Strategy & Resources - Meeting 7 February 2014

Item 4: Budget-Setting Report (BSR) 2014/15

4(a) EXECUTIVE AMENDMENT

Budget Setting Report (BSR)

Unless otherwise stated, any references in the recommendations to sections, pages and appendices relate to Version 1 of the Budget Setting Report (BSR).

<u>Background to the Amendment Motion</u>

Retained Business Rates

The latest Government guidance confirms that the accounting for Business Rates will move to an accruals, rather than a cash, basis from 2013/14. The effect of this is that 2013/14 will bear the impact of the large amount of outstanding appeals, whether they are settled in that year or not.

The overall position is currently projected to reflect additional net income (after the additional provision for appeals) for the Council of £130k in 2013/14, with £670k in 2015/16 and £800k from 2016/17.

This has the effect of requiring £670k of the £800k previously net amount anticipated for 2013/14 to be moved into 2014/15 (net nil effect over the two years). The BSR also proposed to use the £600k originally forecast for 2013/14 to increase direct revenue financing and re-phase the amount to 2014/15. As a result of this amendment this re-phasing will now be in the sum of £130k.

The revised figures are shown in the attached extract from Non-Cash Limits Appendix C(b).

Section 25 Report

This amendment sets out the proposal to include the attached draft Appendix N Section 25 Report (2014/15 Budget Process) - Robustness of Estimates and Adequacy of Reserves, within the Budget Setting Report. The Section 25 report is made under the Local Government Act 2003, which requires that the Chief Financial Officer reports to the authority, when it is making the statutory calculations required to determine its Council Tax or precept, on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves.

The Section 25 report will be finalised in light of any amendments approved at the meeting of Strategy and Resources Scrutiny Committee on 7 February 2014.

Recommendation

Council is recommended to approve the amendments outlined above, namely:

Local Retention of Business Rates:

(a) Approve establishing an earmarked reserve for retained business rates in order to manage the accounting implications of the Government's Business Rates Retention scheme

(b) Approve the revised figures as shown in the attached extract from Non-Cash Limits Appendix C(b)

(c) Replace the section on "Local Retention of Business Rates" [pages 20-21 refer] with the attached text.

Other:

(d) Include draft Section 25 report as Appendix N to the BSR.

BSR Updated Version:

Version 1 of the BSR, available on the Council's website, will be updated to reflect the changes identified above. The key appendices which will be updated are attached:

C(b) Non-Cash Limit Items (changes relating to retained business rates)
N Section 25 report

Local Retention of Business Rates

As noted above, the Settlement Funding Assessment (SFA) approach enables local authorities and fire and rescue authorities, collectively, to benefit directly from supporting local business growth. This is based on an initial calculation by Government of a 2013/14 funding level for each authority with the level of business rates receivable above that being taken by Government as a 'tariff' – which will be used to 'top-up' local authorities who would receive less than their funding level. Government intends that this will be fixed for 7 years (i.e. until 2020).

The new scheme then effectively allows local authorities to keep 50% of the growth in business rates income. To make the rewards of growth more proportionate, where local authorities have greater business rates income than their funding level, the government will take some of their business rates growth as a 'levy'. The levy is calculated for each individual local authority and is based on their original business rates income and their funding level. It is designed so that a 1% increase in business rates income will provide no more than a 1% increase in funding, except where this would impose a levy rate of more than 50p in the pound. In these cases the levy will be set so the authority keeps at least 50p in each pound of growth in its business rate income. This means that, even after the government's 50% central share, at least 25p in each extra pound of business rates generated locally, will be retained locally. The funding available from 'levies' will be used to protect authorities that see their business rates income drop by more than 7.5%, for example, as a result of a big local business in their local area closing.

One of the challenges faced by all authorities is effectively predicting the level of movement in the business rate taxbase. This is dependent on accurately forecasting the timing and incidences of new properties, demolitions and significant refurbishments – together with the consequent effect on valuations. This is further complicated by the need to assess the level of appeals that will be lodged successfully against new / revised valuations, together with their timing (for example, around £4m of the taxbase is still the subject of appeals from the 2010 valuation list).

For the City, the level of growth in the business rates taxbase during 2013/14 has been unusually significant, and has exceeded initial expectation. This has included changes affecting:

- Microsoft Research Office, Station Road

- Botanic House, Hills Road
- Travelodge, Newmarket Road
- New Lion Yard units
- City Centre retail refurbishments

The latest Government guidance confirms that the accounting for Business Rates will move to an accruals, rather than a cash, basis from 2013/14. The effect of this is that 2013/14 will bear the impact of the large amount of outstanding appeals, whether they are settled in that year or not.

The overall position is currently projected to reflect additional net income (after the additional provision for appeals) for the Council of £130k in 2013/14, with £670k in 2015/16 and £800k from 2016/17. This has been included as a Non-Cash Limit item in the sections below.

It is important that the Council has a reasonable degree of certainty about at least the medium-term continuity of any additional income stream from retention of business rates if it is to be used to support ongoing expenditure.

It should be noted that this new scheme is still in its first year of operation, and authorities are still awaiting guidance on some of the practical aspects of the operation of the scheme and arrangements for forecasting for future years. The position should be clearer by May 2014 when returns covering the final position for 2013/14 are due to be submitted to Government.

Given the continued uncertainty about the operation of the scheme going forward, and the ability to accurately forecast any future growth, the BSR is based on known and predicted levels of growth in 2014/15 and future years. The accuracy of this process obviously diminishes for periods further into the future. This will be reviewed in the September 2014 MFR, as further information becomes available.

