

# REPORT TO CABINET

REPORT OF: STRATEGIC DIRECTOR – CORPORATE FOCUS

HEAD OF FINANCE

REPORT NO.: HOF 265

DATE: 3rd February 2014

<b>TITLE:</b>	<b>Determination of General Fund Budget 2014/15 and indicative budgets to 2016/17.</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Budget Framework Proposal	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Cllr Mike Taylor Resources and Assets Portfolio Holder	
<b>CONTACT OFFICER:</b>	Daren Turner – Strategic Director Corporate Focus Tel: 01476 406301 Email: <a href="mailto:d.turner@southkesteven.gov.uk">d.turner@southkesteven.gov.uk</a> Richard Wyles – Head of Finance Tel: 01476 406210 Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ASSESSMENT:</b>	Stage 1 Equality impact analysis and undertaken	Full impact assessment Required: N/A
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Local Democracy link on the Council’s website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	HOF262 – Budget Requirement 2014/15  The above reports can be located by putting their reference number in the search section of the committee website via the link below: <a href="http://moderngov.southkesteven.gov.uk/ieDocSearch.aspx?bcr=1">http://moderngov.southkesteven.gov.uk/ieDocSearch.aspx?bcr=1</a>	

## 1. RECOMMENDATIONS

In relation to the General Fund (Revenue)

Make recommendations a. to c. to Council:

- a. to set a General Fund budget requirement of £13.170M for 2014/15 shown at Appendix A (inclusive of special expenses)
- b. to approve a level of Council Tax for 2014/15
- c. to note the indicative base estimates for 2015/16 and 2016/17 as detailed in the summary at Appendix A.;

In relation to Capital Programme

Make recommendations d. to e. to Council:

- d. approve the General Fund Capital programme for 2014/15 to 2018/19 detailed at Appendix C page 1
- e. approve the Capital Financing statement detailed at Appendix C page 2

In relation to the Reserves and balances

Make recommendation f. to Council:

- f. To note the movements in Revenue and Capital reserves and balances detailed in Appendix D.

Treasury Management and prudential indicators

Make recommendation g to Council:

- g. to approve the Treasury Management Strategy provided at Appendix E;

## 2. PURPOSE OF THE REPORT/DECISION REQUIRED

- 2.1 The purpose of this report is to present to Cabinet:-
- 2.2 The Budget estimates for 2014/15, revenue and capital, the level of Council tax and the subsequent Treasury Management Strategy.
- 2.3 Members are asked to consider the contextual information presented and to recommend to Council approval of the Council's budget for 2014/15.

## 3. Background

- 3.1 At the meeting on 13<sup>th</sup> January 2014 Cabinet were presented with a detailed report regarding the 2014/15 budget requirement. The report included the following information:

- The setting of a provisional target for the General Fund for 2014/15
- The consultation being undertaken on the council tax setting proposals for 2014/15
- Details of the grant settlement the Council will receive for 2014/15 including specific grants
- Information on the changes introduced by the Government which have impacted on the council tax base setting and the grant funding arrangements

#### 4. **Budget Process - Estimates for 2014/15**

4.1 The budget has been compiled incorporating the key principles of the Council's Medium Term Financial Strategy (MTFS) and a balanced position has been achieved for 2014/15 against a backdrop of continuing reductions in Government funding. The principles approved by Council have assisted in achieving a budget that will continue to support the delivery of the Council's priorities. This will in turn continue the progress towards the 2021 vision as identified in the Corporate Plan.

