 2015/16 onwards for the District Council as shown in Appendix A:

	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Annual gap/(surplus)	381,000	(1,754,000)	460,000	115,000
Annual gap/(surplus) as % of net expenditure Budget of £9.028 million	4.2%	(19.4%)	5.1%	1.3%
TOTAL BUDGET SURPLUS OVER THE FOUR YEARS TO 18/19				798,000

- 1.4 Whilst there remains a great deal of uncertainty about various elements of income and expenditure, we have based the forecast that follows on a set of assumptions which represent a cautious estimate in order to focus attention on the revised scale of the funding gap. The figures will be revised as we progress through the financial year.

2. ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSE

- 2.1 There is predicted to be a 27% reduction in government funding over the four years from 2014/15 to 2018/19 (see Appendix A). The Appendix is consistent with figures that have been provided through the Finance Settlement for 2015/16 and the modelling available regarding Localisation of Business Rates from data we have supplied to the Government on Business Rates returns.
- 2.2 A two year pay award, covering the financial years 2014/15 and 2015/16 has recently been agreed. The main part of what is a complex settlement comes into effect on 1 January 2015. The initial indications are that it will add around 2.2% to our pay bill.
- 2.3 Inflation will run at 2% over the period.
- 2.4 The interest return for our investments will average 0.9 % for 2015/16 rising to 2.5% in 2018/19.
- 2.5 No assumptions have been built into the financial modelling for council tax increases for 2015/16 onwards. Therefore the financial modelling in Appendix A assumes a Band D council tax of £145.42 (the current Band D council tax for 2014/15).
- 2.6 The Council is addressing budget under-performances on car parking income through a realignment exercise over a period of time – to align the income targets with actual income received. Income from car parking has been reduced by £50,000 in 2015/16, based on trends over the last three years.
- 2.7 The Dartmouth Lower Ferry has not regained all of its customer base following its closure for essential slipway maintenance. Current projections indicate that income for the 2014/15 financial year could be more than £150,000 under budget. It is suggested that in a similar way to the approach used for car parking that the budget is reduced by £50,000 per annum over a three year period.
- 2.8 The Strategic Waste Review actions for the South Hams Collection Service have been agreed. The major procurement for the sale of dry recycling materials is under way currently. Subject to market prices for recycling materials, the saving for the waste review in 14/15 will be £110,000 (Budgeted 14/15 saving was £140,000). Interim materials sales solutions have already increased income during this financial year. There is a reduction in the original saving estimated

due to the decision made to delay property day changes until the autumn of 2015 when we will have our new fleet in place and the support officer capacity to deliver this customer change effectively and efficiently.

- 2.9 Members will appreciate that capital spending has an impact on revenue. As part of the Medium Term Financial Strategy it will be necessary to review the level and phasing of schemes within the Capital Programme. A detailed three year Capital Strategy and Capital Programme is the subject of a separate report on this agenda.

3 TRANSFORMATION PROGRAMME 2018 (T18)

- 3.1 An updated business case for the T18 Programme forms part of a separate item on this agenda.

4 OPTIONS TO MEET THE BUDGET GAP FOR 2015/16

- 4.1 The budget gap based on the assumptions above, is predicted to be £381,000 for 2015/16, Appendix A provides the details.
- 4.2 This budget gap reflects the position without taking into account any T18 savings in 2015/16 as these savings are primarily needed to pay for the investment costs incurred in this year.

Income from Council Tax

- 4.3 Council agreed to raise council tax by 1.9% from 1 April 2014 to £145.42 for a Band D property for South Hams District Council. This amounted to a £2.71 increase on an average Band D property over a year equivalent to 5p a week. A 1% increase in Council Tax generates an extra £53,000 in extra income per annum.
- 4.4 **Council Tax Referendum limit** - The Localism Act introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as excessive. The Minister announced that the council tax referendum threshold for 2014/15 remained unchanged from 2013/14 at 2% and did not apply to Towns and Parishes. No notification has been received on the limit for 2015/16.

Council Tax Freeze Grant

4.5 On 15 January 2014 the Government issued the guidance for the Council Tax Freeze Grant Scheme for 2014-15. It is assumed that many of these key aspects which applied in 2014-15 will also apply in 2015-16. Namely that:-

(i) It was voluntary and that any authority which freezes or reduces their basic amount of council tax will be eligible to receive the grant (equivalent to a 1% of the basic amount of council tax – this is around £56,000 for South Hams – this is an estimated provisional figure)

(ii) Ministers have agreed that the funding for the 2015-16 freeze grant should be built into the spending review baseline. This gives as much certainty as possible at this stage that the extra funding for freezing council tax will remain available.