2014/15 Budget - Non-Cash Limit Items

Reference	Item Description	2013/14 Budget £	2014/15 Budget £	2015/16 Budget £	2016/17 Budget £	2017/18 Budget £	Contact	Climate Effect Rating
Non-Cash Limit Items								
Non-Committee Items								
NCL3489	**Growth element of retained Business Rates**	(130,000)	(670,000)	(800,000)	(800,000)	(800,000)	Charity Main	Nil
Anticipated growth in retained business rates as part of Local Government Financing reform								
NCL3497	**Re-phasing of DRF for 2013/14**	130,000	(130,000)	0	0	0	David Horspool	Nil
Additional investment in commercial property portfolio [funded from part of the Growth element of retained Business Rates]. [Linked to C3485, NCL3488, NCL3496].								
Total Non-Cash Limit Items in Non-Committee Items		**0**	**(800,000)**	**(800,000)**	**(800,000)**	**(800,000)**		

Appendix N

Section 25 Report (2014/15 Budget Process)

Robustness of Estimates and Adequacy of Reserves

Background

Section 25(1) of the Local Government Act 2003 requires that the Chief Financial Officer (CFO) must report to the Council, when it is making the statutory calculations required to determine its Council Tax or precept, on the following:

- the robustness of the estimates made for the purposes of the calculations, and
- the adequacy of the proposed financial reserves

Section 25(2) of the Act requires the Council to have regard to this report in approving the Budget and Council Tax.

The majority of the material required to meet the requirements of the Act has been built into the key reports prepared throughout the corporate planning and budget cycle, in particular :

- The Mid-Year Financial Review (MFR) [September 2013]
- The Revised Budgets, as part of the January 2014 cycle of meetings
- The main budget reports to the January 2014 cycle of meetings
- The Budget-Setting Report (BSR) to Strategy and Resources Scrutiny Committee on 20 January 2014, which forms the basis for the subsequent decisions by the Executive (23 January 2014), Strategy and Resources Scrutiny Committee (7 February 2014) and Council (27 February 2014).

This reflects the fact that the requirements of the Act incorporate issues which the Council has, for many years, adopted as key principles in its financial strategy and planning; and which have therefore been incorporated in the key elements of the corporate decision-making cycle.

This also reflects the work in terms of risk assessment, and management, which is built into all of the key aspects of the Council's work, together with the sensitivity analysis for key activity areas and the analysis of significant events.

This approach governs the work that is undertaken in developing spending plans and financial strategies for both the General Fund and Housing Revenue Account.

The integration of the Council's risk framework with the main corporate planning and decision-making cycle, is based on the identification of key stages during the year designed to match the major documents which underpin the cycle.

It is also important to note that these considerations are assessed by the Council within a medium and longer-term framework, which is ensured through supporting financial modeling conducted over :

For the …	Period	Purpose / Use
MFR & Budget	5 years	Detailed budget & Council Tax setting
Longer-term projections	25+ years	Demonstrate long-term effects & thus sustainability

The new Housing Revenue Account (HRA) Business Plan, which has been developed to support the introduction of Self-Financing of the HRA from 1 April 2012, covers a period of 30 years.

This approach is of particular importance during periods of significant change, for example as a result of economic volatility or the medium and long-term consequences of the Growth agenda.

Figures are generally shown within reports covering the 5-year medium-term forecast period, with any significant longer-term implications specifically highlighted.

Robustness of Estimates

Approach

Each year, as part of the development of the budget, analysis is undertaken of the key financial assumptions on which the budget will be based. An overview of this work has been included in the MFR and the BSR.

The key areas covered included :

- Economic factors, such as inflation
- Treasury Management, including interest rates
- Demographic pressures on spending
- Other spending pressures & opportunities (revenue and capital)
- External funding sources
- Earmarked Funds
- Asset Management
- Reserves

Process Review and Assurance

In December 2012 Council officers identified errors in the budget forecasts contained within the September 2012 Medium Term Strategy (MTS), which understated the Council's spending requirements. As a result, the process and key systems which underpin the budgeting and forecasting process were reviewed by both Council officers and the Council's external auditors, Ernst & Young.

The reviews provided assurance with regard to the process followed to produce revised estimates, and established an action plan to further strengthen the Council's control processes for the future. These actions have been implemented, and Internal Audit have reviewed the process adopted for the 2014/15 Budget to provide additional assurance.

Government Grant

The aspect of the General Fund which has, for a number of years, required the greatest attention during the annual budget process has been government grant support.

Core Government Funding

The 2013 Spending Round announcement together with the Finance Settlement consultation document, published on 25 July 2013, gave the first indications of the likely core funding levels for 2014/15 and 2015/16 at a local authority level. However, there was no real clarity about the likely levels for future years.

Start-Up Funding Assessment

The exemplifications included with the consultation suggested that the core grant funding which the Council will receive in respect of 2014/15 will be around £86,360 less than the level that had been forecast in the February 2013 Budget-Setting Report (BSR).

In the BSR the Council had included initial assumptions of 2.3% grant reductions in both 2015/16 and 2016/17. The exemplifications provided with the recent consultation indicate a reduction equivalent to 14.78% for 2015/16. This implied a further reduction in core grant of £1,010,700 compared with the projection included in the BSR.

