

Meeting:	Cabinet Council	5th February 2014 27th February 2014
Subject:	Money Plan 2014-19 & Budget Proposals for 2014/15	
Report Of:	Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: Yes
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Appendices:	1. Money Plan 2014 -19 2. Budget Pressures & Savings 3. Savings Programme 4. Council Tax Support Scheme 5. 2014/15 Capital Programme (to follow) 6. Service Budget Summary Pages 7. Fees & Charges 2014-15 (to follow) 8. Budget Consultation (to follow)	

1.0 PURPOSE OF REPORT

- 1.1 To review the Council's Money Plan for recommendation to the Council, and approve budget proposals for the Council's 2014/15 budget.

2.0 RECOMMENDATIONS

- 2.1 Cabinet is asked to recommend to Council to RESOLVE to consider the outcome of the budget consultation process and based upon that consultation approve the assumptions contained for the Council's Money Plan from 2014/15 to 2018/19 and approve proposals for the 2014/15 budget included in this report.
- 2.2 That the cabinet recommend to full council the implementation of the target budget reductions set in the Money Plan 2014-19. To note that consultation has been undertaken on budget savings proposals to achieve the exceptional level of further savings required specifically in **2014/15** and **2015/16**.

3. Introduction

- 3.1 The Money Plan sets out the Council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term. It covers the General Fund Revenue Budget, the Capital Programme, and Earmarked Reserves. It also comments on the significant financial risks facing the

Council in the forthcoming years and explains what the Council is doing to reduce those risks.

3.2 The main objectives of the money plan are to:

- explain the financial context within which the Council is set to work over the medium term;
- provide a medium term forecast of resources and expenditure;
- identify the financial resources needed to deliver the Council's priority outcomes, and;
- achieve a stable and sustainable budget capable of withstanding financial pressures.
- A balanced base budget, minimising the use of balances to meet recurring baseline spending, with the general fund balance being maintained at a minimum of £1.6m by the end of the plan period.
- Where possible, additional investment and spending decisions will be made to reflect council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas.
- Capital financing established at a level that maintains ongoing robustness in the capital programme

4. The Local Government Finance Environment

4.1 The Council's money plan provides the framework within which revenue spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to take into account any alterations that may be required as a result of changed circumstances. The Money Plan covers a five year period up to 2018/19.

4.2 Local Government is facing the toughest financial outlook for many decades. The Local Government Finance Settlement has seen unprecedented reductions in formula grant, with 2014/15 being the final year of the Comprehensive Spending Review 2010.

4.3 The settlement for 2013/14 saw fundamental changes to Local Government financing, aimed at giving councils increased financial autonomy and a greater stake in the economic future of their local area.

4.4 Since April 2013 a Council Tax Support scheme replacing Council Tax benefits and Business Rates Retention have been introduced. These changes have had a significant impact on Local Government Finance most significantly the shift of risk to Local Government from the centre.

4.5 The Government announced the headlines of the Spending Round 2013 on the 26 June 2013 setting out its spending plans for 2015/16 and identified further reductions on the 2014/15 settlement. This announcement highlighted a proposed top slice of New Homes Bonus to pool for Local Growth Fund and a further reduction in funding in 2015-16 of 10% - 15%.

- 4.6 The Autumn Statement announced on the 5th December 2013 indicated;
- that it would not include New Homes Bonus in the Local Growth Fund for authorities outside of London.
 - support businesses to expand and create jobs by capping the Retail Prices Index increase in business rates to 2% in 2014-15 and extending the doubling of Small Business Rate Relief to April 2015; and
 - provide additional support to the retail sector through a business rates discount of up to £1,000 in 2014-15 and 2015-16 for retail properties (including pubs, cafes, restaurants and charity shops) with a rateable value of up to £50,000, and a 50% discount from business rates for new occupants of previously empty retail premises for 18 months.
 - The statement announced that Councils will be fully refunded for these changes to business rates, with full details to be released at a later date.
- 4.7 The local Government Finance Settlement 2014-15 was announced on the 18th December 2014, this detailed the provisional settlement for 2014-15 and an illustrative settlement 2015-16.
- 4.8 The Council's Money Plan has therefore been reviewed and updated to reflect the settlement and the removal of the New Homes Bonus top slice.

