

**Report to:** Cabinet      **Date of Meeting:** 27 February 2014

**Subject:** Revenue Budget 2014/15

**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 enable Cabinet to consider the 2014/2015 Revenue budget.

### **Recommendation(s)**

It is recommended that Cabinet: -

- 1) Note the updated Budget position for 2014/2015;
- 2) Considers the comments of the Overview & Scrutiny Committee (Performance and Corporate Services);
- 3) Consider the level of fees and charges for 2014/2015;
- 4) Consider the means of bridging the identified outstanding Budget gap; and
- 5) Consider recommending a Council Tax increase for 2014/2015 to Council.

### **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:**

The recommendations in this report, if approved, will bring the Council closer to agreeing the 2014/2015 budget.

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

### (A) Revenue Costs

The Government's final Revenue Settlement for 2014/2015 has identified that there is a loss of Government funding of £14.4m which in conjunction with inflationary and other pressures gives a shortfall in funding of £27m (excluding any increase in relation to Council Tax) which the Council will need to address in agreeing the 2014/2015 Revenue Budget. The report reviews the two year financial plan and the areas where there is a high risk that the financial plan may not be deliverable. Resources were identified at the time of preparing the 2012/2013 final accounts to support £2.8m of the short fall in the 2013/2014 and 2014/2015 two year financial plan.

### (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:

<b>Legal</b> There are no direct legal implications arising from the contents of this report. However in the course of each of the individual projects, consultations, options etc. to achieve the savings required detailed consideration should be given to the legal, human rights and equality implications. Such consideration will also need to be evidenced to ensure that the Council's decision making processes are defensible. Recommendations in this report contribute towards a legally balanced budget.
<b>Human Resources</b> The proposals contained within this report have a potential impact upon employees and the potential for both voluntary and compulsory redundancies. It will be necessary for the Authority to comply with the duty to consult with recognised Trade Unions and employees and to complete as necessary a notification under Section 188 of the Trade Union Labour Relations (Consolidation) Act 1992. Also form HR1 to the Department of Business Innovation and Skills notifying of redundancies has been filed. Full and meaningful consultation should continue to take place with the Trade Unions and employees on the matters contained within this report.
<b>Equality</b> 1. No Equality Implication <input type="checkbox"/> 2. Equality Implications identified and mitigated <input type="checkbox"/> 3. Equality Implication identified and risk remains <input checked="" type="checkbox"/>

### Impact on Service Delivery:

Service implications remain as described within the options and proposals within the report approved by Council on 28 February 2013 with the exception of the option for charging for Green Waste which was reviewed and amended in July 2013.

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

A questionnaire was available on the Council's website, in libraries, One Stop Shops and Town Halls as part of the process of setting balanced budgets for 2013/2014 and 2014/2015 in January 2013. The consultation undertaken prior to the Council meeting in February 2013 also included: -

- Over 50 meetings and workshops with the public, voluntary, community and faith networks as part of the consultation on the Sefton Strategic Needs Assessment
- A telephone survey on setting a balanced budget
- The use of You Choose the budget simulator via the website
- Bespoke consultations such as libraries, public conveniences and burials and cremations.
- Older People Expert Stakeholder Panel
- Consultation on increasing the Council Tax via an e-form on the Council's website, a hard copy questionnaire in Town Halls and One Stop Shops and an impartial telephone survey.

Regular and ongoing consultations also took place with Directors, employees and Trade Unions.

The Head of Finance and ICT is the author of this report (FD2827/14) and the Acting Head of Corporate Legal Services has been consulted and appropriate comments are incorporated (LD 2133/14)

Overview & Scrutiny Committee (Performance and Corporate Services) were consulted on 18 February 2014.

### **Are there any other options available for consideration?**

The Council has a legal obligation to set a balanced and robust budget and to set the Council Tax for 2014/2015 before 10 March 2014.

### **Implementation Date for the Decision**

The Council will agree the budget for 2014/2015 at its meeting to be held on 6 March 2014.