When including the effects of revised projections for other aspects of the overall Settlement Funding Assessment (SFA), the effects on the projections included in the February 2013 BSR are shown in the table below:

Core Government Funding	2014/15 £	2015/16 £
Total Settlement Funding Assessment (SFA) - per Feb 2013 BSR	8,198,630	8,010,060
Total SFA – per consultation exemplification	8,112,270	6,913,000
(Reduction) in funding	**(86,360)**	**(1,097,060)**
Additional ongoing Savings pressure implied in year	**86,360**	**1,010,700**

The Provisional Local Government Settlement was announced on Wednesday 18 December 2013, marking the start of a four week consultation period which will end on 15 January 2014. The Final Settlement is expected to be announced in early February 2014.

The Government changed the way in which local government is funded from 2013/14 with the introduction of a business rates retention scheme. This replaced the Formula Grant system with an initial Start-Up Funding Assessment for each authority. The new arrangements enable local authorities and fire and rescue authorities, collectively, to benefit directly from supporting local business growth as they will be able to keep half of any increases in business rates revenue to invest in local services.

Under the Governments new funding regime the opportunity is provided for authorities to agree to come together to form a 'Pool' in order to further incentivise them to drive economic growth. By forming a pool, member authorities could mitigate some of the risk associated with adverse impacts on their growth in Business Rate and allow them to reduce the levy on growth that is returned to Central Government, allowing the local areas to retain a greater share of Business Rates income than would have been the case without a pooling arrangement.

Whilst a Cambridgeshire pool for 2013/14 or 2014/15 was not felt to be viable, the partners still believe that the concept has value and will reconsider the potential for future years based on data and any scheme changes applicable at the appropriate times.

The 2013/14 Local Government Finance Settlement provided each local authority with its starting position under the new business rates retention scheme. A number of key calculations for each authority in relation to business rate retention will be fixed until the first 'reset' that the Government intends will not take place until 2020.

The 2014/15 local government finance settlement provides local authorities with information on how much Revenue Support Grant they have been allocated for 2014/15 as well as provisional allocations for 2015/16.

Revenue Spending Power

The Provisional Settlement again employs the Government's definition of revenue spending power in identifying the scale of year-on-year changes. For district councils, such as the City, this is defined, for 2014/15, as:

- Council Tax yield

- Government's Settlement funding assessment for 2014/15, and
- Specific grants for 2014/15 (most importantly including New Homes Bonus)

As part of the Provisional Settlement announcement the Government has determined the Council's spending power for 2014/15 to be as follows:

Element of revenue spending power	2013/14 Base £000s	2014/15 £000s	Adjusted 2014/15 £000s	2015/16 £000s
Council Tax income	6,394	6,442	6,442	6,490
Settlement Funding Assessment	9,341	8,114	8,114	6,901
Community Right to Challenge Grant	9	9	9	0
Community Right to Bid Grant	8	8	8	0
2014/15 Council Tax Freeze Grant (indicative)	0	70	70	70
2015/16 Council Tax Freeze Grant (indicative)	0	0	0	70
New Homes Bonus (NHB) Grant	2,085	3,376	3,376	4,667
NHB – Returned Funding	32	13	13	33
Local Council Tax Support HB Admin Subsidy	0	632	0	0
Housing Benefit Subsidy Admin	653	0	0	0
CT Support New Burdens Fund	58	77	77	0
Business Rates Cap Grant	0	40	40	40
Spending Power	**18,579**	**18,781**	**18,149**	**18,272**
Increase from prior year		***202***		***123***
		1.1%		*0.7%*

On the face of it, this suggests that the City Council will see an increase of 1.1% between 2013/14 and 2014/15 (this compares to the national overall reduction in spending power, announced by the Minister, of 2.9%). The Government projections are based on assumed Council Tax yields and that NHB entitlement for 2015/16 will simply be the same as in the previous year, and also assumes that Council Tax levels are frozen (hence that Freeze Grant will be payable).

However this disguises the fact that:

- The level of Settlement Funding Assessment is reduced by some 13.14% from 2013/14 to 2014/15.
- The notion of revenue spending power effectively assumes that all new NHB income from 2014/15 onwards is available to fund standard spending by local authorities.

In comparing the level of government support, as part of the announcement, with the assumptions made as part of the September 2013 MFR, a number of adjustments need to be made to the figures to ensure direct comparability. These are shown in the table below:

Core Government Funding	2014/15 £	2015/16 £
Provisional Settlement		
Settlement Funding Assessment	8,114,164	6,901,323
September 2013 MFR		
Comparable provision for Core Government Funding	8,112,270	6,913,000
Difference above / (below) MFR assumption	1,894	(11,677)
	0.02%	(0.17%)

Although the level of Government support for 2014/15 is very close to that assumed in the MFR, the level of support for 2014/15 is some £1,226,964 (13.1%) below the 2013/14 level. The Council will need to decide whether, and to what degree, it is prepared to use NHB to support existing revenue spending and this is dealt with in the New Homes Bonus section below.

The potential for further significant changes to the system of central government support constitutes a material risk for the Council, particularly with the new Spending Review period starting from 2015/16, and this has been reflected in the approach to Reserves.

Future Government Funding Prospects

2016/17 and Future Years

Previous Government announcements had not given any clear indications on the likely levels of core funding in 2016/17 and subsequent years, and the February 2013 BSR had assumed a cash standstill position.

In order to plan effectively over the medium and longer-term the Council needs to determine whether this remains a sound basis for projections in the context of the latest Government announcements and the overall economic position. This is particularly important given the lead times associated with the more fundamental type of changes to services and their delivery which the Council will need to employ going forward.