5. Business Rates Retention

Business Rates and the Gloucestershire Business Rates Pool

- 5.1 The Business Rates Retention Scheme was introduced on 1st April 2013. Under the Scheme, the Council retains some of the business rates raised locally. The business rates yield are divided - 50% locally and 50% to the Government. The Government's share is paid into a central pool and redirected to local government through other grants. Of the 50% local share, the District Council's share has been set at 80%, with the County Council's share being 18% and the Fire and Rescue Service share being 2%. A tariff is applied to reduce the local share to a baseline funding level set by the Government. Where the value of retained business rates exceeds the baseline funding level, 50% of the surplus is paid over to the Government as a levy; the remaining 50% can be retained by the Council.
- 5.2 In order to maximise the value of business rates retained within Gloucestershire, the Council entered into the Gloucestershire Business Rates Pool. Being a part of the Pool has the benefit of reducing the levy from 50% to 19%. Any surpluses generated by the Pool will be allocated in accordance with the governance arrangements agreed by the Gloucestershire Councils.

- 5.3 The Gloucestershire Chief Finance Officers have monitored the financial performance of the business rates pool during 2013/14 and, at the time of writing this report, the performance of the pool has exceed expectations. However, the final position will not be known until the summer when the final out-turn position is declared for each Gloucestershire billing authority.
- 5.4 A significant level of risk remains due to the volume of outstanding business rates appeals which are being processes by the Valuation Office. Where appeals are successful, refunds of business rates are generally repayable back to the 2010/11 financial year (occasionally 2005/06) which reduces the business rates yield in the year in which the refund is made. The accounting treatment of these refunds and how they are to be reflected in National Non Domestic Rates Returns to central government (NNDR 1 estimate for 2014/15 and NNDR3 Out-turn 2013/14) is still awaited.
- 5.5 In the Autumn Statement, there was recognition of the problem being faced by local authorities in terms of forecasting business rate yields over the medium term, due to the level of uncertainty surrounding business rate appeals. A commitment has therefore been made that the backlog of valuation appeals will be cleared by July 2015.
- 5.6 The Autumn Statement included an extension to the Small Business Rate Relief from 50% to 100% for a further year as well as introducing a new £1,000 discount for small business with a rateable value below 50,000. Whilst these initiatives are to be welcomed in terms of supporting small businesses within the district, the Department of Communities and Local Government has yet to publish final details of how local government will be compensated for the reduction in business rates yield. A commitment has been expressed to fully compensate local government, and this report has assumed that the commitment will be met.
- 5.7 One of the key documents in the budget setting process is the estimate of business rates yield which is reported in the National Non Domestic Rates return (NNDR1) which is submitted to the Department for Communities and Local Government. At the time of writing this report, the final version of the NNDR1 return, and the associated guidance notes on how the return must be completed, has not been issued by government. The return needs to be completed and returned by 31st January 2014. The Council's final budget for 2014/15 will therefore be subject to change should the final figures in the NNDR 1 vary from those contained within this report.
- 5.8 The Chief Finance Officers have reviewed the viability of the Pool for 2014/15 and are recommending that the Pool continues in its current form. However, the viability of the Pool can only be determined once all of the estimated business rates returns have been completed by all of the participating authorities (i.e. all Gloucestershire District Councils). A decision to dissolve the Pool would have been statutory required by 15th January 2014 (i.e. before the final guidance notes and returns were available from central government). Given the government's statement that local authorities will be fully compensated for the impacts of the announcements in the Autumn Statement, the Chief Finance Officers took a pragmatic view to continue with the Pool in 2014/15, in line with the recommendation made to Leaders and Chief Executives in the autumn. Any sustainable surpluses from the Pool will contribute towards the savings targets set out in this strategy.

