

Gloucester City Council

Meeting:	Cabinet Council	8th February 2017 25th February 2017
Subject:	Money Plan 2017-22 & Budget Proposals 2017/18	
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. Draft Money Plan 2017/18 – 2021/22 2. Budget Pressures & Savings 3. Savings Programme 4. 2017/18 – 2021/22 Capital Programme 5. Budget Book 6. Fees & Charges 7. Budget Consultation	

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 **RESOLVE** to **RECOMMEND** that:

- (1) That the proposals for the 2017/18 budget included in this report be approved.
- (2) That the implementation of the target budget reductions set in the Money plan 2017/2022 be approved.
- (3) That it be noted that consultation has been undertaken on budget savings proposals to achieve the level of savings required in 2017/18.

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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, in line with the Council's plan;
- 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 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; and
- 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 2021/22.

5.2 Local Government is facing the toughest financial outlook for many decades. The Local Government Finance Settlement in recent years has seen unprecedented reductions in formula grant.

Local Government Finance Settlement 2017/18

5.3 On the 15th December 2016, the secretary of State for Communities and Local Government announced the provisional Local Government settlement for 2017/18. The announcement confirmed the proposals announced for the 2016/17 settlement. These will be delivered over the spending review period:

- Movement to 100% business rates retention
- Continued flexibility for District Councils to increase Council Tax by £5 a year.
- Confirmation of the 4 year settlement in line with the offer accepted by the Council.
- Revisions to the New Homes Bonus scheme.

- 5.4 In addition to the detailed proposal for 2017/18, the settlement provided indicative figures for each financial year up to 2019/20. However these figures must be treated with caution as proposed changes to New Homes Bonus may further decrease the amount of grant payable to the Council even further.
- 5.5 The Council took up the Government's offer of a 4 year settlement and submitted an efficiency plan prior to the deadline of 14th October 2016. The levels of funding for Revenue Support Grant and Business Rates Baseline were confirmed in the provisional settlement.
- 5.6 The settlement continues with the measurement of core spending power. Core spending power is made up of the following elements;

Settlement Funding Assessments (SFA)

- 5.7 This is made up of;
- Revenue Support Grant
 - Baseline Funding Level
- 5.8 The SFA also details level of Tariff on retained business rates and the Safety Net Threshold.
- 5.9 Instead of cutting all SFA by a set percent, Government have taken into account the ability to raise Council Tax locally. There are now therefore four key variables;
- Funding reductions
 - Split of reductions between tiers
 - Council Tax Base
 - Council Tax Rate

Council Tax Requirement (CTR)

- 5.10 This figure excludes Parish precepts, but has been uplifted by average growth in Council Tax base between 2013/14 and 2015/16. The settlement has assumed an increase equal to the £5 district referendum limit and the last four-year annual average increase in the tax base, council tax is assumed to increase by around 4% in each year from 2017/18 to 2019/20, indicating an assumed increase in tax base of well over 1% per annum. The core spending power assumes district councils will increase Band D Council Tax by whichever is the greater of £5 or 2%.

New Homes Bonus (NHB)

- 5.11 The settlement has made fundamental changes to the allocation of New Homes Bonus. Actual allocations are used for 2017/18, and from 2018/19 future national amounts are allocated to authorities, these are at best indicative.
- 5.12 Details on the revisions to New Homes Bonus are in Section 11 of this report.

6.0 Business Rates Retention

Business Rates and the Gloucestershire Business Rates Pool

- 6.1 The 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.