Although there are some early positive signs of recovery within the economy as a whole, the rebalancing exercise that the Government had committed to is still struggling to remain on track. The implications of this are that it would appear highly likely that there will be continued pressure on core funding for local authorities throughout the period of the next Parliament, with little scope for change to public spending plans relating to District Councils whatever the outcome of the next General Election.

Modelling has, therefore, been undertaken which can analyse a number of high-level scenarios. The basis that has been used for the projections in the October 2013 MFR document assumes that:

- the level of the SFA continues to reduce at a rate similar to that over the last two years until such time as all of the Revenue Support Grant (RSG) element has been removed (effectively a 13% reduction on SFA in each of the 4 years from 2016/17
- this is the limit of the ability to reduce Government support under the current funding mechanism
- There is no net increase in entitlement through locally retained share of Business Rates

It does not allow for the potential for a new funding mechanism to be introduced once local authorities reach a point where their RSG is zero, although this may be considered by Government at some point in the future.

This is illustrated in the table below:

Portfolio	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
SFA per Feb 2013 BSR	7,825,830	7,825,830	7,825,830	7,825,830	7,825,830
Revised SFA projection	6,014,300	5,232,400	4,552,200	3,962,000	3,962,000
Increase / (Reduction) in funding	**(1,811,530)**	**(2,593,430)**	**(3,273,630)**	**(3,863,830)**	**(3,863,830)**
Additional ongoing Savings pressure implied in year	**714,470**	**781,900**	**680,200**	**590,200**	**0**

This shows that the Council would face significant increases in the Net Savings Requirement pressures over the 4 year period, before returning to the previously projected levels from 2020/21 once RSG entitlement reaches zero.

The factors outlined above highlight the degree of uncertainty that still exists with regard to the level of future Government support. It is intended that further reviews will be included as part of future MFR and BSR documents, particularly once details of the new Spending Review become available.

Local Retention of Business Rates

As noted above, the Settlement Funding Assessment (SFA) approach enables local authorities and fire and rescue authorities, collectively, to benefit directly from supporting local business growth. This is based on an initial calculation by Government of a 2013/14 funding level for each authority with the level of business rates receivable above that being taken by Government as a 'tariff' – which will be used to 'top-up' local authorities who would receive less than their funding level. Government intends that this will be fixed for 7 years (i.e. until 2020).

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It should be noted that this new scheme is still in its first year of operation, and authorities are still awaiting guidance on some of the practical aspects of the operation of the scheme and arrangements for forecasting for future years. The position should be clearer by May 2014 when returns covering the final position for 2013/14 are due to be submitted to Government.

Given the continued uncertainty about the operation of the scheme going forward, and the ability to accurately forecast any future growth, the BSR is based on known and predicted levels of growth in 2014/15 and future years. The accuracy of this process obviously diminishes for periods further into the future. This will be reviewed in the September 2014 MFR, as further information becomes available.

Other Government Grants

In addition to Formula Grant the Council still receives a number of other revenue grants from central government although these are reduced in number following incorporation of a number of them into core funding. In terms of financial projections, the most significant of these other grants is New Homes Bonus.

New Homes Bonus

The New Homes Bonus (NHB) was launched in 2010 as a non ringfenced payment (via a Section 31 grant) to all local authorities based on the number of new homes added each year within its area. The eligible amount is then paid for each of a period of 6 years. Between 2011/12 and 2013/14 this has resulted in payments totalling some £1.3b being made to local authorities.

The NHB scheme when originally announced was projected to run up to and including 2014/15. There had been indications of the intention of Ministers to continue NHB in some form from 2015/16, but without any details being published.

As part of the Spending Round 2013 announcement the Treasury published a document entitled ‘Investing in Britain’s Future’ which identified that part of the NHB funding would be added to a new Single Local Growth Fund (SLGF) which Local Enterprise Partnerships (LEPs) would be able to bid for. This included the proposal that NHB would continue to be allocated from 2015/16 on its current basis, i.e. for increases in effective housing stock.

The document, and subsequent detail as part of the Government's consultation package, confirmed the intention to 'pool' £400m nationally within LEP areas to support strategic, locally-led economic growth priorities, including housing. It stated that the pooling would remain within LEP areas in order to reassure authorities that the resources would be used for local housing and growth priorities. One of the claimed benefits of this new approach was to give authorities an indirect financial stake in new housing built near but outside their own boundary – seeking to address the claim that there has been no mitigation for developments which result in pressures on neighbouring authorities.

Subsequently, as part of the 2013 Autumn Statement, Government announced that there will not be a requirement to pool to the LEPs in the formal outcome of the consultation - except for London. However, there is to be a further review / evaluation of NHB to report for Easter 2014. This will include consideration of further incentivisation measures – the stated example of areas for consideration being withholding payment of NHB where planning approvals are made on appeal.

Forward projections of NHB entitlement are as follows:

	2012/13 £	**2013/14 £**	**2014/15 £**	**2015/16 £**
2011/12 allocation (Housing Completions & Empty Homes)	(786,646)	(786,646)	(786,646)	(786,646)
2012/13 allocation	(734,898)	(734,898)	(734,898)	(734,898)
2013/14 allocation		(563,739)	(563,739)	(563,739)
Confirmed New Homes Bonus Funding at February 2013 BSR	**(1,521,544)**	**(2,085,283)**	**(2,085,283)**	**(2,085,283)**
add				
Provisional NHB Receipts in respect of 2014/15			(1,290,690)	(1,290,690)
Potential New Homes Bonus Total	**(1,521,544)**	**(2,085,283)**	**(3,375,976)**	**(3,375,976)**

Given the uncertainty about the continuation of this scheme in the longer-term the Council has adopted a prudent approach by putting the funding received into an earmarked fund so that its use can be effectively considered in terms of fixed-period funding requirements. The section on earmarked funds below contains further detail on the planned use of these funds.

