

Gloucester City Council

Meeting:	Cabinet	25 February 2015
	Council	26 February 2015
Subject:	Money Plan 2015-20 & Budget Proposals for 2015/16	
Report Of:	Leader of the Council Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: Yes
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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. Fees and Charges 2015-16 7. Budget Consultation 8. Local Council Tax Support Scheme 2015-16	

FOR GENERAL RELEASE

1.0 PURPOSE OF REPORT

1.1 To review the Council's Money Plan for recommendation to Council.

2.0 RECOMMENDATIONS

2.1 Cabinet is asked to **RECOMMEND** that

- (1) the proposals for the 2015/16 budget in this report, including a Council Tax freeze for the fifth year, be approved.
- (2) the target budget reductions set in the Money Plan 2015/2020 be implemented.
- (3) it be noted that consultation has been undertaken on budget savings proposals to achieve the level of further savings required in 2015/16.

2.2 Council is asked to **RESOLVE** that

- (1) the proposals for the 2015/16 budget in this report, including a Council Tax freeze for the fifth year, be approved.

- (2) the target budget reductions set in the Money Plan 2015/2020 be implemented.
- (3) it be noted that consultation has been undertaken on budget savings proposals to achieve the level of further savings required in 2015/16.

3.0 BUDGET ASSESSMENT OF THE SECTION 151 OFFICER

3.1 In accordance with Section 25 of the Local Government Act 2003 the Chief Finance Officer (Section 151 Officer) must report on the following matters;

- 1) the robustness of the estimates made for the purposes of the calculations, and
- 2) the adequacy of the proposed financial reserves.

3.2 The Head of Finance as Section 151 Officer confirms the robustness of the calculations and the adequacy of the proposed financial reserves.

4.0 INTRODUCTION

4.1 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.

4.2 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;
- ensure capital financing is established at a level that maintains ongoing robustness in the capital programme

5.0 THE LOCAL GOVERNMENT FINANCE ENVIRONMENT

5.1 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 2019/20.

5.2 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

- 5.3 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 11.7% in comparison to 9.4% in 2014/15.
- 5.4 The Settlement again included provision of financial support from the government for councils who freeze their Council Tax for next year – 2015/2016. The grant is equivalent to a 1% Council Tax increase and is confirmed as being included in the baseline grant funding calculations going forwards, albeit no information has been provided at all relating to 2016/17 council funding.
- 5.5 The Settlement announcement confirmed the requirements for a Council Tax referendum, where any Council increases Council Tax by more than 2%. This is clearly irrelevant for Councils accepting the Council Tax freeze grant although the position applies also to police and fire as major precepting bodies. The government is also consulting on the application of these requirements to larger parish and town councils although there are no specific proposals to include these for the 2015/2016 financial year.
- 5.6 The announcement providing the provisional 2015/16 was made 18th December 2014, and are generally in line with assumptions made in the draft Money plan reported to Cabinet on 10th December 2014.
- 5.7 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.
- 5.8 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.

6.0 BUSINESS RATES RETENTION

Business Rates and the Gloucestershire Business Rates Pool

- 6.1 The new localised regime on Business Rates took effect in April 2013. Gloucester City are 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.
- 6.2 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.

- 6.3 Further work on the Business Rates regime has been carried out and the latest forecast indicate that Gloucester could build in a recurring income source from Business Rates growth, estimated at £383k in 2015/16. Completion of the National Non domestic Rates Form 1 (NNDR1) at the 31st January 2015 has confirmed this level of increase is expected to be sustainable in 2015/16 and going forward.
- 6.4 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.

7.0 GENERAL FUND REVENUE BUDGET - PRINCIPLES AND KEY ASSUMPTIONS

7.1 The principles underpinning the proposed revenue strategy are:

- 1) Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
- 2) No long term use of balances to meet recurring baseline expenditure;
- 3) 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;
- 4) 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);
- 5) Council Tax increases are kept to a minimum;
- 6) Year on year savings targets to be met by ongoing efficiency gains and service transformation.

7.2 **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%

8.0 REVENUE BUDGET INCREASES

Pay and Prices Increases

- 8.1 A 1% pay award allowance has been included for 2015/16. The agreed pay award 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.

- 8.2 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.
- 8.3 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.
- 8.4 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.
- 8.5 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

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

Table 2	2015/16 £000
Cost Pressures	1,454

- 8.7 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
- 8.8 For 2015/16 an estimate has been included for reduction in recharge to Gloucester City Homes, as a result of the stock transfer that is to be completed on the 16th of March 2015.

9.0 EFFICIENCY SAVINGS

- 9.1 The Money plan forecasts indicate the need for a continued delivery of savings in each year.
- 9.2 Council resolved in February 2014 the implementation of the target savings for the Money plan 2014-19 be approved. In addition to savings in previous years further savings of £1.54m in 2015/16 were included. This target figure has reduced to £1.27m due to early implementation of the senior management restructure which have been offset by some degree by the expected non delivery of increased garden waste income.
- 9.3 The proposed savings target for Amey has been reduced to £300k in 2015/16 with an additional £200k required in 2016/17. This recognises that full delivery of savings is unlikely to be achieved in year but will be delivered by the end 2016/17. The overall savings target for 2016/17 has been increased to reflect this change.

