

**Report to:** Cabinet

**Date of Meeting:** 5 December 2013

**Subject:** 2013/14 Budget Update

**Report of:** Head of Corporate Finance & ICT

**Wards Affected:** All

**Is this a Key Decision?** No

**Is it included in the Forward Plan?** Yes

**Exempt/Confidential** No

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### **Purpose/Summary**

To inform Cabinet Members of the progress in achievement of the approved savings for 2013-2015, and other risks within the 2013/14 budget. In addition, a forecast on Council Tax and Business Rates collection is included.

### **Recommendation(s)**

Cabinet is recommended to: -

- i) Note the progress to date on the achievement of approved savings for 2013-2015;
- ii) Note the potential impact on earmarked reserves in 2013/14 should other savings not be achieved, elsewhere in the budget, to bridge the current budget gap;
- iii) Note the wider budget pressures being experienced in the remainder of the Budget;
- iv) Note the forecast position on collection rates of Council Tax and Business Rates
- v) To approve the delegation of a further £200,000 of the Social Fund, in consultation with the Cabinet Member - Children, Schools, Families and Leisure, Cabinet Member - Older People and Health and Cabinet Member - Communities & Environment, to support initiatives enabling resilience and capacity in our communities in the context of the impact of Welfare Reform.

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

	<b><u>Corporate Objective</u></b>	<b><u>Positive Impact</u></b>	<b><u>Neutral Impact</u></b>	<b><u>Negative Impact</u></b>
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 Cabinet are informed of the latest position on the achievement of savings for the current financial year and to facilitate the achievement of the savings targets for 2014/15. To

identify wider budget pressures being experienced elsewhere in the Budget. To provide an update on the forecast outturn position on collection of Council Tax and Business Rates.

### What will it cost and how will it be financed?

#### (A) Revenue Costs

Any under-achievement of the agreed revenue savings for 2013/14 will need to be financed from within any under-spending identified within other areas of the 2013/14 and 2014/15 budgets, or from the Council's earmarked reserves. Any usage of reserves will reduce the amount available to support the phased introduction of savings in future years. The current position indicates that about £2m of reserves would be required to balance the budget for the identified red marked items. The wider budget pressures being experienced elsewhere in the budget are to some extent matched by savings in other areas; the net overall budget pressures total some £2.6m.

#### (B) Capital Costs

There are no variations to the overall cost of the Capital Programme.

#### Implications:

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

#### Legal

By Section 13A of The Local Government Finance Act 1992 (as amended by the Local Government Finance Act 2012) the Council is required to implement a local Council Tax Reduction Scheme.

#### 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:

None.

#### What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT (FD2676/13) and Head of Corporate Legal Services (LD1981/13) 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 the call-in period following the publication of the Cabinet Minutes

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#### Background Papers:

None

## 1. **Introduction**

- 1.1 The Council approved a two year financial plan for 2013 to 2015 which requires a large change programme of £50.8m to be implemented over this and the coming year. The Government has indicated that fiscal restraint will continue over the coming years and that the financial pressures on the public sector will continue throughout the Comprehensive Spending Review period to 2017/2018 and beyond. It is important therefore that the Council continue to make the planned progress of the financial plan in order to prepare for future years' financial challenges.
- 1.2 In order for the Council to remain within its financial budget, it is essential that as much of the identified saving areas are actually achieved in the appropriate years for 2013/14 and 2014/15. The remainder of the Council's budget is experiencing a number of budget forecast variations, these are discussed further in the report.
- 1.3 The report also outlines the current position regarding two key income streams for the Authority, Council Tax and Business Rates, as variations against expected receipts will affect the Council's financial position.

## 2 **Approved savings for 2013/14 – Current position**

- 2.1 The table at **Annex 1** identifies the current position of the agreed savings for 2013/14. They are analysed into four categories: -
  - Savings achieved to date (Blue);
  - Progress is satisfactory (Green);
  - Outcome is unknown and is at risk of not being fully achieved (Amber); and
  - Known shortfalls, or significant risk of not being achieved (Red).

This approach is designed to ensure complete transparency, effective risk management and improved consultation and engagement.

It should be noted that individual savings may be categorised into more than one area; for example, part of the work to achieve a required saving may be on track (and a value can be shown in Green), whilst another element is potentially at risk (and therefore shown as Amber).