The approach to the use of these earmarked funds, together with specific bids as part of the BSR is detailed later in Section 4 and Appendix H.

Council Tax Thresholds

Under the Localism Act, local authorities are required to hold a local referendum if they propose to increase Council Tax above the relevant limit set by the Secretary of State.

Unlike previous years, the provisional settlement announcement did not contain the Council Tax referendum thresholds for 2014/15, and suggests that there will not be an announcement on this until sometime in January 2014. The Autumn Statement noted that Local Government is to be exempted from the further departmental spending cuts for 2014/15 and 2015/16 directly linked to the comment that this is "because we [the Government] expect them to freeze council tax".

At this stage the BSR is based on the continued assumption that the threshold will be set for increases over 2% (the same as in 2013/14, and 1.5% less than the level in 2012/13). This will be reviewed when the threshold is finally announced.

If the Council were to propose to implement an increase in Council Tax above the threshold (i.e. designated as excessive) then it would also be required to prepare 'substitute calculations' (effectively a shadow budget) which would result in a non-excessive increase. It would then be required to hold a referendum of all registered local electors on the first Thursday in May. In practice, the Council (as the relevant billing authority) would be required to organise and administer the referendum. The cost of holding the referendum would be recovered from the authority, or authorities, whose proposed precept generated the need for a referendum.

If a proposed increase in Council tax were rejected at referendum the authority would have to immediately adopt the shadow budget. The billing authority (i.e. the City Council) would then either issue new bills immediately, offer refunds at the year-end or carry forward credits to the following year, subject to a right for Council Tax payers to request a refund on demand. Such a scenario would be likely to have a significant effect upon normal tax collection arrangements and also for the local Council Tax Support Scheme.

The overall effect of the referendum requirements is such that a local authority would need to have reasonable expectation of public support for a level of Council Tax increase deemed to be excessive compared to the threshold, if acting in a prudent manner.

The BSR contains the recommendation for a 2.0% increase in Council tax for 2014/15 over the level for 2013/14. This will be reviewed in light of the Referenda Threshold guidance, once published by Government, in coming to a final recommendation.

Spending Reviews

The adoption by Governments in recent years of a process of periodic Spending Reviews has provided key contextual information to support the forward financial planning process.

This was expected to confer improvements in financial information available to the Council, which would serve to further reduce the level of residual risk associated with the key question of the level of support from Government.

These Reviews were initially intended to provide indications of support covering 3-year period, however Spending Review 2010 incorporated indications covering a 4-year period, and was followed by a Spending Round announcement in 2013 which only covered a 2-year period – reflecting the timing of the next general Election.

The current Spending Round period finishes at the end of 2015/16. Despite a slight easing of economic pressures nationally it is anticipated that it will continue to reflect increased financial pressures on local government. The BSR reflects the Council's move to start to provide for this with anticipated grant reductions from 2016/17, however, the publication of the next Spending Review by Government will be a key point for reviewing the Council's funding and spending plans.

Control Totals Within the Budget Process

The budget process specifically identifies and controls the requirements for the delivery of savings from all areas of spending, managed through a Cash Limit approach. The Cash Limit process allows the inclusion of (specifically identified, and justified) unavoidable bids, and bids where the additional funding requirement can be met through additional compensating savings.

Further bids for service development are determined centrally by the Executive, and prioritised against the requirements in delivering the Council's Vision Statements. This includes the specific test of affordability and sustainability of the overall level of funding for this Priority Policy Fund (PPF), which is clearly shown within the final decision-making framework adopted in the BSR.

The level of funding which is deemed affordable within the initial MFR projections (in this case in September 2013) is reviewed in light of updated information in the final Budget-Setting Report to Strategy Scrutiny Committee in the January cycle of meetings.

The September 2013 MFR identified a target level of ongoing funding for PPF Bids for 2014/15 of £300k per annum (reduced from £500k p.a. in 2013/14). In reviewing this proposal as part of the BSR the level of funding was reduced from £300k per annum to £100k in both 2013/14 and future years. This was part of the response to the profile of continuing financial pressures, and associated Net Savings Requirements.

The retention of the PPF mechanism, albeit at a lower level, reflects the fact that it continues to provide an important means of moving resources to the areas of greatest need whilst also retaining the flexibility to reflect the Council's overall financial position.

Capital Spending and Controls

Approval of new capital spending is dependent on the identification of the appropriate levels of revenue and capital funding, thus demonstrating its affordability. If this cannot be achieved, the schemes may be approved in principle and added to the Council's capital Hold List until such time as the funding is identified and approved.

The Council has for many years adopted the policy of providing revenue support for funding of the Capital and Revenue Projects Plan through base annual contributions of £1.38m. Given the context of current financial pressures faced by the Council, with significant reductions in revenue support from Government, it is recommended that the level of base contribution be reduced by £500k with effect from 2014/15. In light of the level of uncommitted funding available for the Plan, as confirmed in the September 2013 MFR, this change will not require any re-financing or reduction to existing approvals contained within the Plan. The remaining level of base funding will be reviewed as part of the 2015/16 Budget process to determine affordability.

Capital spending during the year is monitored on a monthly basis by the Asset Management Group, and on a quarterly basis by the Strategic Leadership Team; based on a consistent financial monitoring and reporting framework. This ensures that current performance is effectively challenged, and the need for any remedial measures identified at the earliest opportunity.