- 9.4 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 £1.300m in 2015/16 which rises to £3.443m by 2019/20.
- 9.5 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.
- 9.6 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	1,300	417	493	549	684
Cumulative efficiency savings	1,300	1,717	2,210	2,759	3,443
Targeted Savings	1,270	700	500	500	500

- 9.7 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 to be delivered during 2015/16.
- 9.8 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

10.0 OVERALL COSTS

- 10.1 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 £17,239m in 2015/16 to £16,389m in 2019/20. 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.
- 10.2 Summary budget pages for each service are detailed in **Appendix 5**.

11.0 REVENUE FUNDING

Formula Grant / Localised Business Rates / Revenue Support Grant

- 11.1 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 was £3.799m and our Business Rates element is £3.299m, providing £7.098 in total.
- 11.2 The settlement for 2015/16 has RSG at £2.734m and business rates at £3.681m providing a total of £6.415m.

New Homes Bonus

- 11.3 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.

- 11.4 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 allocation for 2015/16 is to be £3.085m. This allocation was confirmed at the end of January 2015.

Council Tax & Council Tax Freeze Grant

- 11.5 The Council has frozen Council Tax since 2011/12 and the Government have provided a Council Tax Freeze Grant at various percentage levels
- 11.6 In 2012/13 freeze grant was again provided 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.
- 11.7 The Government has announced a further freeze grant at 1% for 2015/16. However it should be noted that if the Council elected to increase Council Tax at 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.
- 11.8 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 2015/16 with a 1.99% increase in subsequent years of the plan.

Local Council Tax Support Scheme (LCTS)

- 11.9 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.
- 11.10 The Council approved the Council Tax Support Scheme to be implemented for 2013/14 in November 2012 and subsequently approved the scheme for 2014/15 in February 2014.
- 11.11 During 2014 a joint working group of Section 151 Officers and finance officers from across the county reviewed the shortfall in Government funding of the LCTS scheme and the additional income generated during 2013/14, following changes to Council Tax empty property discounts. They agreed to recommend a further year of no changes.
- 11.12 There is no plan to revise the scheme in 2015/16 other than the annual uprating of premiums, allowances, nondependent deductions and annual changes to the national pension age scheme, which need to be reflected in the local working age scheme.
- 11.13 **Appendix 8** provides details of the 2015-16 scheme.

12.0 GENERAL FUND BALANCE

- 12.1 The estimated level of the General Fund balance in each financial year is shown in **Appendix 1**.

- 12.2 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 has been undertaken. The approved budget for 2014/15 incorporated a £637k contribution to the general fund. Monitoring during 2014/15 has highlighted that £630k of the savings target will not be achieved in year. As a result of this the contribution to the General Fund is expected to be £264k.
- 12.3 In the financial year 2015/16 it is proposed to draw on the general fund by £30k to provide a balanced budget. The targeted savings in 2016/17 and 2017/18 are expected to contribute to the General Fund balance before being drawn on in subsequent years.

13.0 CAPITAL PROGRAMME AND CAPITAL FINANCING

- 13.1 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, Kings Quarter Development, City Centre regeneration, ICT Projects and externally financed housing projects.
 - 2) Capital financing comprises grants, Section 106 receipts, Capital receipts and borrowing.
- 13.2 The majority of capital financing will be funded through external grants and capital receipts. The future financial commitments will be approved based on specific income generating, or revenue saving business cases to fund the cost of 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.
- 13.3 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.
- 13.4 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.
- 13.5 **Appendix 4** is the proposed capital budgets for 3 years from 2015/16 incorporating any carried forward capital budgets and new approved schemes.

14.0 BUDGET CONSULTATION

- 14.1 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 council reception at the city council offices at the Docks, GL1, Oxstalls Sports Park, the Guildhall, and at the City or Folk museums.

- 14.2 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.
- 14.3 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.
- 14.4 The consultation was undertaken initially during the summer of 2014, and was then reopened in January 2015 to further inform decision making.
- 14.5 In addition to the financial appendices, this report also includes the results of the consultation summarised at **Appendix 6**, updated by the further consultation in January/February 2015.

15.0 EARMARKED RESERVES

- 15.1 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

16.0 ALTERNATIVE OPTIONS CONSIDERED

- 16.1 The Council must set a budget in time to start collecting council tax by 1st April 2015. 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.

17.0 CONCLUSIONS

- 17.1 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.

18.0 LEGAL IMPLICATIONS

- 18.1 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.

19.0 RISK & OPPORTUNITY MANAGEMENT IMPLICATIONS

- 19.1 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.
- 19.2 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.

19.3 In addition to the risks identified in the report, a list of additional identified risks for both the Money plan and the Budget for 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			4
<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 Impact of Legislative changes (eg. Welfare reform) on Councils ongoing costs 	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. Previously agreed changes to council, tax exemptions and discounts, to help fund the shortfall in financing for local support of council tax. 	Risk Score	6
		6			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

20.0 PEOPLE IMPACT ASSESSMENT (PIA)

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

21.0 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