
Report to: Cabinet **Date of Meeting:** 5 December 2013

Subject: Revenue Budget 2014/2015 and Medium Term Financial Plan 2015/2016 to 2016/2017 Update

Report of: Head of Corporate Finance & ICT **Wards Affected:** All

Is this a Key Decision? Yes **Is it included in the Forward Plan** Yes

Exempt/Confidential No

Purpose/Summary

1. To update Members on the latest forecast position on the Revenue Budget for 2014/2015; and
2. To update Members on the latest assumptions contained in the Medium Term Financial Plan (MTFP) 2015/2016 – 2016/2017 and to highlight the potential budget gaps for this period.

Recommendation(s)

That Cabinet:

- i) Note the latest position with regard to the Revenue Budget for 2014/2015;
- ii) Approve the MTFP projected assumptions contained in this report;
- iii) Note the potential budget shortfalls within the MTFP as follows: -

	£m
2015/2016	32.4
2016/2017	<u>22.4</u>
Total	54.8

- iv) Agree the proposed timetable for approving the 2014/2015 Revenue Budget and setting the Council Tax (as outlined in section 6).

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	

4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy		√	

Reasons for the Recommendation:

To ensure that the Cabinet is fully aware of the latest Revenue Budget position for 2014/2015 so that early decisions can be made to enable the Council to agree a balanced budget for 2014/2015 and agree the level of Council Tax before the statutory date of 10 March 2014.

To ensure that the Cabinet is fully aware of the latest MTFP position so that early decisions can be made to enable the Council to achieve a sustainable financial position.

What will it cost and how will it be financed?

(A) Revenue Costs

The Revenue Budget and Council Tax for 2014/2015 will be formally set in March 2014. The existing two year plan provides the basis for the budget.

The revenue gaps for each of the years 2015/2016 to 2016/2017 are projected at £32.4m and £22.4m respectively. The figures are individual in-year savings targets, assuming the previous year's target is achieved.

(B) Capital Costs

None.

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	There are no direct legal implications arising from the contents of this report. Identification of the budget gaps for each financial year, and the subsequent identification of savings will contribute towards a legally balanced budget.		
Human Resources	None		
Equality			
1.	No Equality Implication	<input checked="" type="checkbox"/>	√
2.	Equality Implications identified and mitigated	<input type="checkbox"/>	
3.	Equality Implication identified and risk remains	<input type="checkbox"/>	

Impact on Service Delivery:

To be determined; however it may be inevitable that in some cases service delivery will be adversely affected.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT (FD2680) and Head of Corporate Legal Services (LD1985) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

None.

Implementation Date for the Decision

Immediately following call-in period after the Cabinet Meeting.

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Background Papers:

None

Key Messages

This report sets out the following key messages:

- The Council set a two year budget plan in March 2013. It is currently estimated that a permanent shortfall of around £3m is likely on the approved savings
- Since March 2013 Government has made a number of announcements which have been assessed and the implications have been built into a revised Revenue Budget for 2014/2015. These adjustments are broadly balanced.
- This assumes a Council Tax increase of 2% for planning purposes.
- The Government announcements have also been assessed for future years to produce a new Medium Term Financial Plan for 2015/2016 and 2016/2017.
- It is estimated that Sefton needs to reduce spending by a further £55 million over 2015/2016 and 2016/2017.
- This is a significant challenge and will mean a continuation of the in-depth reviews of all Council spending that have been undertaken since 2009.
- The budget deficit is related to: -

	£m
Reduction due to changes in Government Funding	33.6
Additional Adult Social Care costs	6.0
Additional Health Care Monies	-6.0
Impact of inflation / previous year's budget savings etc	21.2
	<u>54.8</u>

- No assumption has been made regarding Council Tax in 2015/2016 or 2016/2017. This will be considered at a later stage.
- Due to Government rules the most that can be raised in extra Council Tax would be £2m per year without undertaking a referendum.
- This challenge is made much greater by the fact that the Council's spending has already reduced by £115 million in the budgets set for 2011/2012 to 2014/2015.
- These forecasts are based on what it is estimated Government Grant will be. It is unlikely that the actual figures will be received until December 2014 and so plans need to be made based on these assumptions.
- The Council will continue to develop the process that has been in place for a number of years.
 - All stakeholders must continue to look for any savings that can be made and ideas continue to be welcomed
 - All services will continue to be reviewed and assessments made of the most appropriate level that must be provided and that the Council can afford
- Sefton will keep staff informed throughout this process through briefings, intranet and face to face. There will be lots of opportunities for staff to get information and ask questions and the Council promises to maintain our open approach to the budget.
- The Council intends to continue to consult and engage with all our communities and partners. This process will start once potential savings are identified and continue until final decisions are made by Council.

