

Report to: Cabinet

Date of Meeting: 27 February 2014

Subject: 2013/2014 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

Purpose/Summary

To inform Cabinet Members of the progress in achievement of the approved savings for 2013/2014 and other risks within the 2013/2014 budget. In addition, a forecast on Council Tax and Business Rates collection is also provided.

Recommendation(s)

Cabinet is recommended to note: -

- (1) The progress to date on the achievement of approved savings for 2013/2014;
- (2) The potential year-end underspend on the revenue budget;
- (3) The wider budget pressures being experienced in the remainder of the Budget; and
- (4) The forecast position on collection rates of Council Tax and Business Rates;

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

<u>Corporate Objective</u>		Positive Impact	Neutral Impact	Negative Impact
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 2014/2015. To identify the potential year-end underspend on the revenue 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 2013/2014 will need to be financed from within any under-spending identified within other areas of the 2013/2014 and 2014/2015 budgets, or from the Council's general balances. The wider budget has been thoroughly reviewed with savings being identified in other services areas negating the requirement of general balances. The net underspend is forecast to be in the range of £2m-£4m.

(B) Capital Costs

None

Implications:

The implications of these 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 (FD2828/14) and Acting Head of Corporate Legal Services (LD2134/14) 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 2013/2014 to 2014/2015 which requires a large change programme of £50.8m to be implemented over this and the coming year. The recent provisional Government grant settlement has confirmed that reduced funding of local authorities will continue, with further significant savings being required for 2015/2016 and 2016/2017. 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 2013/2014 and 2014/2015. 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 2013/2014 – Current position**

- 2.1 The table at **Annex 1** identifies the current position of the agreed savings for 2013/2014. 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 January 2014 for the achievement of savings is that £26.38m of the required £28.58m have been delivered or are on plan, £0.47m are at some risk of not being fully achieved. This leave a further £1.73m of savings that are unlikely to be achieved in 2013/2014 (identified as "Red"), a minor improvement since the last report (£0.02m).

3 **Other Budget Risks**

- 3.1 The saving options considered above indicate a reduction in the potential budget shortfall ("Red items"), with an amended gap of some £1.73m for 2013/2014. Officers have provided updates over the year to identify the potential revenue outturn position for 2013/2014. Given the uncertainty of pressures on demand for services, departments have taken a cautious approach in estimating the year-end position.

Given the proximity of the year-end, an exercise has now been completed to identify departments “best estimates” of the outturn position i.e. assuming that the “potential pressures” do not materialise. This exercise has now identified that overall, the year end outturn could result in an underspend of between £2-£4m. This does not yet include any additional provision to be charged for doubtful debt and other provisions which may be considered necessary during the closure of the accounts, hence the forecast being given as a range.

- 3.2 However, there is still uncertainty regarding spending pressures in a number of areas of the budget, and consequently, these figures will be closely monitored over the remainder of the financial year.

4 Overall Forecast Revenue Position 2013/2014

- 4.1 The overall forecast revenue position is that there will be a budget surplus in the range of £2m- £4m including £1.73m from the “Red – Unlikely to be achieved” category of budget savings, more than offset by a number of budget under spends from other areas of the budget following a thorough review of the forecast position. The forecast is expressed as a range since final outturn forecast has **not** yet included a full assessment of the doubtful debt provision required to support the reduced levels of Business Rates and to consider any other provisions which may be necessary.
- 4.2 If the overall net underspend position is achieved by the end of the financial year, the Council will be able to support the expected shortfall on the 2014/2015 Revenue Budget (see report elsewhere on the agenda).

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 2013/2014 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 2013/2014 (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 January 2014 is shown below:

2013/2014	Budget £’000	Forecast £’000	Surplus(-) £’000
Total Council Tax Income	-114,787	-115,996	-1,209

- 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 slightly 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 an improvement on the position as at the end of November (-£233k). The changes include a reduction in the value of CTRS discounts (-£157k), lower growth than forecast in exemptions and other discounts (-£101k), the removal of residual CTB transactions (+£146k) and a new adjustment to reflect a forecast reduction in CTRS discounts (-£110k).