- 5.11 It is possible that there will be a surplus or deficit of business rates from 2013/14 which will be need to form part of the budget proposals for 2014/15. However, this will form part of the business rates estimates to be included in the NNDR1 return. At the time of writing this report, it is anticipated that 2013/14 will be broadly in line with the 2013/14 estimates and that a surplus or deficit will not need to be reflected in the budget for 2014/15
- 5.12 The Government has introduced as a temporary measure, the power for Local Authorities to grant an exemption to unoccupied non domestic hereditaments that are wholly or mainly comprised of new structures that are completed after the 1st October 2013 and before the 30th September 2016 subject to state aid limits.
- 5.13 The purpose of the measure is to help stimulate construction. Construction decisions take into account the risk of paying empty property rates on newly built commercial property if the property does not become fully occupied straight away. Reducing this risk may incentivise some commercial property projects to go ahead that wouldn't otherwise, helping to stimulate the construction industry.

6. General Fund Revenue Budget - Principles and Key Assumptions

- 6.1 The principles underpinning the proposed revenue strategy are:
- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
 - ii. No long term use of balances to meet recurring baseline expenditure;
 - iii. Resources will be targeted to deliver Corporate Plan priorities and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments, with disinvestment and budget savings being made in non-priority areas;
 - iv. Maintaining the General Fund balance at a level of at least 10% of our Net Budget Requirement or £1.6m (whichever is the higher).
 - v. Council tax increases are kept to a minimum.
 - vi. Year on year savings targets to be met by ongoing efficiency gains and service transformation.
- 6.2 **Table 1** below, lists the major **assumptions** that have been made over the five years of the strategy:

Table 1	2014/15	2015/16	2016/17	2017/18	2018/19
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	0%	0%	1.99%	1.99%	1.99%
Formula Grant (net)	-1%	-15%	-5%	-5%	0%
Interest Rates (Earned)	0.5%	0.5%	1.00%	1.50%	2.0%

Inflation – Pay	1%	2%	2%	2%	2%
Inflation – contracts	2.5%	2.5%	2.5%	2.5%	2.5%
Inflation – other income	2.5%	2.5%	2.5%	2.5%	2.5%

7. Revenue Budget Increases

Pay and Prices Increases

- 7.1 A 1% pay award allowance has been included for 2014/15. This is in line with the national pay award agreed for 2013/14 at 1%. Thereafter a provision for a 2% award is included each year.
- 7.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet ongoing additional payments to the pension fund required from the employer to recover the deficit.
- 7.3 The pension fund is subject to a triennial actuarial valuation, the most recent of which has been undertaken by Hymans Robertson LLP during 2013, on behalf of Gloucestershire County Council, the pension fund administrator. The preliminary results of the latest actuarial valuation were notified early November 2013 and when confirmed will subsequently be reported to Cabinet/Council. A 2.5% increase has been included for 2014/15 with the same provision in each subsequent year.
- 7.4 Prices inflation has been included on selected non-pay items, namely contractual obligations. All other inflationary increases are expected to be absorbed within base budget which represents a real time reduction through efficiency gains.
- 7.5 Prices inflation is included on selected fees and charges at 2.5% p.a. The exceptions are car park income, which is frozen at existing levels for first two years of the Money Plan and assumed at 2.5% p.a. growth thereafter.

Cost Pressures

- 7.6 Cost pressures are included in **Appendix 2** and are summarised in **table 2** below:

Table 2	2014/15 £000	2015/16 £000
Cost Pressures	537	465

- 7.7 Following advice from the Council's treasury advisors, Sector, to reduce short term borrowing and adopt a more prudent approach to investments, there will be a reduction of net interest income in future years. This comprises a reduction of investment income offset in part by reduced interest payments.
- 7.8 Another significant cost pressure relates to reduced interest receivable cash flow forecasts. Previously it was assumed that the interest rates would rise steadily. This forecast has been revised downwards each year to a more modest increase of 2% by 2018/19.