1. Background

1.1 At its meeting of 28 February 2013 the Council agreed a two-year financial plan for 2013/2014 and 2014/2015, including the policy changes required to achieve the plan. This report provides an update on the approved two year plan and considers the 2015-2017 two year plan.

1.2 Council approved the indicative 2014/2015 Revenue Budget on 28 February 2013. The Council is estimated to spend the following amounts in 2014/2015:

2014/2015 Estimated Spending Levels

	£m	£m	£m
Total net expenditure			<u>523</u>
In broad terms this is made up of:			
Schools Related (DSG)		175	
Housing Benefits		104	
Public Health		20	
Debt Repayment		16	
Levies		35	
Council Expenditure on all other functions	188		
Less unring-fenced grants	<u>- 15</u>	<u>173</u>	<u>523</u>

1.3 The 2014/2015 budget was the fourth year of significant reductions in budgets arising from the changes in national policies and resource allocations. Over the period 2011/2012 to 2014/2015 the Council will have delivered in excess of £115m budget savings to offset the cessation of £48m of grants and a further £67m to cover reduced general funding not covering inflationary pressures and to redirect resources to support increasing demand on services.

1.4 In a range of previous financial statements, the Chancellor has indicated that austerity measures would be likely to remain in place until 2020. The Budget Report 2013 confirmed that the National Total Managed Expenditure (TME) would continue to fall in real terms at the same rate as over the 2010 Spending Review period until at least 2017/2018.

1.5 The Chancellor also announced that Health, Schools and Official Development Assistance will continue to be protected in 2015/2016 which means that cuts in Departmental Expenditure Limits (DEL) will fall disproportionately on the remaining public services including local authorities. In addition, there would be a further 1% reduction in Government funding for 2014/2015.

1.6 The Medium Term Financial Plan (MTFP) has been prepared taking a reasonable but not pessimistic view of those areas which are known to be subject to change but for which the actual outcome is not yet known. The principal areas of

Government funding for 2015/2016 will not be known with certainty until December 2014. Announcements on the levels of Government funding for 2016/2017 may not be made until 2015. However, given the level of savings required decisions on how to address the budget shortfall need to be taken well before December 2014 to give time for proper consultation with the public, stakeholders, staff and other interested parties.

2. 2014/2015 Revenue Budget

There have been a number of changes to funding since the indicative budget for 2014/2015 was set in February 2013. In addition there are some additional budget pressures that need to be addressed.

2.1 Indicative Budget Changes

As mentioned in paragraph 1.5, the Chancellor announced a further 1% reduction in Government funding for 2014/2015, equating to £1.5m. This is partly offset by estimated New Homes Bonus and New Homes Bonus Adjustment Grant of £0.6m. In addition, the Council's share of Business Rates is forecast to be £1.5m lower than currently budgeted for. Contributions to the Merseyside Pension Fund are expected to increase by £0.8m following the triennial review of the Fund. However, it is expected that these changes can be met from reduced Treasury Management costs and cessation of the Collection Fund Deficit Contribution.

2.2 Shortfall on Previously Agreed Savings

It is currently estimated that there will be a permanent shortfall of £3.0m on the achievement of savings agreed for 2014/2015. Funding for this shortfall will need to be identified before the final budget is approved in March 2014.

2.3 Council Tax

The approved two year plan assumed a Council Tax increase of 2% for 2014/15, generating £2.0m. The Spending Round 2013 announced that funding, equivalent to a 1% increase, would be made available for councils who freeze their Council Tax for 2014/2015. If Sefton were to freeze its Council Tax and receive the grant then additional savings of £1.0m would be required.

2.4 Government Settlement 2014/15

The indicative budget for 2014/15 assumes a figure for Government Grant based upon information available in February 2013. However, the provisional grant settlement for 2014/15 will not be announced until late December 2013, with the final figure known in mid January 2014.

3. Levels of Funding 2015/2016 and 2016/2017

The Government funding allocations for 2015/2016 will not be announced until December 2014. However, a Technical Consultation issued in July 2013 exemplified the amounts each authority would receive based on the announcements in the Spending Round 2013. Announcements for 2016/2017 are unlikely to be made before March 2015. However, statements from the Chancellor indicate that austerity measures would remain in place until 2020 and that Total Managed Expenditure would continue to fall in real terms at the same rate as over the 2010 Spending Review period, until at least 2017/2018.