The principles utilised are:

- Council tax level shall be set each financial year having regard to the prevailing conditions at that time (including availability of freeze grants and referendum levels)
- Resources and un-ring fenced grants will be allocated to fund the delivery of the priority outcomes that residents have said are important to them
- An annual review of fees and charges with inflationary increases having regard to the service contribution towards delivery of the priorities and reflecting market conditions prevailing at that time
- The monies received from New Homes Bonus shall be used to fund the delivery of Council priority projects and initiatives
- Reviewing business rate pooling arrangements for 2014/15 whilst ensuring that pooling remains beneficial to the Council
- Reviewing and updating, on an annual basis, the Efficiencies and Business transformation plan and monitor achieved savings

4.2 The budget assumptions used in compiling the 2014/15 estimates are set out below:

**Table 1**

<b>Inflation Factors</b>	<b>Assumption (%)</b>
Retail Price Index	3.2
Salary Inflation	1
National Business Rate	2.0
Utility Cost increase	5.0
Drainage Board Levies	Ranging from 0 – 2.0
Fuel costs	5.0
Interest Rates	1.0
Salary Vacancy Factor	3.0
Growth in numbers of Band D equivalent properties	0.7

- 4.3. Investment Income - the financial forecasts in respect of investment income over the next four years have been modelled on the following anticipated levels of interest rates (provided by the investment advisors):

**Table 2**

Financial Year	2014/15	2015/16	2016/17
Base Rate	0.5%	0.5%	1.25%
Money Market Rate (average mid-term point.)	0.8%	1.0%	2.0%

This information has been utilised to anticipate the potential levels of interest income the Council will receive for its investment of the reserve balances. This income will be shared between the General Fund and the Housing Revenue Account. Forecast interest due to the General fund is shown in table 3 below and in Appendix A. Further details of the Council's investment strategy are contained in Appendix E to this report

- 4.4 The General Fund budget proposes a net service expenditure of £15.038M for 2014/15 broken down by priority focus as follows:

**Table 3**

		Original base 2013/14 £'000	Estimated base 2014/15 £'000	Indicative base 2015/16 £'000	Indicative base 2016/17 £'000
1	Grow the Economy	1,410	1,091	1,019	839
2	Clean, Green and Healthy	6,080	5,845	5,800	5,730
3	Leisure, Arts and Culture	2,962	3,116	3,176	3,249
4	Good Housing For All	1,060	979	1,016	1,029
5	Well Run Council	4,107	4,007	4,148	4,026
6	<b>Net Service Expenditure</b>	<b>15,619</b>	<b>15,038</b>	<b>15,159</b>	<b>14,873</b>
7	Net Interest	(245)	(130)	(184)	(234)
8	Minimum Revenue Provision	179	167	160	154
9	Capital Charges	(2,734)	(2,787)	(2,601)	(2,456)
10	Revenue contribution to capital	1,400	1,188	500	500
11	Local CT support grant	107	107	96	89
12	Movement on Reserves	(142)	(413)	(137)	(48)
13	New Homes Bonus	(116)	0	(904)	(1,240)
14	<b>Budget Requirement</b>	<b>14,068</b>	<b>13,170</b>	<b>12,089</b>	<b>11,638</b>

- 4.5 The overall General Fund position for 2014/15 is shown at Appendix A. The total service expenditure (net of direct income) for 2014/15 is estimated at £15.038M. The Revenue contribution to the capital programme is increasing to £1.188M for 2014/15 only as shown at Appendix A of the General Fund position. This additional one-off revenue contribution has been made possible in order to accelerate specific strategic economic regeneration projects during 2014/15 which will further contribute to the delivery of the 'Grow the economy' priority.
- 4.6 The proposed budgets include a small number of additional items that have been identified. These can be summarised as:
- Enterprise Event Week March 2015 – promotion of enterprise and growth £30K
  - Business Support Programme to assist individuals who are exploring the opportunities to establish a new business access to free business advice on a district wide basis - £15K
  - Planning Policy Local Plan and Core Strategy – preparation of Local Plan documents including the resubmission and examination of the Grantham Areas Action Plan and review and examination of the Core Strategy - £107K
  - Building capacity to deliver the Economic Development Strategy - £38K
- 4.7 The Council continues its track record of delivering savings and efficiencies whilst ensuring that resources are allocated to front line services and delivering priority outcomes. In order to maintain a balanced position for 2014/15, a further £431K has been identified in addition to the on-going £1.90M listed at Appendix B.
- 4.8 The proposed Council fees and charges were approved by Cabinet in December 2013, and have been compiled in accordance with the new charges strategy. This sets out the key principles of the methodology to be used when setting fee structures. There have been no changes made to those proposed in December 2013 and the fees and charges will be presented to Council on 3rd March 2014 for approval.