Council Tax Support Grant

4.6 It is considered appropriate that the Council Tax Support Grant to Town and Parish Councils should reduce in line with the reduction that the District Council is experiencing with its Settlement Funding Assessment (SFA). It is estimated that the Council's SFA will decrease by around 10% in 2015-16 (see Appendix A). At its meeting on 2 October 2014 Council agreed that this reduction should be passed on to the Towns and Parishes and their Council Tax Support Grant should be reduced by a similar amount. The District Council approved a grant distribution of £125,369 for 2014-15. Therefore, a reduction in the grant allocation of 10% will decrease the budget gap by approximately £13,000. Appendix C illustrates the effect of this on an individual Parish basis.

Review of charges

4.7 On 13 November 2013, the Economy and Environment Scrutiny Panel considered a report on the review of fees and charges for 2015-2016. The Panel recommended that charges would be frozen with the exception of those for licensing which would generate an addition £1,000.

New Homes Bonus

4.8 New Homes Bonus amounting to approximately £564,000 is currently used to support the revenue budget. It is suggested that the use of New Home Bonus in this way continues in 2015/16 in order to close the Budget Gap with a view to reversing this amount out in 2016/17 out when the savings from T18 materialise in full. The next section provides more information about the allocations of New Homes Bonus that the Council has received to date.

5 NEW HOMES BONUS

5.1 This grant was introduced in 2011/12 and provides incentives for local authorities and local communities to be supportive of housing growth. It is not ring fenced and can be spent on anything.

5.2 On 29 November 2012, the Community Life & Housing Scrutiny Panel considered a report on the New Homes Bonus Strategy. It was resolved (CLH. 27/12) that the New Homes Bonus funding for 2013/14 is used to support the following categories:

- To finance housing capital projects
- Community re-investment projects (please see separate agenda item)
- Funding for the revenue base budget
- Community grants and projects
- To provide funding for the overall Capital Programme
- To make a provision for a share of the New Homes Bonus for the Dartmoor National Park when appropriate

5.3 Members have approved the following use of the New Homes Bonus to date:

Year	2011/12 £	2012/13 £	2013/14 £	2014/15 £
Grant received	297,567	826,317	1,026,018	1,365,325
Use of New Homes Bonus (£)				
Housing Capital Projects		300,000	460,000	460,000
Community Reinvestment Projects			153,900	153,900
Revenue Base Budget	100,000	100,000	100,000	564,043
Community Grants (CAB Outreach worker)			10,000	10,000
Funding for the overall capital programme	197,567	419,567		
Dartmoor National Park		6,750		17,277
Transferred to the Capital Programme Reserve			302,118	160,105
TOTAL	297,567	826,317	1,026,018	1,365,325

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

NHB Forecast (£)	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
2011/12 actual allocation	297,567	297,567	297,567	-	-
2012/13 actual allocation	528,750	528,750	528,750	528,750	-
2013/14 actual allocation	199,701	199,701	199,701	199,701	199,701
2014/15 actual allocation	339,307	339,307	339,307	339,307	339,307
2015/16 forecast allocation		249,760	249,760	249,760	249,760
2016/17 forecast allocation			249,760	249,760	249,760
2017/18 forecast allocation				249,760	249,760
2018/19 forecast allocation					249,760
TOTAL	1,365,325	1,615,085	1,864,845	1,817,038	1,538,048
The table below shows the possible ways in which NHB could be used in future years for modelling purposes only:-					
To fund Housing Capital Projects	460,000	460,000	460,000	460,000	460,000
To fund Community Re-investment	153,900	153,900	153,900	153,900	153,900
CAB Outreach Worker	10,000	10,000	10,000	10,000	10,000
To fund the Revenue Budget	564,043	564,043	Nil?	?	?
Dartmoor National Park	17,277	4,939 (TBA)	TBA	TBA	TBA
Capital Programme Reserve	160,105				
Balance remaining (uncommitted)	Nil	422,203	1,240,945	1,193,138	914,148

6 OTHER BUDGET CONSIDERATIONS

Discretionary Budget Bid - Citizens Advice Bureau (Outreach Project)

- 6.1 Members approved a "non-recurring" bid for £10,000 for additional funding for the CAB Outreach Project which provides a weekly advice service in Dartmouth, Ivybridge and Kingsbridge. Much of the advice covers housing, benefits and debt issues and is managed in liaison with the Council's Community Team. **Members are requested to consider if they wish to renew this arrangement for 2015/16.**

7. RESERVES

Earmarked Reserves

- 7.1 The level and commitments for each reserve are kept under review each year to make sure the uncommitted balance is adequate for its purpose. The Earmarked Reserves are reviewed as part of the "budget scouring" exercise each year – this exercise is in progress at the moment. A schedule of Earmarked Reserves is attached at Appendix C.