3.1 Government Funding

Summary impact on budget – Reductions in funding of **£33.6m** over 2 years

Assumptions/Risks -

- Funding for 2015/2016 as exemplified in July 2013 Technical Consultation
- Funding reductions for 2016/2017 based on Chancellor's statements on continuation of reductions in Total Managed Expenditure until 2017/2018.
- Level of new homes built is 270 p.a.

The Technical Consultation exemplified changes in the Settlement Funding Assessment (Revenue Support Grant, Top-Up Grant and Business Rates Baseline) for 2015/2016. Officers have made assumptions on the potential Settlement Funding Assessment based on Government announcements. The reductions assumed are **£18.7m** in 2015/2016 and a further **£12.3m** in 2016/2017.

Officers have also made assumptions of changes in specific Government grants based on the latest information available. The net reductions assumed are **£1.5m** in 2015/2016 and a further **£1.1m** in 2016/2017. Details of the assumed changes are shown in the table in Section 5.

3.2 Additional Health Resources

Summary impact on budget – Increase in funding of **£6.0m** over 2 years

Risks - Additional burdens associated with funding unknown.

The Government has funded additional Adult Social Care support, through the PCT / CCG, since 2011/2012. These forecasts assume this will continue into future years at the rate of £5.7m. In addition, the Government has announced new NHS investment in 2015/2016 to improve Adult Social Care and join up with health services. It is unknown how this funding will be allocated or what additional burdens / conditions will be attached to its receipt. The MTFP assumes that **£6.0m** of these additional resources will be available to fund anticipated increased demand for adult social care services (see paragraph 4.6).

3.3 Business Rates Localisation

Summary impact on budget – Reductions in funding of **£1.3m** over 2 years

Assumptions/Risks -

- Annual 1.5% reduction in Business Rates Rateable Value with no increase in Mandatory Reliefs

Current forecast are that the Council's share of Business Rates income will continue to reduce in 2015/2016 and 2016/2017 (excluding the impact of inflationary increases). The MTFP assumes the reductions will be £1.3m over the two years.

3.4 Council Tax

Summary impact on budget – Nil

The MTFP doesn't assume any increase in Council Tax beyond 2014/2015. This allows the Council to determine the level of Council Tax at a later stage in the

budget process when the Council is able to understand the balance between increasing income and reducing budgets more clearly.

Cabinet should note however, that due to changes arising from the Localism Act, the ability to raise Council Tax without going to a public referendum is limited to 2% or £2m. This figure could change further if the level of “excessive increase” is changed by the Government from the current level. The estimated cost of holding a referendum is £0.250m. Also, it should be noted that further additional costs would be incurred if the referendum were to be lost and new Council Tax bills had to be re-issued.

4. Expenditure Pressures 2015/2016 and 2016/2017

4.1 National Pay Settlement

Summary impact on budget – Increases in expenditure of £1.6m over 2years

No agreement has been reached regarding the national pay settlement for future years. The Council's forecasts assume a 1% increase in 2015/2016 and a further 1% in 2016/2017 (total cost £1.6m).

4.2 Increments

Summary impact on budget – Increased expenditure of £3.2m over 2 years

Staff increments have been frozen for 4 years. The budget forecasts assume that incremental progression will be reintroduced.

4.3 Price Inflation

Summary impact on budget – Increased expenditure of £8.4m over 2 years

Current price inflation varies considerably across the various elements contained within the Government's CPI figures, with many items having little relevance to the costs incurred within local government.

Recent publicity regarding utility / transport fuel costs has indicated that, due to world economic conditions, inflation is expected to increase year-on-year for the period of the MTFP. The 9% increase for these costs in each of the years of the plan is consistent with previous forecasts. **It is proposed to retain an inflation provision at this level.**

Externally contracted services which have a specified inflation index within the contract are provided for within the MTFP. As the actual indexes will not be known until the relevant years, the MTFP provision is based upon existing contractual inflation figures.

The MTFP currently provides for a 2% increase for Other Services (excluding contracted services) in each of the three years of the plan. **It is proposed to retain an inflation provision at this level.**

4.4 Pensions

Summary impact on budget – Increased expenditure of £1.2m over 2 years

The impact of the 2013 triennial review of the Merseyside Pension Fund is expected to increase annual contributions to the Fund by £1.2m over the two years.