## **5. The District's basic amount of Council Tax 2014/15**

- 5.1 The calculation of the Council's basic amount of Council Tax is made by deducting from the £13.170M budget requirement (including special expense areas but excluding parishes), the external support that will be received from the Government in the form of projected Formula Grant of £6.957M. This includes all specific grants - council support scheme, council tax freeze grant for 2011/12, homelessness grant and the Council's element of the forecast Collection Fund surplus. Government has also announced the provisional settlement for 2015/16 of £5.863M (inclusive of all specific grants). This will mean that for the period 2010/11 to 2015/16, the combined grant will have been reduced by £4.285M or 43% in cash terms.
- 5.2 The Government has announced that a further Council Tax freeze grant in 2014/15 equivalent to a 1% increase is available. The grant for the 2014/15 freeze will be paid to participating authorities in the financial years 2014/15 and 2015/16 – so if an authority freezes in 2014/15, it will also receive grant in 2015/16 in respect of the freeze decision taken in 2014/15 irrespective of its Council Tax

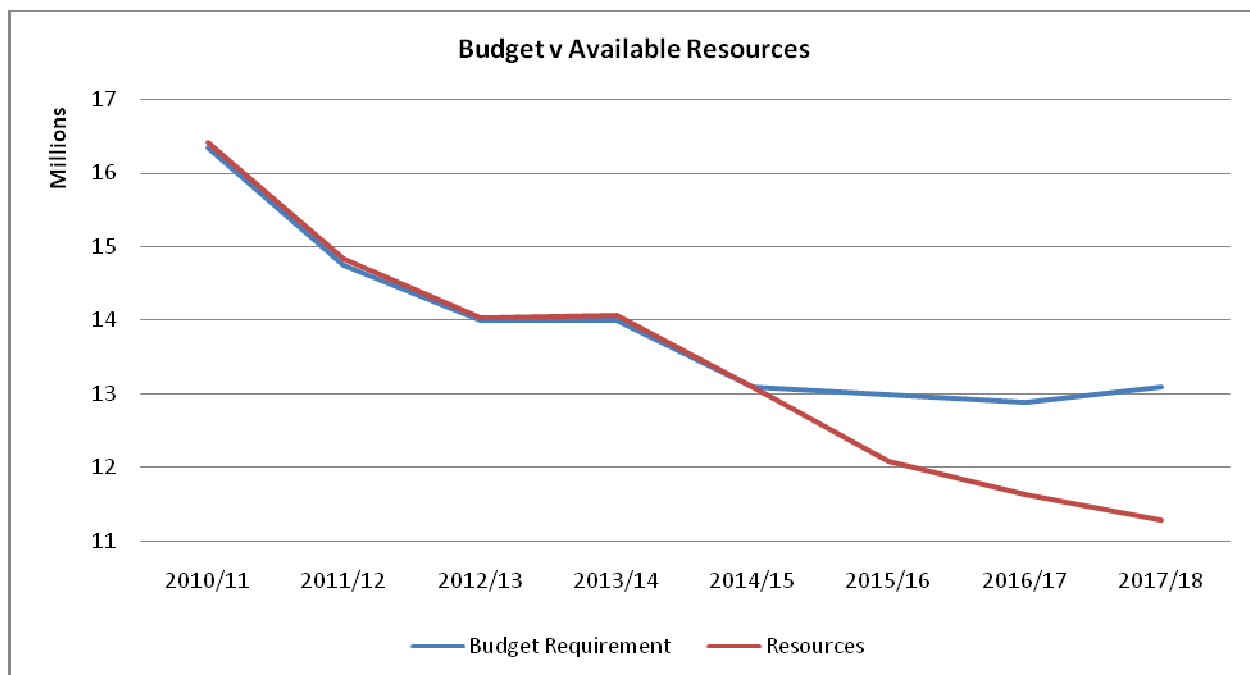
setting decision for 2015/16. At the time of compiling the report no information has been announced by Government with respect to referendum levels but it is widely anticipated that the level will be below the 2% threshold as in previous years.