**Contact Officer:** Margaret Rawding

**Tel:** 0151 934 4082

**Email:** Margaret.rawding@sefton.gov.uk

### **Background Papers:**

Fees and Charges increases as recommended by the relevant Cabinet Member can be accessed on the Council's website via this link

<http://modgov.sefton.gov.uk/moderngov/ecSDDisplay.aspx?NAME=SD1716&ID=1716&RPID=8744803&sch=doc&cat=13197&path=13158%2c13197>

## 1. Background

- 1.1 The Committee will recall that the Council meeting of 28 February 2013, approved a two-year financial plan for 2013/2014 and 2014/2015. The report identified a budget gap of £50.8m (£25m for 2013/2014 and £25.8m for 2014/2015). Saving proposals were agreed which enabled a balanced two-year financial plan to be approved. The two year plan, whilst using a working assumption of income based on Council Tax raised to the maximum allowed under the 2013 regulations (£1.4m), did **not** make any decision regarding the Council Tax level for 2014/2015. This decision will be made at the Council meeting on 6 March 2014.
- 1.2 **The 2014/2015 Revenue Budget must be considered in the context of the three year Medium Term Financial Plan which has already made Members aware that a further £55m savings will need to be identified to deliver a balanced budget to March 2017.**
- 1.3 This report identifies required changes to the plan, arising from the non-achievement of specific savings in 2013/2014, amendments to resources and anticipated expenditure variations for 2014/2015. The Table below identifies the remaining Budget gap.

### Summary Budget Gap Analysis 2014/2015

- 1.4 The following table identifies the original estimates used in the two year plan and an updated position following the 2014/2015 Local Government Finance announcements and updated figures for Business Rates, inflation, and cash flow and treasury management projections. More details of these updates are given in paragraphs 2.1 to 2.15 below.

	2014/2015 Original £m	Adjustments £m	2014/2015 Amended £m
Government Funding	13.524	0.885	14.409
Business Rates	0.416	1.864	2.280
Inflation	7.056	0.273	7.329
Levies	0.000	0.217	0.217
Treasury Management	1.804	-2.037	-0.233
Adult Social Care	3.000	0.000	3.000
Demographic Growth			
<b>TOTAL</b>	<b>25.800</b>	<b>1.202</b>	<b>27.002</b>

- 1.5 In addition to the variations above there are three previously approved savings which are at high risk of not being achieved, these total £4.051m and are detailed below at paragraph 2.16.

- 1.6 In order to bridge this gap, Members are asked to review the previously approved two year savings plan, the use of Council Tax, the use of one-off resources to meet the one year only short falls and the use of sustainable savings options to provide long term solutions. Members are reminded of the Council policy that one-off resources should only be used to address short term budget issues.

		£m
Budget Gap (Para1 &2)		27.002
Adjusted previously approved savings total excluding Council tax		-20.341
Changes from Council tax base and movement on collection fund		-1.880
	Total to be met from Council Tax increase, one-off resources and/or new sustainable options	4.781

## **2 2014/2015 Indicative Budget – Amendments**

- 2.1 The approved Indicative Budget for 2014/2015 was prepared on the basis of assumptions on Government Grant, estimates of income from Business Rates and Council Tax (at a time of significant change). These assumptions have now been amended following the announcement made by the Secretary of State on the final Grant Settlement, and the nine months experience of the changes to Council Tax and National Non-Domestic Rates. These are considered further below: -

### **Government Funding**

- 2.2 The indicative Budget for 2014/2015 assumed that Government funding would reduce by **£13.524m**, based on announcements that had been made at that time. The Chancellor's Budget Report 2013 (March 2013) announced a further 1% cut in Government Funding above that previously assumed when agreeing the Indicative Budget for 2014/2015 (i.e. a further reduction of **£1.452m**).
- 2.3 However, the Indicative Budget excluded any additional New Homes Bonus or New Homes Bonus Adjustment Grant. The additional amount anticipated is estimated at **£0.567m**.
- 2.4 The Government announced, on 5 February 2014, the final Local Government Revenue Grant Settlement for 2014/2015. This, along with other grant announcements, has identified that whilst there have been some small amendments to the various grants, the overall net impact does not change the net position as reported to Cabinet on 5 December 2013.
- 2.5 **This results in an overall decrease in Government Funding of £14.409m compared to 2013/2014**, i.e. a further reduction in resources of £0.885m on the original Indicative Budget.

### **Business Rates**

- 2.6 The original Indicative Budget included a reduction in income of £0.416m. Council recently submitted its NNDR1 return to the DCLG. This showed the amount of Business Rates to be received in 2014/2015 was £0.970m less than originally assumed in the Indicative Budget. This is due to increases in Mandatory Reliefs and reductions in Rateable Values. The impact is a reduction in Business Rates of **£1.386m**.
- 2.7 In addition, there has been an underachievement of income in 2013/2014, mainly as a result of the above factors. Also, the Council is required to set aside resources for its share of the potential cost of appeals that were outstanding on 1 April 2013 (although this cost can be spread over five years). These two factors will result in the Council forecasting a deficit in 2013/2014 which must be charged to the Council in 2014/2015. The reserve set aside for NNDR appeals will need to be partially utilised during 2014/2015 to offset the identified additional cost. The net cost is therefore **£0.894m**.
- 2.8 **This results in an overall decrease in Business Rates income of £2.280m compared to 2013/2014**, i.e. a further reduction in resources of £1.864m on the original Indicative Budget.