- 6.2 Members will be aware of the Virgin Media issue and the impact that backdated appeals have had on a number of Local Authorities who have Virgin Media on their rating list. Tewkesbury Borough Council was one of those affected and had to refund £10.7m to Virgin Media in 2014/15. This resulted in a safety net payment of £3.9m to Tewkesbury from the Pool leaving the Pool in deficit by £2.3m. All Pool members were required to make a contribution to cover the deficit.
- 6.3 In 2015/16 the pool was back in surplus and generated £878k, of which £173k was returned to Gloucester City Council. The pool is also expected to deliver a surplus in 2016/17.
- 6.4 Cabinet resolved that the current Gloucestershire Business Rates Pool be dissolved and a new pool be established excluding Tewkesbury Borough Council.
- 6.5 Stroud District Council as the lead authority notified DCLG on the 31st October 2016 as follows;
- i. The Gloucestershire Business Rates Pool in its current form will continue in 2017/18.
- 6.6 Cabinet's strategy is to continue as a pool member in the reformed pool and to include growth in Business Rates income as a funding source in the Money Plan, as part of its priority to safeguard the delivery of Council services. Based upon the information above it is the opinion of the Head of Finance that the Council will benefit from remaining in the pool for 2017/18. This will result in a reduction of levy payment to Government
- 6.7 Any additional growth arising as a result of pool membership is not guaranteed and is therefore not included in the base budget. Any growth from pooling will be allocated to a reserve at the end of the financial year once the loss incurred to the General Fund at the end of 2014/15 has been recovered.

7.0 General Fund Revenue Budget - Principles and Key Assumptions

- 7.1 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.
 - iv. Maintaining the General Fund balance at a minimum level of £1.6m by the end of the plan.
 - v. Council Tax increases are kept to a minimum.
 - vi. Year on year savings targets to be met by ongoing efficiency gains, income generation 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	2017/18	2018/19	2019/20	2020/21	2021/22
Council Tax base growth	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax inflation	£5	£5	£5	1.99%	1.99%
Interest Rates (Earned)	0.5%	0.5%	1.00%	1.50%	2.00%
Inflation – Pay	1%	1%	1%	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 the first three years of the plan (2017/18 to 2019/20) in line with previous announcements by Government. The award for 2017/18 is part of the 2 year settlement agreed for 2016/17. Thereafter a provision for a 2% award is included. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and is not subject to direct control from Central Government. However it is reasonable to assume that local government will mirror what happens in the rest of the public sector.
- 8.2 In addition to the increases to reflect employee pay awards, provision has also been made to meet on going 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 2016, on behalf of Gloucestershire County Council, the pension fund administrator. A £255k increase has been included for 2017/18 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. Fees and Charges for 2017/18 are currently being reviewed and will be reported to Council for approval in February

Cost Pressures and Savings

- 8.6 Cost pressures and saving are included in **Appendix 2** and total a net saving of £664k.
- 8.7 Significant cost pressures that have been highlighted through budget monitoring are shown at Appendix 2
- 8.8 The budget savings identified in Appendix 2 for 2017/18 relate to a number of areas where actions undertaken by the Council have already led to savings that have been delivered.
- 8.9 It is also proposed that a vacancy factor will put in place for each service area. This assumes that between a post becoming vacant and subsequently filled there will be a period of vacancy, that will deliver a saving on salary costs.
- 8.10 The plan also includes the agreed management fee reductions with the councils leisure Trust partner Aspire. These reductions are in the plan up to and including 2018/19.

9.0 Efficiency Savings

- 9.1 The Draft Money Plan forecasts indicate the need for a continued delivery of savings in each year of the Plan.
- 9.2 In February 2016, Council approved the implementation of the target savings for the Money Plan 2016-21. In addition to savings in previous years further savings of £514m in 2016/17 were included.