- 5.3 Consultation has been undertaken with members of the Council's citizens' panel and the wider community via an on-line survey to seek views on a proposal of an increase of 1.75% for the 2014/15 financial year. Over 950 panel members were contacted to seek their views on a council tax increase and 43% have responded to the survey. Of those that responded 71% stated that an increase would be acceptable in order to ensure quality services continue. The remaining respondents suggested the Council should look to find savings and efficiencies in-house rather than to seek an increase.

The on-line survey was available to those residents who are not panel members and 18 took the opportunity to provide some feedback on the proposal. Of the 18, 27% were in favour of an increase with the remaining again suggesting the Council should find savings rather than increase Council Tax for the forthcoming financial year.

## **6. Future outlook**

- 6.1 Budgets have been prepared for a three year period with indicative budgets prepared for 2015/16 and 2016/17. Provisional settlement figures for 2015/16 have been announced by Government which show a continuing reduction in the amount of Revenue Support Grant that will be provided by £1.2M. It is anticipated that reductions will continue beyond 2015/16 so the Council is responding by accelerating its savings and transformation proposals, building on the savings and new ways of working that have already achieved significant cost reductions and efficiencies. The Council has made the decision, this year, to join the Lincolnshire business rates pool. The pooling mechanism allows the financial benefits of local business growth to be retained locally rather than being paid to the Government in the form of a levy payment. Early forecast predictions estimate that this could generate in the region of £160K per annum based on an assumed level of economic growth.
- 6.2 The funding gap that is anticipated to emerge beyond 2014/15 is detailed in the Council's MTFS and shows a potential gap of £1.6M increasing to £2.5M by 2017/18 (cumulatively). This gap in funding can now be updated following the incorporation of the MTFS principles into the budget approach, identifying the transformation savings and the anticipated business rate pooling growth. The gap for 2015/16 is now forecast to be £900K increasing to £1.8M in 2017/18.



Work will now continue during the year to bridge the budget gap including working with our citizens panel to establish what services are important to our residents, implementing a service review programme to establish the most cost effective way of delivering the services, utilising customer feedback, use of New Homes Bonus to fund priorities and further development of the transformation plan.

## 7. Reserves and Balances

7.1 The Local Government Act 2003 requires the Chief Financial Officer, (section 151 officer), to report on the adequacy of financial reserves when consideration is given to the General Fund budget requirement for the year. Under the Local Government Finance Act 1988, all balances held by the Council are at the direct disposal of the General Fund with the exception of the Housing Revenue Account balances, the Collection Fund or any funds held in trust. A statement showing the forecast balances of revenue and capital reserves and their movements is provided at Appendix D.

During the course of the budget preparation work Cabinet has requested a review of the reserves and their intended purpose to ensure they are focussed on supporting the delivery of the priorities of the Council. The following are a summary of the key changes made to the reserves:

- Destination SK reserve – it is proposed to increase the reserve level to £100k in order to contribute towards the promotion of South Kesteven as a destination of choice.
- Formation of a £1M reserve to financially contribute towards the delivery of key economic development and town centre regeneration projects.
- Transformation reserve - formation of a new reserve to fund investments in service change and alternate service delivery models.