### **Inflation**

- 2.9 The original Budget gap included inflation provision for pay, increments, contracts and prices (**£7.056m**). However, in order to help balance the Indicative Budget in February 2013, the provisions for prices and increments were reduced by a total of £4.75m. No provision was made for indicative pension costs at this time.
- 2.10 The Local Government Pension Scheme was subject to a triennial review in March 2013 that impacts on contributions to the Merseyside Pension Fund from 2014/2015. Due to a number of factors the estimated increase in contributions relating to the deficit and future service will increase by £0.773m in 2014/2015. In order to achieve good cash flow management, **the budget assumes the next three years' deficit contributions are paid as a lump sum in 2014/2015**. This would generate net savings of approximately £1.800m over the three years (£0.500m in 2014/2015). The net additional cost in 2014/2015 would therefore be **£0.273m**.
- 2.11 **As a result, the provision for inflation in the Budget Gap is now £7.329m**, i.e. an increase of £0.273m.

### **Levying Bodies**

- 2.12 The Indicative Budget assumed no increase for levies.
- 2.13 The Council has just received the 2014/2015 levy demand from the respective organisations. Merseyside Recycling and Waste Authority have agreed an overall net freeze in their levy. The levy is apportioned to local authorities via the relative proportions of population and waste tonnages. Whilst Sefton's figures for these items are relatively unchanged, waste disposal tonnages across other Merseyside authorities have fallen. Consequently, there is an increase in Sefton's levy of £0.333m. However, Merseyside Integrated Transport Authority has approved a reduction in the levy of £0.116m due to population changes. The

net impact of these changes means that there will be an additional charge of **£0.217m**.

### **Treasury Management Costs**

- 2.14 The Indicative Budget assumed that Treasury Management savings would not continue beyond 2013/2014. However, due to the continued availability and use of internal borrowing to fund the Council's Capital Investment Plan, it is forecast that savings of **£2.037m** could be achieved in 2014/2015. However, it should be noted that the Council will need to externally borrow up to £70m at some point in the future. This will reduce the ability to achieve these savings in the long-term and will be kept under regular review to ensure good cash management supports the budget for as long as possible.

### **Demographics for Adult Social Care**

- 2.15 The 2014/2015 Indicative Budget included £3m for additional pressures in Adult Social Care. This projection remains that the same level into this update.

### **Two year Financial Plan**

- 2.16 The previously approved two year financial plan identifies savings in 2014/2015 of £24.392m excluding any assumptions about Council Tax increases. There are a few approved savings which are at a high risk of not being able to be achieved within the 2014/2015 Revenue Budget and Council will be asked to consider if they wish to amend the previously approved plan accordingly. These are annotated on the attached Annex.
- 2.16.1 Adult Social Care – the savings relating to Adult Social Care have been the subject of a strategic transformation plan and are regularly robustly reviewed by Cabinet Members and Senior Officers. Whilst a great deal of change is taking place and many of the savings relating to Adult Social Care have and are being actioned there is a high risk that there will be an estimated shortfall of £3.9m in 2014/2015. The estimated impact on future years of these previously approved policy changes is that £3m will not be achieved in future years. The future years short fall has been reported in the 2015/2016 and 2016/2017 Medium Term Financial Plan as an assumed budget shortfall. Therefore Council will need to consider if they wish to provide short term funding for 2014/2015 only and that long term sustainable savings are identified in the 2015/2017 two year plan. The alternative is that sustainable savings are identified from 2014/2015, thereby reducing the budget gap identified in the 2015/2017 projections.
- 2.16.2 The Plan includes £100,000 saving to be met from retendering of the Southport Theatre. Retendering has taken place and whilst a bid was submitted which would have supported the saving this has subsequently been withdrawn by the bidder and the Council will be unable to make this saving in 2014/2015. Further options for the Theatre will be considered as part of the 2015/2016 budget planning. Therefore Council will need to consider if they wish to provide short term funding for 2014/2015 only and that long term sustainable savings are identified in the 2015/2017 two year plan.
- 2.16.3 The Plan includes savings in 2013/14/15 of £51,000 to be achieved by reducing the number and frequency of Member and Non-Member meetings. The review of this option did not identify a reduction in the number or frequency of meetings which would have allowed this saving to be made. Therefore Council will need

to consider if they wish to provide short term funding for 2014/2015 only and that long term sustainable savings are identified in the 2015/2017 two year plan.