- 2.2 The position as at the end of October 2013 for the achievement of savings is that £24.5m of the required £28.6m have been delivered or are on plan, £2.1m are at some risk of not being fully achieved and a further £2.0m are unlikely to be achieved in 2013/14.
- 2.3 Any net under-achievement will need to be a first call on the Council's reserves. Whilst the Council could call upon reserves in 2013/14 to finance a shortfall of this magnitude the utilisation of these resources will reduce the Council's ability to phase in savings in future years

### 3 **Other Budget Risks**

- 3.1 The saving options considered above indicate a potential budget shortfall in the order of £2m for 2013/14. However as part of the regular budget management of the remainder of the Council's budget, a number of other financial risks have been identified. These risk areas currently amount to approximately £572k; further information is provided below on the main areas: -
- 3.2 **Young People & Families** – An increasing number of Looked After Children has placed pressure on the Corporate Parenting Service, particularly adoption allowances and fees (£305k) and preventative and support budgets (£109k). This has also impacted on placements and care package budgets resulting in a projected overspend of £129k. It is anticipated that the effects of the new social care structure, implemented in part from early May, would reduce the need for expensive placements as the year progresses. This has been evidenced by the number of in-house placements made since August, but the increasing number of overall Looked After Children continues to place additional pressure on the budget. Agency staff have been required to support the introduction of the new structure at an additional cost of £84k. These projected outturn variances are forecast to be offset by the application of from the Adoption Reform grant (£201k) and savings on Early Intervention and Prevention (£230k) and Learning and Support (£308k). The underspend on Early Intervention and Prevention is largely as a result of vacant posts across family centres and parenting services, some of which are earmarked for phased savings in 2014/15. Learning and Support is forecast to underspend in a number of areas including repairs and maintenance of former school land controlled by the LEA, student travel passes and voluntary redundancy. This results in a broadly balanced position within the Young People & Families budget.
- 3.3 **Specialist Transport Unit** – As reported to Cabinet in September 2013, the Specialist Transport Unit (STU) budget continues to be insufficient to meet demand. This is currently the subject of an internal review, and information will be presented to Cabinet as soon as possible. The STU is expected to be overspent by £1.6m by the year end. An exercise is being undertaken to analyse the spend on transport in terms of the client groups that are receiving the service. This will give a clearer indication as to the reasons for the overspend and guide judgements about how it may be mitigated in future.
- 3.4 **IPI – Admin Buildings and other properties** – There is a potential budget shortfall of £243k, which is due to a number of factors including: -
- Rent increases following rent review at Magdalen House and stepped rental increase at Merton House;
  - Rental income under pressure from tenant default and reductions in rents to lower market levels on lease renewals in Southport; and
  - Additional costs to safely maintain a number of large properties earmarked for redevelopment or sale, but disposal delayed due to poor market conditions.

The original expectation was for these additional costs to be offset by the termination of leases on two buildings. Termination has been delivered on one property, however, the ending of the lease on the second building has been delayed due to service planning issues.

- 3.5 **Landscape Services** – the principal area of variation is within the cemeteries and crematoria service. Additional income (-£230k) is forecast as a result of higher than anticipated demand for funeral services.
- 3.6 **Net Debt Repayment** – Reductions in net repayments (circa -£500k) have arisen due to additional interest being achieved on investments compared to the budgeted value, and a reduction in the amount of debt repayments as a result of the policy of internal borrowing, rather than taking on new loans to finance capital expenditure.
- 3.7 A variety of smaller underspends have arisen across the Council’s budget, resulting in an overall net overspend of approximately £0.6m.

#### **4 Overall Forecast Revenue Position 2013/14**

- 4.1 The overall forecast revenue position is that there will be a budget shortfall of some £2.6m (i.e. £2m from the “Red – Unlikely to be achieved” category of budget savings, plus a further £0.6m from other areas of budget risk.
- 4.2 Should the overall net overspend position (£2.6m) not be reduced by the end of the financial year, then the Council will need to draw on its reserves to meet this additional cost.