4.5 National Insurance

Summary impact on budget – Increased expenditure of £1.3m over 2 years

From April 2016 the Government will increase the rates paid by employees who are in a pension scheme as well as the rates paid by their employers. This is anticipated to cost Sefton £1.3m. Although the Chancellor has stated that the cost increase to public sector employers would be included in the spending review covering that year this anticipated cost has been included in the MTFP for 2016/2017.

4.6 Social Care

Summary impact on budget – Increased expenditure of £6m over 2 years

Each year the numbers and costs of those vulnerable older people requiring our services increase. This is a national demographic and financial issue which all councils face but it is an important and pressing issue for us here in Sefton given the greater proportion of older people in Sefton - particularly in terms of those over the age of 80. Officers have conducted an initial review of the potential additional costs as a result of these pressures. This indicates that costs for Adult Social Care are expected to increase by **£3.0m** in 2015/2016 and a further **£3.0m** in 2016/2017. No additional increases in children's social care are anticipated over the period to 2016/2017.

4.7 Unachievable Savings

Summary impact on budget – Increased expenditure of £4.0m over 2 years

Officers have identified that £3.0m of savings agreed during the 2013/2014 and 2014/2015 budget process are no longer achievable. In addition, the Council's budget assumes annual savings of £1.0m from vacant posts across the Authority. Given the reductions in employee budgets over the four year period it is no longer considered feasible for this saving to be achieved. Both of these amounts have therefore been included in the MTFP.

4.8 One-Off Savings

Summary impact on budget – Increased expenditure of £1.4m over 2 years

One-Off savings of £1.4m were agreed during the 2013/2014 and 2014/2015 budget process. These amounts have therefore been included in the MTFP.

4.9 Collection Fund and Debt Charges

Summary impact on budget – Reduced expenditure of £1.2m over 2 years

Current forecasts indicate that the Council Tax element of the Collection Fund will move into surplus during 2013/2014. This surplus is anticipated to be available to support the budget in 2015/2016 and future years. In addition, there are further savings expected from reduced debt charges due to the continuing use of internal borrowing.

5. Summary Budget Gap Analysis 2015/2016 – 2016/2017

Compared with the indicative 2014/2015 budget service levels, the following shortfalls have been projected: -

	Para Ref	2015/ 2016 £m	2016/ 2017 £m	Total £m
<u>National policy changes:</u>				
Cash Reduction in Government Funding:	3.1	18.7	12.3	31.0
- Spending Round 2013				
- New Homes Bonus		-0.4	-0.4	-0.8
- New Homes Bonus Adjustment Grant		-0.3	1.1	0.8
- New Homes Bonus – Local Growth Fund Transfer		1.1	0.1	1.2
- Education Services Grant		0.9	0.0	0.9
- Housing Benefit Administration Subsidy		0.2	0.3	0.5
		20.2	13.4	33.6
Additional Health Resources (assumed)	3.2	-3.0	-3.0	-6.0
<u>Business Rates – Local Share</u>	3.3	0.6	0.7	1.3
<u>Inflation:</u>				
Pay / Increments	4.1/ 4.2	2.5	2.3	4.8
Prices - Normal	4.3	1.7	1.7	3.4
Prices - Contracts	4.3	2.5	2.5	5.0
Pensions	4.4	0.8	0.4	1.2
National Insurance	4.5	0.0	1.3	1.3
		7.5	8.2	15.7
<u>Demographics – Demand Pressure Services growth:</u>				
– Adult Social Care	4.6	3.0	3.0	6.0
<u>Previous Cabinet / Council Decisions:</u>				
Savings Not Achievable	4.7	4.0	0.0	4.0
One-Off Savings Reinstated	4.8	1.2	0.2	1.4
<u>Collection Fund and Debt Charges</u>	4.9	-1.1	-0.1	-1.2
Total Budget Gaps		32.4	22.4	54.8

6. Decision Timetable for Setting the 2014/2015 Budget and Council Tax

The following timetable for approving the 2014/2015 Revenue Budget and Council Tax is proposed:

Date	Meeting	Action
16 th January 2014	Cabinet	Consider: <ul style="list-style-type: none">- updated forecasts following final settlement- Corrective action
18 th February 2014	Overview and Scrutiny (Performance and Corporate Services)	<ul style="list-style-type: none">- Consider proposed revenue budget for comment
27 th February 2014	Cabinet	<ul style="list-style-type: none">- Recommend Revenue Budget to Budget Council- Recommend Council Tax to Budget Council
6 th March 2014	Council	<ul style="list-style-type: none">- Approve Revenue Budget- Approve Council Tax