5.4 Due to the Collection Fund regulations, the Council Tax surplus will not be transferred to the General Fund in 2013/2014 but will be carried forward to be distributed in future years. In January 2014 the Council declared a surplus of £1,141k for 2013/2014 as part of its budget setting process. This is the amount that will be distributed in 2014/2015. The table below provides a comparison between the indicative budget approved in February 2013 and the surplus declared in January 2014:

Declaration of Council Tax Surplus (-) / Deficit	%	2014/2015 Indicative Budget £'000	Surplus Declared (Jan 14) £'000	Variation £'000
Sefton Council	85.2	855	-972	-1,827
Police & Crime Commissioner	10.2	102	-117	-219
Fire & Rescue Authority	4.6	46	-52	-98
Total	100	1,003	-1,141	-2,144

5.5 Any variation between the forecast surplus declared in January 2014 and the actual Collection Fund balance at 31 March 2014 will be carried forward to be distributed in 2015/2016. The difference between the latest forecast and the amount declared is shown in the table below:

Share of Council Tax Surplus (-) / Deficit @ 31 March 2014	%	Surplus Declared (15/01/14) £'000	Forecast Surplus (05/02/14) £'000	Variation £'000
Sefton Council	85.2	-972	-1,025	-53
Police & Crime Commissioner	10.2	-117	-123	-6
Fire & Rescue Authority	4.6	-52	-55	-3
Total	100	-1,141	-1,203	-62

The forecast surplus shown in the table above differs slightly from the amount shown in paragraph 5.2 because it includes a deficit of £6k that was carried forward on 31 March 2013.

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 2013/2014. The following paragraphs provide an update of the position for Sefton as at the end of January 2014.

- 6.2 Overall the net Council Tax Reduction Scheme is forecasting a favourable outturn position of £1.5m; a £0.3m improvement on the November position.
- 6.3 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: -

	January Total
Liability Raised	£4,017,459
Amount Paid	£2,619,433
Percentage Collected	65.2%

Summary of Working Age Claimants

	January
Number of affected cases	16,140
Instalments not yet due (includes some direct debit accounts)	757
Accounts with payments made since annual bills issued	12,838
Accounts with instalments overdue and no payments made	2,545
Analysis of Accounts with payments made	
Paying by direct debit over 10 months	1,945
Paying by direct debit over 12 months	1,148
Paying by cash/cheque over 10 months	8,198
Paying by cash/cheque over 12 months	1,547

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 2013/2014 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 forecast position for Business Rates income, as at the end of January 2014 is shown in the table below:

Business Rates Income 2013/14	Budget £'000	Forecast £'000	Deficit £'000

Net Rate Yield	-65,545	-62,412	3,133
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7.4 The forecast identifies a deterioration compared to the November position of some £0.602m. The main reason for this increase in the forecast deficit is due to a change in assumptions around the backdated appeals provision. The latest regulations published in January 2014 require those Council's that are spreading the cost of appeals over 5 years to make a provision of 40% in 2013/2014 rather than 20% as previously assumed. As a result the backdated appeals provision has been increased from £0.662m to £1.323m. This provision is required to cover potential repayments 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 2013/2014 but will be carried forward to be recovered in future years. In January 2014, the Council declared a deficit of £3.048m as part of the budget setting process. Any variance between the forecast deficit declared in January and the actual Collection Fund balance at 31 March 2014 will be carried forward to be recovered in 2015/2016. The difference between the latest forecast and the amount declared is shown in the table below:

Share of Business Rates Surplus (-) / Deficit	%	Surplus Declared (Jan 14) £'000	Forecast Surplus (1 Feb 14) £'000	Variation £'000
Central Government	50	1,524	1,567	43
Sefton Council	49	1,494	1,535	41
Fire & Rescue Authority	1	30	31	1
Total	100	3,048	3,133	85

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 forecast position as at the end of January shows an additional £1.025m income from Council Tax and reduced income of £1.535m from Business Rates (a net deficit of £0.510m).

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 budget setting process in future years. A net deficit of £0.522m will be recovered in 2014/2015 and a forecast net surplus of £0.012m will be distributed in 2015/2016.

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.