General Fund Balance (un-earmarked revenue reserve)

- 7.2 Previous guidance from the Audit Commission suggested that the General Fund Balance should be between 5% and 10% of net operating expenditure. The Council's net operating expenditure is £9.027 million for 2014/15; so an appropriate balance would be in the region of £451,000 to £903,000.
- 7.3 The General Fund Balance stood at £1.707 million at 31st March 2014. It is predicted to be £1.664 million at 31 March 2015 (Appendix G). Therefore, the Council is still within a prudent level of reserves. The Council's policy is that the General fund Balance should be maintained at a minimum level of £1.5 million.
- 7.4 Our financial strategy recognises the need to maintain un-earmarked revenue reserves to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting the minimum level at £1.5 million the following have been taken into account:
- The size of the authority
 - The volatility of some income and expenditure budgets due to a dependency on the weather, tourism and state of the economy
 - The risks faced by the Council with regard to funding unforeseen events

- The level of investment income used to support council tax arising from our reserves
- Uncertainty over future Government funding

7.5 The Council can take comfort that our General Fund Balance stands above the minimum balance. It acts as a safeguard against unforeseen financial pressures.

8. CAPITAL PROGRAMME

8.1 As part of the Medium Term Financial Strategy (MTFS), it is also necessary to review the level and phasing of schemes within the Capital Programme. It is important that the programme is matched with available resources and the impact on reserves and the revenue budget is fully assessed.

8.2 A proposed three year Capital Strategy and Capital Programme is the subject of another report on this agenda.

8.3 Consideration needs to be given to the funding options for the 2015/16 Capital Programme. The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.

9. LEGAL IMPLICATIONS

9.1 The Executive is responsible for recommending to Council the budgetary framework. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.

9.2 The preparation of this MTFS is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.

10. FINANCIAL IMPLICATIONS

10.1 The financial implications are as set out within the Council's Financial Strategy.

11. 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:	A 360 degree assessment of the equality implications will be carried out on all budget proposals for future years and any issues raised will be considered.
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 Council on 13 February 2014 on 2014-15 Budget Report to Executive on 11 September 2014 on the MTFs 2015/16 – 2018/19 13 November 2014 - Report to Economy and Environment Scrutiny Panel on Review of Charges
Appendices attached:	Appendix A - Modelling of the Financial Strategy Appendix B - Budget Pressures and Savings Appendix C – Council Tax Support Grant to Town and Parish Councils for 2015/16 Appendix D - Revenue Summary Appendix E - Reserve Contributions Appendix F - Service Variations Appendix G - Schedule of Reserves

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>2015/16 will see a further significant reduction in formula funding</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>	4	4	16	↔	<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 will continue to carry out modelling exercises to ascertain the effect of the new schemes on the Council's finances. Options for business rates pooling will be assessed.</p> <p>Monitoring of corporate income streams and revenue budgets.</p>	<p>Section 151 Officer</p> <p>Executive Director (TW)</p> <p>Executive Director (AR)</p> <p>Section 151 Officer</p> <p>Section 151 Officer</p>

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			
2	Funding of the future Capital Programme	Availability of capital resources and options of using funding streams, such as New Homes Bonus	4	4	16	↔	<p>Review of potential opportunities to support further capital programme.</p> <p>One of the objectives of the Strategic Asset Review is to identify opportunities for the disposal of assets and the generation of capital receipts.</p>	<p>Executive Directors, Section 151 Officer H of Assets</p> <p>Executive Directors, Section 151 Officer H of Assets</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 for the purpose the budget calculations.</p> <p>The budget process is laid down in the Council's Constitution. Executive and Council meetings are timetabled to meet the Statutory deadlines for setting the Council Tax.</p>	Section 151 Officer

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			
4	Income from business rates	Income from Business Rates Is subject to volatility both from business rating appeals and from the economic climate.	5	3	15	↔	The position will be monitored by the Section 151 Officer The quarterly Revenue Budget Monitoring reports will monitor Business Rates income against projections. Any variances will be highlighted to Members at an early stage.	Section 151 Officer
5	Corporate Priorities	Failure to target budgets to service priorities	5	1	5	↔	The budget is subjected to extensive consultation with all Members, the public and the business community. Adequate levels of appropriately trained staff. Monthly monitoring of performance to management, quarterly to the Executive.	Section 151 Officer

Direction of travel symbols ↓ ↑ ↔