#### **5 Council Tax Income – Update**

- 5.1 Council Tax has for more than two decades been a stable source of income for local authorities. However, the introduction of local council tax reduction schemes and other technical changes to exemptions and discounts in 2013/14 has increased the risk of volatility in this income stream. This means the monitoring of Council Tax income is even more important to local authorities than in previous years.
- 5.2 Council Tax income is shared between the billing authority (Sefton Council) and the two major precepting authorities (the Fire and Rescue Authority, and the Police and Crime Commissioner) pro-rata to their demand on the Collection Fund. The Council’s Budget included a Council Tax Requirement of £97.776m for 2013/14 (including Parish Precepts), which represents 85.2% of the net Council Tax income of £114.787m. The forecast position for total Council Tax income, as at the end of October 2013 is shown below:

Total Council Tax Income	<u>2013/14 Budget</u>	<u>2013/14 Forecast</u>	<u>Surplus (-) / Deficit</u>
	£000	£000	£000
<b>Total Council Tax Income</b>	<b>-114,787</b>	<b>-115,407</b>	<b>-620</b>

- 5.3 The forecast shows a surplus on Council Tax income largely because the level of Council Tax Reduction Scheme (CTRS) discounts claimed to date is lower than originally estimated. In addition, the required doubtful debt provision is currently estimated to be below the original budget level; this is still subject to a large degree of uncertainty as a result of potential non-payment by working age CTRS claimants. The surplus reflects a slight improvement on the position as at the end of September (- £0.565m); however, the level of non-payment is being carefully monitored on an ongoing basis.

5.4 Due to the Collection Fund regulations, the Council Tax surplus will not be transferred to the General Fund in 2013/14 but will be carried forward to be distributed in 2014/15. The table below therefore shows a comparison against the 2014/15 budget:

Share of Council Tax Surplus (-) / Deficit	%	<u>2014/15 Budget</u> £000	<u>2014/15 Forecast</u> £000	<u>Variation 2014/15</u> £000
Sefton Council	85.2	855	-528	-1,383
Police and Crime Commissioner	10.2	102	-64	-166
Fire & Rescue Authority	4.6	46	-28	-74
<b>Total</b>	<b>100</b>	<b>1,003</b>	<b>-620</b>	<b>-1,623</b>

## 6 Council Tax Reduction Scheme – Background Data

6.1 The introduction of local Council Tax Reduction Schemes which replaced Council Tax Benefit in April 2013, means the monitoring of Council Tax income is even more important to local authorities in 2013/14. The following paragraphs provide an update of the position for Sefton as at the end of October 2013.

6.2 Overall the net Council Tax Reduction Scheme is forecasting a favourable outturn position of £1.0m; a marginal improvement on the September position. Members are requested to treat the figures with caution as the position relating to the new payers is frequently changing and is sensitive to local economic demands on families and householders who are also affected by Welfare Reform changes. Details of the working age CTRS cases are given below: -

### Collection Against Working Age CTRS Cases: -

	<u>October</u>
	<u>Total</u>
Liability Raised	£4,116,580
Amount Paid	£1,775,421
Percentage Collected	43.1%

### Summary of Working Age Claimants

	<b>October</b>
Number of affected cases	<b>16,444</b>
Instalments not yet due (includes some direct debit accounts)	901
Accounts with payments made since annual bills issued	12,122
Accounts with instalments overdue and no payments made	3,421
Analysis of Accounts with payments made:	
Paying by direct debit over 10 months	2,073
Paying by direct debit over 12 months	1,120
Paying by cash/cheque over 12 months	1,447
Paying by cash/cheque over 10 months	7,482

## **7 Business Rates Income - Update**

- 7.1 The Business Rates Retention Scheme introduced on 1 April 2013 allows local authorities to retain 49% of their Business Rates income. This change made Business Rates income a key financial risk for the Council for 2013/14 onward.
- 7.2 Business Rates income has historically been very volatile as it is subject to revaluation appeals and changes in the level of economic activity. The level of income is also subject to changes in the level of mandatory reliefs such as Small Business Rate Relief, Empty Property Relief and Charity Relief. This makes it very difficult to forecast Business Rates income accurately.
- 7.3 The 2013/14 Revenue Budget assumes that the Council will retain 49% of total forecast Business Rate receipts of £65.545m, i.e. £32.117m. The forecast position for Business Rates income, as at the end of October 2013 is shown in the table below:

<b>Business Rates Income</b>	<b><u>2013/14 Budget</u></b>	<b><u>2013/14 Forecast</u></b>	<b><u>Surplus (-) / Deficit</u></b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Net Rate Yield</b>	<b>-65,545</b>	<b>-62,831</b>	<b>2,714</b>

- 7.4 The forecast identifies a small improvement compared to the September position. It also assumes that the cost of appeals during the year can be met from the budget; however, an additional provision of £0.661m will need to be made at the year-end in respect of appeals that were transferred from the National Pool at the start of the year. The cost of appeals provision is subject to significant uncertainty due to the unpredictable timing and value of appeal settlements.
- 7.5 Due to the Collection Fund regulations the Business Rates deficit will not be charged to the General Fund in 2013/14 but will be carried forward to be recovered in 2014/15. The table below therefore shows a comparison against the 2014/15 budget:

<b>Share of Business Rates Surplus (-) / Deficit</b>	<b>%</b>	<b><u>2014/15 Budget</u></b>	<b><u>2014/15 Forecast</u></b>	<b><u>Variation 2014/15</u></b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
Central Government	50	0	1,357	1,357
Sefton Council	49	0	1,330	1,330
Fire & Rescue Authority	1	0	27	27
<b>Total</b>	<b>100</b>	<b>0</b>	<b>2,714</b>	<b>2,714</b>

## **8 Council Tax / Business Rates Income - Summary**

- 8.1 All income from Council Tax / Business Rates is collected in an account called the Collection Fund. The total sum is split between the Council, the Fire and Rescue Authority, the Police & Crime Commissioner (Council Tax only) and the Government (Business Rates only). The budgeted overall net financial position for these items in 2013/14 shows a net deficit (for Sefton) of £0.855m. The forecast position as at the end of October shows an additional £0.528m income

from Council Tax and reduced income of £1.330m from Business Rates (a net deficit of £0.802m) i.e. a favourable increase in net income of £0.053m compared to the budget.

- 8.2 As mentioned above, due to national accounting treatment, this shortfall does not impact on the current financial year; it will be recovered as part of the setting the budget for 2014/15, i.e. it would add to the budget gap for that year.
- 8.3 The level of income from these two sources is significantly more volatile than in the past. The introduction of the Council Tax Reduction Scheme and particularly the new arrangements for Business Rates mean that forecasting income for the Council from the Collection Fund - for inclusion in the Budget - is much more difficult.

## 9. Welfare Reform

Members will recall that at the Cabinet Meeting of the 31<sup>st</sup> January 2013 a report was presented relating to the transfer of funding from the Department for Work and Pensions Social Fund to Local Authorities to enable them to provide a local scheme for emergency crisis support to those in needs. The transfer was part of the major changes being made to the welfare environment through the Welfare Reform Act 2012. The funding comprised of £955,455 main allocation and a separate administration grant element of £201,895. The Cabinet agreed that the available grant be incorporated into the 2013/14 budget. The Cabinet also agreed that the Deputy Chief Executive be delegated authority to allocate £200,000 of the Social Fund, in consultation with the Cabinet Member - Children, Schools, Families and Leisure, Cabinet Member - Older People and Health and Cabinet Member - Communities & Environment, to support initiatives enabling resilience and capacity in our communities in the context of the impact of Welfare Reform.

The allocation was determined on the basis of pump priming initiatives which would start to be developed with our communities over the course of the financial year. However, as reported in the Welfare Reform Update Report to the Cabinet on 18<sup>th</sup> July 2013, and in a further Update Report elsewhere on this agenda, progress on the community responses to enable capacity and resilience to welfare reform has been much more accelerated than expected. Indeed, the response of our community, voluntary and faith sectors has been excellent together with substantial numbers of individuals volunteering to support these initiatives. The establishment of a network of Foodbanks and distribution points across the Borough is a strong example of this positive response. Accordingly the pace and range of these positive developments has required more 'pump priming' support than originally envisaged. It is therefore recommended that the delegated amount be increased by a further £200,000. This can be contained within the current allocation particularly as these community led initiatives have reduced expenditure from the Council's Emergency Limited Assistance Scheme.