7.9 For 2015/16 an estimate has been included for reduction in recharge to Gloucester City Homes, based upon the assumption that the proposed Council and Community Owned (Co-Co) plus transfer is successful.

8. Efficiency Savings

8.1 The Money Plan forecasts indicate the need for significant efficiency, service transformation savings targets in each year.

8.2 In addition to savings in previous years further savings of £1.48m in 2014/15 and £1.49m in 2015/16 are included and shown at **Appendix 1**. The appendix also provides a summary sheet for each proposed saving highlighted in the money plan

8.3 With the inclusion of the finance settlement figures for 2015/16 and the assumption of further formula grant reductions of 5% p.a. for the two years after that, further savings will be required. The financial gap is £743k in 2014/15 which rises to £3.411m by 2018/19.

8.4 In the light of these modelled changes to assumptions and subsequent funding shortfalls, the Council will need to move to a more ambitious targeted savings approach.

8.5 The savings details are summarised on a cumulative basis in **table 3** below:

Table 3	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Savings required in year	743	1,137	59	595	877
Cumulative efficiency savings	743	1,880	1,939	2,534	3,411
Targeted Savings	1,480	1,490	500	500	500

8.6 Specific actions to achieve the targeted savings will need to be approved as part of the council's annual budget setting process in each financial year. The targeted savings includes front loading of savings in 2014/15, **Appendix 3** highlights targeted savings, and provides summary narrative pages for the proposed savings.

8.7 The efficiencies and budget savings target for 2013/14 was £1.9m. Whilst there has been some slippage in implementation of the savings during 2013/14, compensated by additional savings elsewhere, the full-year impact of the changes will be fully achieved 2014/15. In-year financial monitoring highlights that overall, the 2013/14 financial performance will be approximately £200k over budget.

9. Overall Costs

9.1 With the targeted savings included from Table 3, the total costs of the Council, the "Net Budget Requirement", falls over the five year period of the Money Plan. The total costs fall from £16,669m in 2014/15 to £16,131 in 2018/19. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five year period of the Money Plan, will need to be funded by additional savings.

9.2 Summary budget pages for each service are detailed in **Appendix 6**.

10. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2013/14 comprises two formula driven components - Revenue Support Grant (RSG) and business rates from the central pool. For 2013/14 our RSG element is £4.864m and our business rates element is £3.326m, providing £8.101m in total.
- 10.2 The settlement for 2014/15 has RSG at £3.799m and business rates at £3.299m providing a total of £7.098m.

Council Tax Benefit/Support and Universal Credit

- 10.3 Gloucester City Council is now responsible for funding its share of any growth in Council Tax support, equally, we can retain any surplus funding should CTS reduce. In the current economic climate the first scenario is much more likely than the second one.
- 10.4 The shortfall on funding was met by reducing the discounts given on empty properties as a way of encouraging homeowners and landlords to bring empty properties back into use. The Council also received transitional grant in 2013/14 as a result of the agreed scheme. The monitoring of performance of the year to date, shows that these measures, along with small reduction in caseload will contribute to meeting the funding shortfall in 2013/14.
- 10.5 The Council approved the Council Tax Support Scheme to be implemented for 2013/14 in November 2012. Details of the current scheme are attached at **Appendix 4**. Consultation on the current scheme is taking place during November 2013. There is no plan to revise the scheme for 2014/15.
- 10.6 Another significant change is the replacement of Housing Benefit (and a number of other benefits) with one Universal Credit on a phased basis from 2013 until 2017. The proposal is for this to be administered centrally by the DWP, rather than locally by Councils. This will lead to a reduction in the level of grant we receive from government for administering benefits. It is assumed that any other reductions in funding will be matched by a reduction in the associated costs of delivering the service until the transition to the DWP is complete. However there is a risk that over the longer term that these costs will be greater than anticipated and this will need to be carefully managed over this time period. Again, given the uncertainty of impact, there is no provision for this change in the Money Plan.