The review of the progress with the delivery of the approved Capital and Revenue Projects Plan for 2013/14 has identified a significant level of variation anticipated for year end; despite actions taken in the MTS to improve the deliverability of the Plan as scheduled. If the re-phasing requests are approved this will result in a higher level of closing Reserves at the end of 2013/14 by some £2.308m, which will be used as DRF in 2014/15 to fund the re-phased spending.

Whilst the BSR deals with the proposed re-phasing, it also identifies key reasons for the significant elements of the variations in order to enable consideration to be given to additional actions to improve delivery in future years.

The review of capital provides the context for considering the affordability of the capital bids which have been submitted as part of the 2014/15 budget process, as shown below:

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Funding available and unapplied (per Sept 2013 MFR)	**(330)**	**(646)**	**(544)**	**(1,062)**	**(1,380)**
Adjusted for:					
Reduction in Direct Revenue Funding (DRF)	0	500	500	500	500
Changes in use of New Homes Bonus to support capital spending	0	0	(140)	0	0
Sub-total	**(330)**	**(146)**	**(184)**	**(562)**	**(880)**
Net Capital bids	101	129	140	0	0
Sub-total	**(229)**	**(17)**	**(44)**	**(562)**	**(880)**
Re-profiling of revenue funding to actual capital spend	229	(229)	0	0	0
Net Capital Funding Availability (Surplus) / Shortfall	**0**	**(246)**	**(44)**	**(562)**	**(880)**

This demonstrates that the funding available is sufficient to allow all of the bids to be approved if they are deemed to be appropriate and necessary.

The existing test of affordability for capital spending was reinforced by the introduction of the Prudential Code, with effect from 1 April 2004. The indicators identified as part of the Code have been included with the final budget reports, and have been taken into account in arriving at the final recommendations on the Capital Plan.

The BSR specifically considers the potential need for future prudential borrowing. This includes the requirement for Housing Revenue Account borrowing associated with the introduction of the new Self-Financing regime, together with new projected schemes. It also identifies the potential requirement to borrow to support the provision of multi-agency community facilities as part of the Clay Farm Development.

The Council continues to require annual revenue contributions to Repair and Renewal Funds to ensure the sustainability of all major assets, and has implemented medium-term replacement programmes for key asset areas. It has undertaken an exercise to review the adequacy of the coverage and level of such provisions, and the outcome of this has been reflected in the BSR with the required changes to balances and annual contributions being included in the Budget and forward projections. Further work is to be undertaken to identify the actual spending requirements associated with the 20-year plans that have been developed for each fund, so that the overall cashflow can be reviewed in the context of funding available; and appropriate decisions made on how balances are held most appropriately held. This will be reported back as part of the September 2014 MFR.

Financial Reserves

Reserves are established and maintained in line with the Code of Practice on Local Authority Accounting, and are reviewed annually by the Council's External Auditors taking into account their knowledge of the Council's performance over a period of time.

There are two main categories of reserves to be considered :

- Earmarked reserves
- Unallocated general reserves.

Earmarked Reserves

Earmarked reserves are those which the Council builds up over a period of time to fund known or predicted liabilities.

Specific examples include :

- Repair & Renewal Funds - individual Funds have been established to cover key items of vehicle and plant, in line with the Council's policy of ensuring sustainability of services. New Funds, or contribution requirements, are assessed as part of any new project appraisal
- Developer Contributions – negotiated under Section 106 of the Town and Country Planning Act 1990, to offset the costs associated with new developments, for example community infrastructure
- Funds set up to meet material costs which occur regularly, but over a longer period than annually, where it is deemed prudent to make contributions every financial year, e.g. Local Plan
- Insurance Fund - which underpins the Council's policy and practice on self-insurance, and reflects the analysis of potential and contingent claims over time.

The Council reviews each of the Funds during each year to ensure that the levels, and the ongoing contributions, are appropriate to achieve the purpose for which it was set-up. A further review is completed as part of the final accounts process, at year-end, in conjunction with the review work of external audit.

Earmarked Funds are reviewed as part of the General Fund Resources section in the BSR (Section 3 in the February 2014 BSR), together with proposed spending against a number of the main funds. This ensures an appropriate context for wider spending decisions and prioritisation. This BSR has recommended the closure of the Fixed-Term Post Fund following review, and this is built into the financial projections.

Unallocated General Reserves

As part of its financial strategy the Council has determined two levels by which the appropriateness of the general reserve for the General Fund will be assessed:

- Minimum Level - set at £2.5m (approximately 15% of the net expenditure level), to deal with timing issues and uneven cashflows and avoid unnecessary temporary borrowing
- Target Level - set at £5m, reflecting the level which provides the target over the medium to longer-term.

The February 2013 BSR concluded that the implications of the new local Council Tax Support Scheme and the new government funding mechanism for local authorities effectively served to move material elements of financial risk associated with each of these areas from central to local government. As a result, the Council agreed to increase the Minimum Reserves level from £1.5m to £2.5m with effect from 1 April 2013 (when the two schemes applied). It was not felt necessary to change the Target level (set at £5m).

The reserves projections are based on the expectation that the Council will be able to achieve the Net Savings Requirements identified in each of the years from 2015/16, as detailed below.

