

Gloucester City Council

Meeting:	Overview & Scrutiny	1st December 2014
	Cabinet	10th December 2014
Subject:	Draft Money Plan 2015-20 & Budget Proposals for consultation 2015/16	
Report Of:	Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: No
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Appendices:	1. Money Plan 2015 - 20	
	2. Budget Pressures & Savings	
	3. Savings Programme	
	4. 2015/16 – 2017/18 Capital Programme	
	5. Service Budget Summary Pages	
	6. Budget Consultation	

1.0 PURPOSE OF REPORT

1.1 To review the Council's Draft Money Plan.

2.0 RECOMMENDATIONS

Cabinet is asked to RESOLVE:

- 2.1 That the assumptions contained in the Council's Draft Money Plan from 2015/16 to 2019/20 and revisions to the current year's revenue budget be approved.
- 2.2 That the uncertainties regarding future incomes, as shown in this report and Appendix 1, and the need to update the Draft Money Plan when there is more certainty regarding Central Government financing be noted.

3.0 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;
- achieve a stable and sustainable budget capable of withstanding financial pressures;

- achieve 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; and
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme

4.0 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 Draft Money Plan covers a five year period up to 2019/20.

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.

Local Government Finance Settlement 2015/16

4.3 Indicative figures for the 2015-16 settlement were announced alongside the 2014/15 settlement. The 2015/16 settlement represents a deeper reduction in funding in comparison to 2014/15. The reduction in settlement funding in 2015/16 is 13.2% in comparison with 9.4% in 2014/15.

4.4 Council Tax Freeze Grant is expected to be set at 1% and is expected to be included in funding baselines. Any proposed increase in Council Tax is likely to be limited to 2% in 2015/16, although the Draft Money Plan assumes no proposed increase and receipt of Council Tax Freeze Grant.

4.5 The Local Government Finance Settlement 2014-15 was announced on the 18th December 2013. This also detailed an illustrative settlement 2015-16. The announcement providing the provisional 2015/16 is expected in early December 2014.

4.6 Consultation on the 2015/16 settlement was issued in July 2014, and few substantive issues were proposed. Highlights from the consultation were as follows;

- Compensation for the 2% cap on the small business rates multiplier.
- Council Tax freeze grant for 2014-15 to be rolled in and combined with the 2013-14 grant in a single element (in line with previous commitments to authorities which freeze Council tax)
- Efficiency Support Grant for 2014-15 (£9.6m) to be rolled in subject to satisfactory performance, as announced at the 2014-15 settlement (only affects a handful of districts and not Gloucester)
- Adding the £2m rural service top-up from 14/15 and rolling into the settlement and combining with existing rural funding element

4.7 The Autumn Statement has been scheduled for the 3rd December 2014, and will highlight any potential changes to the 2015/16 settlement. There are however no major changes to the provisional settlement expected. Potential changes are a further cap on Business Rates multiplier and other potential small business reliefs.

- 4.8 The next major uncertainty for local government finance is the general election in May 2015. Post the Election, changes are inevitable regardless of the election outcome. However, a change in government could lead to a significant change in funding policy decisions.
- 4.9 In terms of projecting Local Government funding moving forward projections highlight a possible reduction to overall funding between 2014/15 and 2018/19 at 27% of the 2014/15 base. This projection also highlights the move in emphasis of external funding with the relative size of Revenue Support Grant (RSG) as a share of external funding reducing by half while the relative size of business rates as a share of external funding increases by more than one third.

5. Business Rates Retention

Business Rates and the Gloucestershire Business Rates Pool

- 5.1 The new localised regime on Business Rates took effect in April 2013. Gloucester City is part of a Gloucestershire Business Rates Pool, set up as a mechanism to retain more Business Rates growth funding within the Gloucestershire area and to support economic growth within the area of the Local Enterprise Partnership.
- 5.2 In the first year of this new regime, all members of the pool benefitted financially from being in the pool. A net £771k growth levy was retained locally in Gloucestershire. The first £300,000 was set aside in an appeals/losses reserve. 20% of the remaining surplus, (£94,352), has been set aside in a Strategic Economic Development Fund with the remaining 80% distributed amongst the pool members in accordance with the governance arrangements, of which Gloucester City was able to retain £72k.
- 5.3 Further work on the Business Rates regime has been carried out and the latest forecast indicates that Gloucester could build in a recurring income source from Gloucester City Business Rates growth, estimated at £162k in 2015/16. Cabinet's strategy is to continue as a pool member and to include this growth in Business Rates income as a funding source in the Money Plan from 2015/16 onwards, as part of its priority to safeguard the delivery of Council services. Any additional growth arising as a result of pool membership is not guaranteed and is therefore not included in the base budget. Any growth realised will be allocated to a reserve at the end of the financial year.

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 minimum 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	2015/16	2016/17	2017/18	2018/19	2019/20
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	0%	1.99%	1.99%	1.99%	1.99%
Formula Grant (net)	-10%	-5%	-5%	-5%	-5%
Interest Rates (Earned)	0.5%	1.0%	1.50%	2.00%	2.00%
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 2015/16. The current proposal being consulted on through the National Joint Council is for a 2 year settlement for both 2014/15 and 2015/16. The net effect of this proposal is in line with the assumed 1% increase for each of the two financial years. 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. A 2.5% increase has been included for 2015/16 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 2015/16 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	2015/16 £000
Cost Pressures	1,250

- 7.7 Significant cost pressures that have been highlighted through budget monitoring are highlighted at Appendix 2. Some key pressures are highlighted below;
- Historic income budgets levels Guildhall/Garden Waste/Partner recharges.
 - General Fund implications of stock transfer
 - Utility budgets
 - IT operational budgets

7.8 For 2015/16 an estimate has been included for a reduction in recharge to Gloucester City Homes, as a result of the stock transfer that is to be completed before the 31st March 2015.