- 9.3 With the inclusion of settlement figures for 2017/18 and the assumption of further formula grant reductions over the life of the plan, further savings will be required. The financial gap is £1.475m in 2017/18 which rises to £2.861m by 2021/22.
- 9.4 The savings details are summarised on a cumulative basis in **table 3** below:

Table 3	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Savings required in year	1475	489	621	283	(7)
Cumulative efficiency Savings	1475	1964	2585	2868	2868
Targeted Savings	1649	750	700	275	0

- 9.5 The Local Government Finance Settlement 2017/18 has highlighted that the Council will be required to make significant additional savings, particularly in the years 2017/18 and 2018/19. To enable delivery the plan assumes that savings will be front loaded in these years.
- 9.6 Due to the high levels of further savings required the Council put in place a transformation programme called 'Together Gloucester' to deliver required efficiencies in line with the Council's Money Plan. Together Gloucester has been tasked to design organisational transformation while delivering the efficiencies the Council needs to deliver. Together Gloucester has been targeted to deliver £1m of savings in 2017/18 as highlighted in Appendix 3.
- 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 for 2017/18 and early proposals for 2018/19. By delivering savings early in the 2017/18 and 2018/19 reduces the total savings required over the life of the plan.
- 9.8 The efficiencies and budget savings target for 2016/17 was £0.607m. Whilst there has been some slippage in implementation of the savings during the year, the full-year impact of the changes will be fully achieved in 2017/18.

10.0 Overall Costs

- 10.1 With the targeted savings included from Table 3, the total costs of the Council (the "Net Budget Requirement"), reduce over the five year period of the Money Plan. The total costs fall from £16.204m in 2017/18 to £14.496m in 2021/22. 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 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 2016/17 comprises two formula driven components - Revenue Support Grant (RSG) and a retained Business Rates target.
- 11.2 The current settlement for 2017/18 is expected to have RSG at £1.092m and retained business rates at £3.685m providing a total of £4.887m. Total funding excluding Council Tax in 2016/17 was £9.693m the plan sees this to reduce to £7.464m in 2017/18.
- 11.3 The indicative figures for RSG see this reducing to £0.090m by 2019/20.

New Homes Bonus

- 11.4 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.
- 11.5 New Homes Bonus is a significant source of funding for Gloucester City Council. The Council received New Homes Bonus in 2016/17 of £3.823m, this is to reduce to £2.687m in 2017/18. A reduction of £1.136m or 30%.
- 11.6 The provisional settlement has made specific changes to the allocation and award of New Homes Bonus. The bonus was previously paid on a basis of 6 years allocation. The settlement announced that New Homes Bonus will reduce to a 4 year allocation from 2018/19 with a transition year in 2017/18 of 5 year allocation.
- 11.7 In addition to the reduction in the number of years New Homes Bonus will be paid, the settlement also announced that an assumed growth (deadweight) is expected to take place prior to any reward for delivery of new homes. The deadweight element in the provisional allocations is 0.4%. As a result of these changes the allocation of New Homes Bonus in the Money Plan is £354k less than the original assumptions
- 11.8 The Council currently utilises 100% of New Homes Bonus received to fund the Net Budget Requirement and therefore support the General Fund. As highlighted earlier in the plan, the level of New Homes Bonus will reduce significantly over the life of the plan. New Homes Bonus is expected to reduce to £1.900m by 2019/20.

Council Tax

- 11.9 The Council had frozen Council Tax from 2011/12 to 2015/16. This freeze in Council Tax had taken into account the difficult economic and financial climate many residents were facing. However during this period of freeze the Council financial position has been put under increasing pressure as core funding has been cut with further to come whilst still having to meet inflationary cost pressures.
- 11.10 The Local Government Finance Settlement 2016/17 has included Council Tax Requirement (CTR) as part of the Councils 'Core Spending Power'. CTR is assumed to grow as part of the settlement as follows;

- based upon an average growth in council tax base, based upon the years 2013/14 to 2015/16,
- and also increase by an assumed growth based upon CPI at an average of 1.75%.
- assumed increase of £5 or 2% whichever the greater

Therefore to maintain CTR in line with government assumptions the minimum year on year increase should in line with bullet points above.

- 11.11 The Government has reaffirmed that if the level of Council Tax rise is greater than 2% or £5, whichever being the higher, a referendum would be required. The Money Plan assumes an increase in Council Tax of £5 for next three years of the plan.