The key elements which are considered in setting the Target level have been :

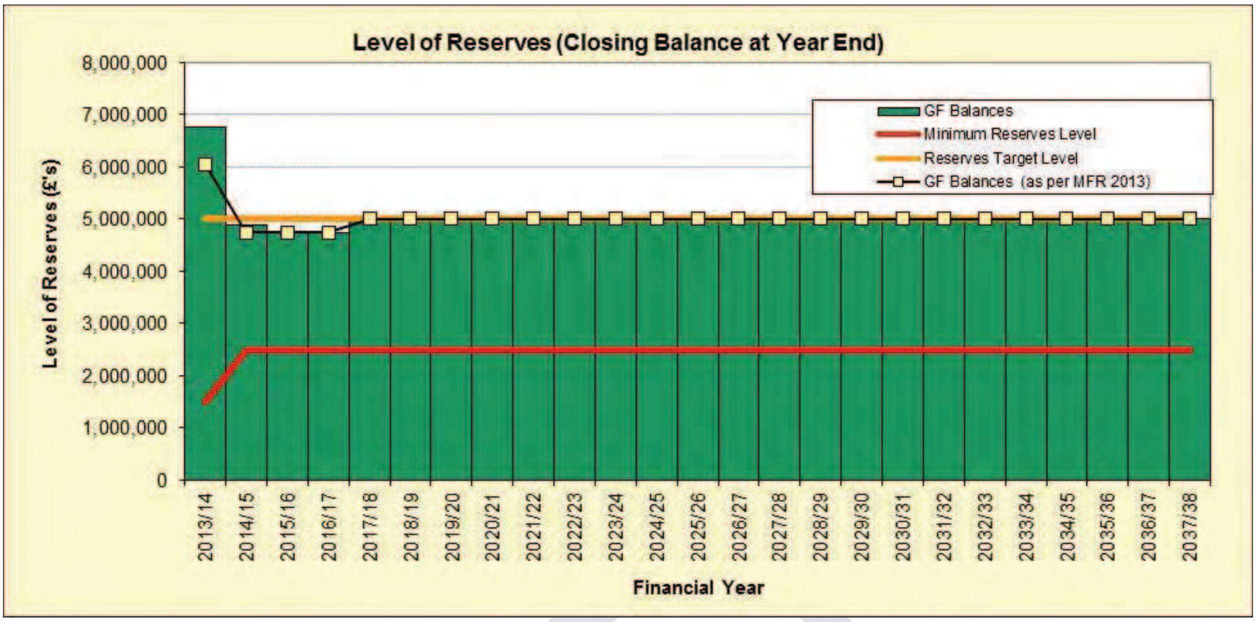
- The potential need to 'cushion' the impact of an unexpected events or emergencies (above the levels supported directly by the government, under the 'Bellwin' scheme).
- The need to deal with major incidences of uneven funding associated with schemes or initiatives. Previous examples include the initial investment requirements associated with projects such as the implementation of the outcomes of the Council's Customer Access Strategy.
- The level of risk / uncertainty associated with the budget and financial strategy, particularly the continuing uncertainty over grant entitlement and the effects of the current economic recession.

Where temporary use of reserves is approved to meet timing issues, the decision will be based on a specific payback period and this will be explicitly shown in the Reserves Projections (shown in MTS / MFR and BSR documents) so that anticipated movements on the level of reserves are clear. The maintenance of sufficient reserves to be able to pump-prime 'Invest-to-Save' schemes in the future is part of the Council's approach to being confident in meeting the significant net savings targets identified for future years.

The September 2013 MFR recommended that the level of Reserves set for the end of 2015/16 and the following year be increased from the level of £3,975,160 (as set in the February 2013 BSR) to £4,742,400. Reserves would then be returned to the Target level of £5m from the end of 2017/18, and that it is maintained at that level, in line with the original BSR plan.

This BSR retains the approach to setting the level of Reserves being sought over the medium-term which was approved as part of the MFR.

The projection through to 2037/38 is shown graphically below, compared with the projections contained within the September 2012 MTS:



This shows that the overall effect of the measures recommended in the BSR has:

- Retained the commitment in the September 2013 MFR to increase the planned return towards the medium-term Target level of £5m.
- Continued to deliver Reserves levels in line with Target over the medium and long-term.

A similar approach has been adopted in respect of the Housing Revenue Account (HRA), which has identified :

- Minimum Level - set at £2m (approximately 3.8 weeks of rental income), to deal with timing issues and uneven cashflows and avoid unnecessary temporary borrowing
- Target Level - set at £3m, reflecting the level which provides the target over the longer-term.

Risk Management

The Council has a long-established commitment to risk management, as a key element of effective internal control. This includes the operation of a corporate risk database, which forms the basis for the Risk and Assurance Framework which, in turn, informs the Annual Governance Statement and Head of Internal Audit Opinion documents as part of each Statements of Accounts. The database also informs the strategic internal audit plan, ensuring that all cross-cutting, project and service issues are effectively prioritised for coverage.

As part of the budget process, areas of uncertainty are identified in the summer / autumn each year as part of the MTS, and are then reviewed and updated throughout the process to identify the level of residual risk at the point of budget-setting.

The main issues which remain outstanding at the point of budget-setting this year are detailed in Section 7 of the BSR.

In addition, an assessment of the key areas of financial risk to the Council has been undertaken and the results are included in Appendix Q, in the form of a sensitivity analysis. This is a particularly important consideration for the current budget process, in light of the continuing volatility within the projections for the economy and changes in funding.

This analysis is supplemented by a review of the timing and nature of 'Significant Events' over the MTS period, which has been detailed in Appendix R of the BSR.

A further review of these areas, and the others still unresolved, will take place as part of the next (2014) MFR.