New Homes Bonus

- 10.7 New Homes Bonus is a relatively new grant that commenced in the 2011/12 financial year and is effectively a reward for increasing the number of properties within an area. Whereas previously an increase in the Council Tax base is essentially offset by a reduction in formula grant, central government intends to match-fund the additional Council Tax for each new home for a period of six years.

10.8 New Homes Bonus is a significant source of funding for Gloucester City Council. The Council will receive New Homes Bonus in 2013/14 of £2.026m and £2,531m in 2014/15.

Council Tax & Council Tax Freeze Grant

10.11 The Council has frozen Council Tax since 2011/12 and the government have provided a Council Tax Freeze Grant equivalent to 2.5% increase for the period 2011/12 to 2014/15, from 2013/14 this grant has now been included in base line funding, and will continue indefinitely.

10.12 In 2012/13 freeze grant was again provided at 2.5% however this was for one year only. As part of the 2013/14 settlement freeze grant was provided at 1% for two years 2013/14 and 2014/15.

10.13 The government has announced a further freeze grant at 1% for the years 2014/15 and 2015/16. However it should be noted that if the Council elected to increase council tax at 1.99% in 2014/15 and not accept the freeze grant this would generate additional income of approximately £480k over the life of the plan.

10.14 The Government has reaffirmed that if the level of Council Tax rise is 2% or above a referendum would be required. The Money Plan assumes no increase in Council Tax in 2014/15 with a 1.99% increase in subsequent years of the plan.

11. General Fund Balance

11.1 The estimated level of the general fund balance in each financial year is shown in **table 4** and highlights that without savings measures being put in place, the general fund balance reduces to c£1,373m in 2014/15 and by the end of 2015/16 is £1,244m overdrawn.

Table 4	2014/15 £000	2015/16 £000	2016/17 £000
Opening General Fund Balance	2,116	1,373	(1,244)
Shortfall in Year	743	2,617	3,029
Revised General Fund Balance	1373	(1,244)	(4,273)

11.2 This is not a sustainable position so, as mentioned above, steps will be taken to target and deliver further efficiency and transformation savings to balance the budget each year and retain a general fund balance in excess of c£1.6m at the end of five year period.

11.3 It should also be noted, that although £1.6m is considered an appropriate level of general fund balances to retain each year, the position should be reviewed if the Council delivers a budget surplus at year end. The level of savings required over the next few years, is likely to be so significant, that an opportunity to phase the transition by increasing and then utilising general fund balances, should be considered.

12. Capital Programme and Capital Financing

- 12.1 The majority of capital financing will be funded through external borrowing. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of the borrowing. The main exceptions to this policy will be essential works on the council's buildings, which will result in a reduced maintenance liability or potential increase in asset value.
- 12.2 **Appendix 5** is the proposed capital budgets for 2014/15 incorporating any carried forward capital budgets and new approved schemes.

13. Budget Consultation

- 13.1 The council's budget consultation for 2014/15 has utilised an on-line interactive budget survey developed with Govmetric, a link to which has been available on the council's website. Leaflets were also available from the council reception at the city council offices at the Docks, GL1, Oxstalls Sports Park, the Guildhall, and at the City or Folk museums. Consultation has also taken place through Overview and Scrutiny committee and through a meeting with Voluntary & Community Sector on 30th January 2014 (Grants and Community Services Forum)
- 13.2 Any callers to the council by telephone during the consultation period were also given the opportunity to take part in the survey by customer services staff.
- 13.3 Throughout this process, views of the public and other partners/stakeholders have been sought on the council's financial plans including levels of spending, potential efficiencies and budget savings, as well as opinions on the level of council tax increases and other fees and charges.
- 13.4 In addition to the updated financial appendices, this report also includes the results of the consultation summarised at **Appendix 8**.