12.0 General Fund Balance

- 12.1 The estimated level of the general fund balance in each financial year is shown in **Appendix 1**. The Money Plan assumes an increase in the General Fund balance in the first 3 years, this is a prudent approach based upon level savings required and potential reductions in funding.

12.2 It should also be noted, that although £1.600m 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, could be considered.

12.3 In the financial year 2017/18 it is proposed contribute £0.174m to the General Fund.

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 5 years from 2017/18, are shown in detail at **Appendix 4**, and summarised below:

1. Capital programme expenditure of £13.414 Some key projects are, The Kings Quarter Development, City Centre Investment, ICT Projects and externally financed housing projects.
2. Capital financing comprises grants, Capital receipts and borrowing.

13.2 The majority of capital financing will be funded through external grants and 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 and ICT systems, which will result in a reduced maintenance liability or potential increase in asset value and ensure security of information and data.

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** shows the proposed capital budgets for 5 years from 2017/18 incorporating any carried forward capital budgets and new, approved schemes. The capital programme will be updated for any future additions, such as Kings Quarter further development, subject to the required level of approval being made.

13.6 The 2016-17 Local Government Finance Settlement provided, "Statutory guidance on the flexible use of Capital receipts". This requires the Council to publish a strategy setting out details of projects to be funded, this strategy is included at Appendix 8.

14.0 Budget Consultation

14.1 The Council's budget consultation for 2017/18 was through an on-line interactive budget survey, a link to which is been available on the Council's website. Leaflets are also available from the reception at the City Council offices at the Docks, GL1, Oxstalls Sports Park, the Guildhall, and at the Museum of Gloucester and Life 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 A summary of the consultation responses are in **Appendix 7**.

15.0 Earmarked Reserves

15.1 The Council has limited earmarked reserves with the balance at 31 March 2016 being £3.577m an increase £1.456m on the position at 31 March 2015, consisting of;

• Insurance reserve	£0.010m
• Historic buildings reserve	£0.053m
• Portfolio reserve	£0.035m
• Shopmobility reserve	£0.029m
• Members Allocation reserve	£0.009m
• 3 Choirs reserve	£0.005m
• Pension contingency	£0.275m
• Repairs reserve	£0.400m
• Environmental reserve	£1.000m
• Regeneration reserve	£0.510m
• VAT Shelter reserve	£0.291m
• Business Rates reserve	£0.200m
• Trading Development reserve	£0.050m
• Land adoption reserve	£0.710m

15.2 Where earmarked reserves are not ring fenced for a specific use such as the regeneration reserve, then if necessary, these reserves may potentially be used to support the General Fund.

16.0 Alternative Options Considered

16.1 The Council must set a budget in time to start collecting Council tax by 1st April 2016. 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 2017/18 budget setting process.

18.0 ABCD Implications

18.1 There are no ABCD implications as a result of this report.

19.0 Financial Implications

19.1 Contained in the body of the report.

20.0 Legal Implications

20.1 Legislation places a duty on the Council, as the Billing Authority, to calculate its budget requirement for 2017/18. The Council also has a statutory requirement to set a balanced budget.

21.0 Risk & Opportunity Management Implications

21.1 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.

21.2 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 2017/18 onwards.

21.3 In addition to the risks identified in the report, a list of additional identified risks for both the Money Plan and the Budget for 2017/18, along with the mitigations is also shown below:

Risk Identified	Inherent Risk Evaluation		Proposed measures	Residual Risk Evaluation	
<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	8	<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 on Councils ongoing costs 	Risk Score	12	<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

22.0 People Impact Assessment (PIA):

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

23.0 Other Corporate Implications

Community Safety

23.1 Safety requirements will be addressed by a lead officer/manager within each individual delivered project.

Sustainability

23.2 Sustainability issues will be addressed within individual projects within the action plan.

Staffing & Trade Union

23.3 Not applicable.

Background Documents:

Money Plan 2016-21, February 2016