The Council's financial strategy also supports the provision of funding for known commitments, which commence beyond the specific budget year, as part of the prudence and sustainability concept.

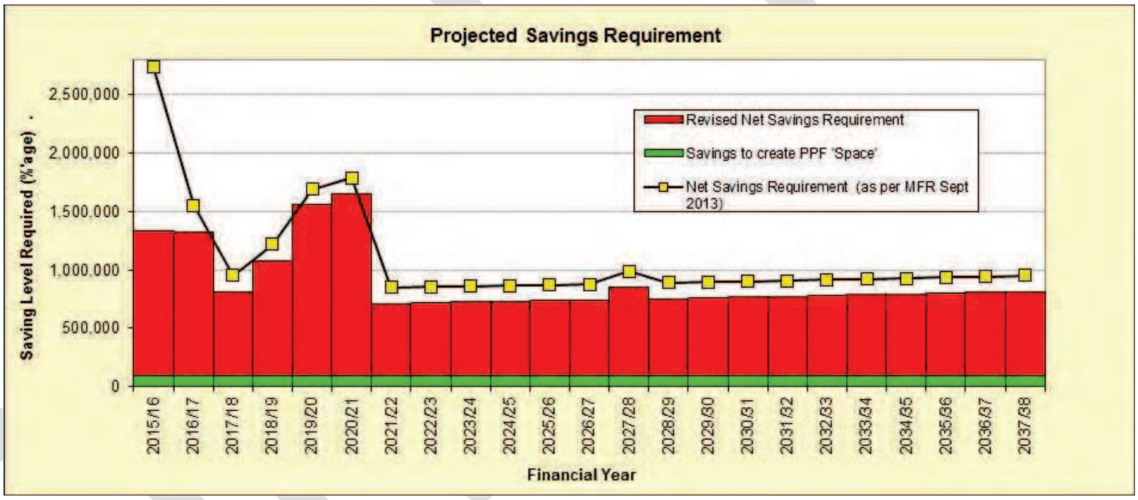
Period Budgeting

Part of the Council's established financial strategy is to ensure that funding for future spending is not dependent on the use of reserves, so as to demonstrate long-term sustainability. This is reflected in the basis for the calculation of the net savings requirements for 2015/16 and future years. This includes, as necessary, additional net savings in order to return the level of general reserves to the Target level over the medium-term.

The BSR identifies the need for an ongoing net savings target totalling £4.545m across the period from 2015/16 to 2018/19, compared with a total of £6.459m for the same period as projected in the original MFR

The net savings requirement for the next budget year (2015/16) of £1,329,370 has been significantly reduced from the level anticipated in the September 2013 MFR (£2,739,220), reflecting the aim to reduce this peak requirement.

For the longer-term, this resulted in a e profile of savings provides a reasonable timescale for developing further Service Review proposals, as outlined in the Future Savings Strategy section, to deal with the significant net savings requirement levels in the following two years in an informed manner.



The increased level of net savings requirement in 2020/21 relates to the assumption of the end of NHB grant receipts, leaving Growth-related posts costs of £785,380 unfunded. At that point, if the NHB scheme is not continued, decisions would need to be made with regard to the ongoing requirement for these posts.

The contribution of Service Reviews to the overall level of savings reflected in the BSR has been significant (ranging from 67% of the net savings requirement in 2014/15, rising to 1.5 times that level by 2015/16).

This serves to confirm the significant role of the Service Review process, and the robustness of the projections included in the September 2013 MFR. This is particularly important as Service Reviews, will undoubtedly be a critical part of the Council's future savings strategy.

This also demonstrates the success in adopting a period-budgeting approach in recent years, and this focus on medium-term budgeting will be further developed and emphasized as part of the Council's budget processes.

Future Savings Strategy

The Leader's introduction to the September 2013 MFR outlined the impact on the council that reducing resources were likely to have and how these would be tackled. This confirmed that service and budget reviews would continue during 2015-18 to identify savings for future years. Those items already identified for review which are not built into this year's budget are outlined in Section 7 of the BSR.

A key element of both the MFR and BSR is consideration of the achievability of the reductions in net spending which are required to produce a balanced budget. As noted above, a key element in this analysis has been the robustness and outcomes delivered through the Council's Service Review process. This has demonstrated a strong track-record in delivering targeted reductions in recent years.

The Council's budget includes provision, through the Efficiency Fund, of funding to enable service transformation to be undertaken. This provides greater assurance that the resources will be available to undertake the work needed to achieve the savings targets set.

This contributes to the confidence that the targeted levels of net spending reductions for future years can be met, and that suitable monitoring processes exist to highlight any variations in the actual timing or level of planned savings in practice so that remedial actions can be implemented.

Conclusion

The 2014/15 budget process has resulted in recommendations for spending and tax-setting which has met the additional challenges presented through the continued economic downturn, and net spending pressures.

This has involved the identification of tangible measures to effectively address the implications of the significant pressures on the Council's budgets. The medium and longer-term projections, and plans, have also confirmed that the future net savings requirements are set at an achievable level, whilst general reserves are returned to the target level over the medium term.

Integral to the process has been the testing of assumptions and associated risks underlying the financial projections, which have been determined in line with the adopted principles of prudency, affordability and sustainability.

The work contained within the BSR demonstrates the robust nature of the work on which the Council's spending plans are based, and that the plans and associated reserves projections represent a prudent and sustainable position.

This report is based on the budget proposals contained within the BSR, which are being recommended by the Executive to Council on 27 February 2014.

David Horspool

Director of Resources