The above adjustments to the two year plan would reduce the previously approved savings by £4.051m in 2014/2015, giving a **revised total of £20.341m excluding Council tax increases**. This represents a 92% achievement of the two year financial plan, which given the significant risks inherent in the policy changes is a creditable performance.

### **3 Council Tax Income**

3.1 The Council will have to consider three options relating to Council Tax for 2014/2015;

- To freeze the Council Tax and be eligible for the Council Tax Freeze Grant. This will provide funding of **£1.172m** in 2014/2015 and is based on a 1% increase in Council Tax. The Government has indicated that this would be built into the base for future Government funding. However, the Council MTFP assumes a level of Council Tax going forward to 2015/2016 of £1.408m and acceptance of the freeze grant would require the 2015/2016 budget shortfall to be increase by £0.236m;
- To increase Council Tax by 1.99%, i.e. the maximum possible without requiring a referendum in May. This would provide resources of **£1.941m** and this would be built into the Council Tax base. (This is lower than twice the above because of the required adjustment for the Council Tax Reduction Scheme);
- Propose an increase above 2% which would require a Referendum. Members would wish to consider that **each 1% increase** in Council Tax would generate an additional **£0.975m** (adjusted for CTRS) assuming current levels of collection and doubtful debt. The estimated cost of holding a referendum would be £200,000.

3.2 Other Council Tax adjustments will impact on the Budget for 2014/2015. These are in addition to the above considerations outlined in paragraph 3.1.

3.2.1 The Indicative Budget for 2014/2015 included a saving of £0.400m by reducing the discount available on empty properties. Council on 23 January 2014 approved the change in this discount. This change, along with other changes in the Council Tax Base, increases expected Council Tax income by £0.603m, rather than the £0.400m anticipated. Consequently, the Council has approved the creation of an Exceptional Hardship Fund budget of £0.150m. Therefore there is an additional **£0.053m** available to support the budget.

3.2.2 The Indicative Budget for 2014/2015 included a contribution to the deficit on the Collection Fund for Council Tax of £0.855m. Deficit contributions have been made over a number of years to build up the Bad Debt Provision to a prudent level as required by the Council's external auditor. This has now been achieved so no deficit contribution is now required in 2014/2015. In addition, due to collection rates being higher than estimated and other factors, the Collection Fund for Council Tax is estimated to be in surplus by the end of 2013/2014 by £0.972m. This surplus is required to be transferred to the Council in 2014/2015. The total increase in resources due to the movement on the Collection Fund Deficit / Surplus is **£1.827m**.



#### **4 Identification of One- Off Resources**

- 4.1 The final accounts of 2012/2013 identified **£2.865m** from the 2012/2013 under spend that was specifically earmarked to support the risks which may arise from the 2013/2015 two year financial plan. This is available to support short-term shortfalls in the financial plan.
- 4.2 Officers have provided budget 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 a net under spend in the range of £2m - £4m. The Council may wish to consider the re-phasing or use of some of this potential over achievement in year one of the plan to support the projected year two shortfall.
- 4.3 There is still uncertainty regarding spending pressures in a number of areas of the budget. Consequently, these figures will be closely monitored over the remainder of the financial year.

#### **5 Fees and Charges**

- 5.1 Cabinet Members have considered the proposed level of fees and charges for 2014/2015. The details of their recommendations are included as a Background Document. Cabinet is asked to consider the level of charges for the next financial year.

## 6 Summary

	£m	£m
Budget Gap (Para1)		27.002
Adjusted previously approved savings total excluding Council Tax (Para 2.16)		-20.341
Changes from Council Tax base and movement on collection fund (Para 3.2)		-1.880
	Total to be met from Council Tax increase, one-off resources and/or new sustainable options	4.781

### The report details

- the Budget gap of £27.002m which excludes any Council Tax increase;
- the previously approved savings and the adjustments to those savings as detailed in the report;
- the changes arising from the Council Tax Base and the Collection Fund; and
- allows Cabinet to consider the options for producing a balanced budget from a combination of Council Tax, one-off resources and new sustainable savings.