8. Efficiency Savings

8.1 The Draft Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan.

8.2 In February 2014, Council approved the implementation of the target savings for the Money Plan 2014-19. In addition to savings in previous years further savings of £1.54m in 2015/16 were included. This target figure has reduced to £1.37m due to early implementation of the senior management restructure and expected non delivery of increased garden waste income.

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 £1.382m in 2015/16 which rises to £3.421m by 2019/20.

8.4 As a result of the Council's decision to front load savings in 2014/15 and 2015/16, although still challenging, the forecast required savings in 2016/17 and subsequent years are at a significantly reduced level.

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

Table 3	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Savings required in year	1,382	205	540	551	743
Cumulative efficiency savings	1,382	1,588	2,127	2,678	3,421
Targeted Savings	1,370	500	500	500	0

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. **Appendix 3** highlights targeted savings, as presented to Council in February 2014. Changes since this date are the removal of the saving for Garden Waste and the Senior Management saving achieved in 2014/15.

8.7 The efficiencies and budget savings target for 2014/15 was £1.38m. Whilst there has been some slippage in implementation of the savings during 2014/15, compensated by additional savings elsewhere, the full-year impact of the changes will be fully achieved in 2015/16

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 Draft Money Plan. The total costs fall from £17,026m in 2015/16 to £16,265m in 2019/20. Any further spending pressures identified in addition to those detailed in **Appendix 2**, over the five year period of the Draft Money Plan, will need to be funded by additional savings.

9.2 Summary budget pages for each service are detailed in **Appendix 5**.

10. Revenue Funding

Formula Grant / Localised Business Rates / Revenue Support Grant

- 10.1 Our current grant from Government for 2014/15 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target. For 2014/15 our RSG element is £3.799m and our Business Rates element is £3.299m, providing £7.098 in total.
- 10.2 The provisional settlement for 2015/16 is expected to have RSG at £2.643m and business rates at £3.390m providing a total of £6.033m.

New Homes Bonus

- 10.3 New Homes Bonus is a 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.
- 10.4 New Homes Bonus is a significant source of funding for Gloucester City Council. The Council will receive New Homes Bonus in 2014/15 of £2.531m. The current allocation for 2015/16 is not known. However, using the model on the Government's website the amount for 2015/16 is expected to be £3.101m. This allocation is expected to be confirmed before the end of January 2015.

Council Tax & Council Tax Freeze Grant

- 10.5 The Council has frozen Council Tax since 2011/12 and the Government has provided a Council Tax Freeze Grant at various percentage levels
- 10.6 In 2012/13 freeze grant was again provided at 2.5%, but 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.
- 10.7 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 by 1.99% in 2015/16 and not accept the freeze grant this would generate additional income of approximately £350k over the life of the plan.
- 10.8 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 **Appendix 1**.
- 11.2 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.
- 11.3 In the financial year 2015/16 it is proposed to draw £12k from the general fund to provide a balanced budget. The targeted savings in 16/17 are expected to contribute to the general fund balance increasing before being drawn on in 2017/2018, 2018/2019 & 2019/2020.

12. Capital Programme and Capital Financing

- 12.1 The key financial details on capital expenditure and financing in the revised money plan for the 3 years from 2015/16, are shown in detail at **Appendix 4**, and summarised below:
1. Capital programme expenditure of £16.468m. Some key projects are, The Kings Quarter Development, City Centre Investment, ICT Projects and externally financed housing projects.
 2. Capital financing comprises grants, Section 106 receipts, Capital receipts and borrowing.
- 12.2 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.
- 12.3 Wherever possible and desirable, additional one-off capital investments on a business case basis will be made, providing corporate objectives are delivered, and financing is available and affordable within existing budgets, or preferably with the provision of a "spend to save" revenue saving on existing budgets.
- 12.4 The strategy on borrowing is to ensure that any borrowing is only undertaken on a business case basis, and is affordable and paid off over the life of the asset.
- 12.5 **Appendix 4** shows the proposed capital budgets for 3 years from 2015/16 incorporating any carried forward capital budgets and new, approved schemes.

13. Budget Consultation

- 13.1 The Council's budget consultation for 2015/16 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 reception at the City Council offices at the Docks, GL1, Oxstalls Sports Park, the Guildhall, and at the City and Folk museums.
- 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 financial appendices, this report also includes the results of the consultation summarised at **Appendix 6**

14. Earmarked Reserves

- 14.1 The Council has limited earmarked reserves with the balance at 31 March 2014 being £112k consisting of;

• Insurance reserve	£10k
• Historic buildings reserve	£63k
• 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 2015. 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 2015/16 budget setting process.

17 Legal Implications

- 17.1 Legislation places a duty on the Council, as the Billing Authority, to calculate before 11 March 2015 its budget requirement for 2015/16. 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 2015/16 onwards.
- 18.3 In addition to the risks identified in the report, a list of additional identified risks for both the Draft Money Plan and the Budget for 2015/16, 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. ▪ Continuous monitoring of service pressures and ongoing focus on preventative support. 	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"> ▪ 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 be proposed to Council in February, 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:

Money Plan 2014-19, February 2014