For 2013/14 the Council has introduced a new reserve entitled 'Business Rate and Council Tax Support Volatility Reserve' which has been created to cushion the Authority against volatility in the collection of local business rates and unforeseen

demand on the localised Council Tax support scheme. The amount in the reserve is the equivalent amount between the projected business rates collectable and the level when the Government safety net mechanism will apply. This reserve will also receive the first year's projected surplus that will be generated following the Council decision to join the Lincolnshire business rate pool. However this reserve, including the required financial level, will be reviewed over the period of the MTF5.

- 7.2 The General Fund working balance is required so that the Council has sufficient funds available to meet its cash flow requirements and to protect services against unforeseen events that have a financial consequence and are not included in the budget framework. The balance has been reviewed and will be reduced from £2.370M to £1.870M in accordance with the reducing net expenditure and the £500K will be utilised to contribute towards the transformation reserve (referred to at paragraph 7.1).

## **8. Capital Programme 2014/15 - 2018/19**

- 8.1 The capital programme is focussed on the delivery of priority projects particularly in relation to Grow the Economy – economic regeneration. Full details are provided at Appendix C and it shows an ambitious programme of over £12.5M over the next 5 year period. This level of investment in the local area will provide a significant economic boost and ensure the Council continues its track record of delivering its priorities. The financing of the programme is also provided and demonstrates the Council can afford to fund the programme over the period without the need for external borrowing.

## **9. Prudential Code**

- 9.1 The Council complies with the Prudential Code for controlling Local Government capital. The key objectives of the code are to ensure that:

- Capital Investment Plans are affordable, prudent and sustainable
- All external borrowings and other long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudence, affordability and sustainability
- The Local Authority is accountable for decisions made
- It supports local strategic planning, local asset management planning and proper option appraisal.

- 9.2 The Council's financial planning demonstrates the affordability of the capital programme and the 2014/15 estimates have been prepared in the context of these plans and controls.

## **10. Treasury Management and Investment Strategy**

- 10.1 In accordance with the requirements of Local Government Act 2003 a Treasury Management Strategy is provided within Appendix E outlining the Council's prudential indicators for 2014/15 – 2016/17 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements as required by the Local Government Act 2003.

- The reporting of the prudential indicators setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix E Section 1);
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (Appendix E Section 1);
- The treasury management strategy statement which sets out how the Council's treasury service will support the capital decisions taken above in accordance with the CIPFA Code of Practice on Treasury Management (Appendix E Section 2);
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss (in accordance with the CLG investment guidance) (Appendix E Section 3);

10.2 A review of the Treasury Management strategy has taken place in conjunction with the Council's treasury management advisors to ensure the strategy provides a framework for effective, efficient treasury management activity and ensure the Council's exposure to risk is minimised. Whilst it is widely acknowledged that exposure to risk cannot be removed, good governance and scrutiny arrangements help to ensure the exposure is minimised. The Council's arrangements in respect of robust monitoring and reporting of treasury management activities are based on best practice. Specifically, Governance and Audit Committee ensure the governance and scrutiny function is undertaken on behalf of the Council and during the past year has received specific treasury management training and receives regular half yearly reporting information.

### **Collection Fund**

- 11.1 All relevant transactions associated with Council Tax and Non Domestic Business Rates are shown in the Collection Fund.
- 11.2 To comply with CIPFA's Best Value Accounting Code of Practice authorities are required to forecast the outturn on the Collection Fund as at 31<sup>st</sup> March each year in order to distribute this amount to precepting bodies in the following financial year (together with any remaining unallocated surplus from previous years).
- 11.3 For this financial year SKDC has forecast the outturn for 2013/14 and in 2014/15 will distribute this forecast together with the remaining surplus from the 2012/13 outturn. Remaining surplus (or deficit) from previous years occurs when there is a difference between the forecast for that year and the actual outturn.
- 11.4 Any surplus or deficit arising from Council Tax transactions is shared between South Kesteven District Council, Lincolnshire County Council and Lincolnshire Police (the precepting bodies) in proportion to their demands on the Collection Fund. Any surplus or deficit arising from Non Domestic Business Rates is shared between South Kesteven District Council, Lincolnshire County Council and Central Government in the ratio 40:10:50 respectively.