14. Earmarked Reserves

- 14.1 The council has limited earmarked reserves with the balance at 31 March 2013 being £112k consisting of;

• Insurance reserve	£27k
• Historic buildings reserve	£46k
• Portfolio Reserves	£10k
• Shopmobility Reserves	£29k

15 Alternative Options Considered

- 15.1 The Council must set a budget in time to start collecting council tax by 1st April 2014. These proposals have been subject to consultation and scrutiny prior to Council approval. Alternative proposals put forward for budget savings will be considered as part of this process.

16 Conclusions

16.1 This report has outlined the proposed approach to further build on the council's budget consultation arrangements to inform the 2014/15 budget setting process.

17 Legal Implications

17.1 Legislation places a duty on the Council, as the Billing Authority, to calculate before 11 March 2014 its budget requirement for 2014/15. The council also has a statutory requirement to set a balanced budget.

18 Risk & Opportunity Management Implications

18.1 Covered in the report. The budget is prepared based on the information available at the time of writing. The budget pressures facing the Council have, as far as possible, been built into the budget.

18.2 The risks are set out more fully in the report but in summary centre around the continuing economic situation and the possible impact this is likely to have on the public sector, changes to Government funding in future years and the level of the Council's spend from 2014/15 onwards.

18.3 In addition to the risks identified in the report, a list of additional identified risks for both the Money Plan and the Budget for 2014/15, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation		Proposed measures	Residual Risk Evaluation	
	Risk Score			Risk Score	
<ul style="list-style-type: none"> ▪ Employee related costs will be more than assumed ▪ Other costs will be more than assumed 	Risk Score	6	<ul style="list-style-type: none"> ▪ Figures based on known commitments and estimated future costs. Any further pressures will need to be matched by additional identified savings. 	Risk Score	4
		8			
<ul style="list-style-type: none"> ▪ Pension fund contributions will be higher than expected. 	Risk Score	6	<ul style="list-style-type: none"> ▪ The financial plan will continue to be reviewed and updated annually for a three year period, based on known changes and informed by the most recent actuarial triennial valuation. 	Risk Score	4
<ul style="list-style-type: none"> ▪ Planned budget reductions will not be achieved 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of budgets will be carried out in each financial year. 	Risk Score	6

<ul style="list-style-type: none"> ▪ Impact of Legislative changes (eg Welfare reform) on Councils ongoing costs 		6	<ul style="list-style-type: none"> ▪ Continuous monitoring of service pressures and ongoing focus on preventative support. ▪ Previously agreed changes to council, tax exemptions and discounts, to help fund the shortfall in financing for local support of council tax. 		4
<ul style="list-style-type: none"> ▪ Income from fees, charges and other sources will not be as high as planned 	Risk Score	12	<ul style="list-style-type: none"> ▪ Close monitoring of income budgets will be carried out in each financial year. 	Risk Score	8
<ul style="list-style-type: none"> ▪ Timing of Capital Receipts will be later than anticipated or lower than estimated ▪ Timing of Capital payments may be earlier than estimated 	Risk Score	8	<ul style="list-style-type: none"> ▪ Close monitoring of the timing and payments of capital expenditure/income will be carried out in each financial year. Alternative savings will be identified, or contingency arrangements agreed 	Risk Score	4

19 People Impact Assessment (PIA):

19.1 People Impact Assessments will be carried out for each line of the budget savings, to ensure that all relevant considerations are taken into account.

20 Other Corporate Implications

1. Community Safety
None
2. Environmental
None
3. Staffing
The budget reductions and efficiency savings will result in a net reduction in staff, which could include possible redundancies.
4. Trade Union
Ongoing discussions with the Trade Union on both the money plan and budget represent a key element of the overall consultation process.

Background Documents:

- Draft Money Plan 2014-19 & Budget Proposals for consultation 2014/15, December 2013