- 11.5 The accumulated surplus on the Collection Fund at 31<sup>st</sup> March 2013 was £300K and £317K will have been distributed during 2013/14. The forecast outturn for 2013/14 is a surplus of £353K. A breakdown of the £353K which will be distributed during 2014/15 is:

**Table 4.**

<b>Precepting Body</b>	<b>Distribution (£)</b>
South Kesteven District Council	91,331
Central Government	85,976
Lincolnshire CC	150,788
Lincolnshire Police	24,614
<b>Total Surplus on Collection Fund</b>	<b>352,709</b>

- 11.6 With respect to second homes income, Lincolnshire County Council and the Police Authority confirm that the additional income will be utilised within the district on agreed schemes that are of mutual benefit. The amount estimated from the County Council for 2014/15 is £117K and from the Police Authority is £20K. It is proposed to spend the allocation on supporting the delivery of disabled facilities grants and community safety.

## **12 Statement by Chief Finance Officer (S151 officer)**

- 12.1 The 2014/15 Budget and indicative budgets for 2015/16 to 2016/17 have been drawn up to take account of the Council's various strategies, policies and the financial context, in particular:

- The Corporate Plan – 2021 Vision
- The Medium Term Financial Strategy (MTFS)
- Service Strategies and Plans
- Asset Management Strategy
- The economic context and recent grant announcements
- The 2013/14 forecast outturn

The MTFS will continue to be reviewed and updated following national policy announcements, in particular any further changes to funding arrangements. This is necessary as the Council progresses its work to close the budget gap referred to at paragraph 6.2 in the report.

- 12.2 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer must report on:

- (a) the robustness of the estimates made for the purposes of the budget calculations and;
- (b) the adequacy of the proposed financial reserves

### 12.3 **Comments of Financial Services**

12.4 In recommending the budget to the Council, the Cabinet must take account of the advice of the Chief Finance Officer in respect of the above. For 2014/15 it can be confirmed that the budget presented to the Cabinet is robust in its formulation and the level of reserves is adequate for the organisation.

### 13. **Risks to the budget**

13.1 In formulating my opinion a number of risks and factors have been taken into account.

- a. The **grant settlement from Government for future years** has been announced for 2014/15 and a provisional amount for 2015/16. It is anticipated that further cuts will be announced in the next spending review following the General Election. The Council will need to meet the shortfall by growing both its business base and stimulating the conditions for housing growth.
- b. The impact of the **economic climate** will place higher demand on particular services in relation to social care and well being, specifically benefit advice and support and homelessness. This may create additional resource pressures in these service areas.
- c. **Investment Income and fees and charges** – the forecast in respect of investment income is included in the budget proposals and shows an improvement over the three year period. Given the current volatility in respect of the economic market there is a risk of investment income not achieving the budgeted level. A number of fee income budgets have been included in the proposed budgets which, in themselves, carry a level of risk of not being achieved due to the economic climate.

### 14 **Comments of Legal and Democratic Services**

The budget forms part of the Council's Budgetary Framework. Members should have regard to the comments of the Strategic Director – Corporate Focus as the Council's Chief Financial Officer which are set out in section 12 above when making their recommendations to Council in accordance with the Local Government Act 2003. Any budget must be set in accordance with the Budget and Policy Framework Procedure Rules as set out at part 4 of the Constitution.

### 15 **Appendices:**

Appendix A – Revenue Estimate 2014/15 and indicative budgets 2015/16,  
and 2016/17

Appendix B – Savings and Efficiencies

Appendix C – Capital Programme

Appendix D – Reserves and balances

Appendix E – Treasury Management Strategy 2014/15