

Report to Cabinet

Subject: Gedling Plan 2015/16 (including General Fund Revenue Budget)

Date: 19 February 2015

Author: Senior Leadership Team on behalf of Leader of the Council

Wards Affected

Borough wide.

Purpose

This report sets out the priorities, objectives and top actions for the Council for the forthcoming year with the associated revenue budget.

Key Decision

This is a Key Decision.

Background

- 1.1 The Constitution of the Council details the Budget and Policy Framework Procedural rules. Section 2.01 concerns budget and performance plans. It contains the specific requirement for the Leader to present, before 21 February each financial year, a draft Budget and Performance Plan to the Cabinet for approval, highlighting budget priorities, growth items and proposed cuts.
- 1.2 The Executive is required to consider any comments made on the draft Budget and Performance Plan and present the final drafts to Council for adoption in accordance with the statutory requirements. To fulfil these requirements the 2015/16 Gedling Plan and revenue budget proposals will be presented to Budget Council on 3 March 2015. The Borough Council has a statutory responsibility to determine its Council Tax by 10 March.
- 1.3 This report ensures these requirements will be met for the 2015/16 budget process.
- 1.4 The severe financial pressures that the authority continues to face following the prolonged downturn in the economy and the announcement of further reductions in Government Grant Settlement make this another extremely challenging budget round. As the Council relies heavily on central funding to deliver its services any

funding reductions require the Council to make budget cuts and efficiencies to deliver a balanced budget in the medium term.

Proposal

2.1 Gedling Plan

2.1.1 Appendix 1 sets out what we're trying to achieve and how we intend to go about that. Appendix 2 sets out the performance measures associated with the Gedling Plan.

2.1.2 Our forward planning continues to take place at a time of unprecedented financial challenge and our approach is based upon:

- Targeting resources at maintaining the highest levels of performance with those services that residents consider to be most important;
- Protecting services and activities that support the most vulnerable;
- Prioritising activity that helps to boost the local economy.

2.1.3 The Plan is based around the following 11 objectives, 'underneath' which sits a range of actions.

- Reduce anti-social behaviour, crime and the fear of crime
- Reduce hardship and provide support to the most vulnerable
- Improve health and well-being
- Promote and encourage pride, good citizenship and participation in the local area
- Create more jobs and better access to them
- Ensure local people are well prepared and able to compete for jobs
- Provide more homes
- Provide an attractive and sustainable local environment that local people can enjoy and appreciate
- Improve the customer experience of dealing with the Council
- Give tax payers value for money
- Maintain a positive and productive working environment and strong staff morale

2.1.4 Should the recommendations be agreed, progress against the above objectives and priority actions will be reported to members and to the public on line and through the Covalent performance management system. Accountability for individual actions will be shown clearly in these reports, with each action having an accountable manager, a lead director and a lead portfolio holder.

2.2 Proposed General Fund Budget 2015/16

The Council's overarching Financial Strategy sets out the framework for overall financial control and administration for the Council. It also details how individual items such as Central Government Funding, Taxation levels, Resource Developments etc. impact on the annual budget and this has been taken into account in presenting this annual budget and Medium Term Financial Plan (MTFP) Summary.

2.2.1 Local Government Finance Settlement 2015/16

The Local Government Finance Settlement determines how much grant Central Government will give to each local authority in England in 2015/16.

The provisional Settlement figures for 2015/16 were announced on 18 December 2014 and a full analysis was reported to Cabinet on 8 January 2015. The consultation period on the Settlement closed on 15 January 2015. The final Settlement figures were announced on 3 February 2015 and confirmed the figures contained in the provisional announcement as detailed in the paragraphs below.

2015/16 Settlement

The final Settlement figure, now known as the **Settlement Funding Assessment** for 2015/16 totals £4,938,471. This represents the aggregate of Revenue Support Grant of £2,146,229 and estimated retained Business Rates of £2,792,242 (the actual amount of business rates funding will be determined by the actual amount of rates collected and movements in the business rates base). The Settlement Funding Assessment of £4,938,471, which includes non-ringfenced specific grants, represents a cash reduction of £926,215 or 15.8% from the comparative 2014/15 figure.

Non-ringfenced specific grants are detailed below:

- the Council Tax Freeze compensation grant of £137,753 for the 2011/12 freeze and £60,621 for the 2014/15 freeze, continue in baseline funding;
- Homelessness grant of £76,564 (a 0.4% reduction compared to 2014/15);

- Council Tax Reduction Scheme grant previously specified at £706,325 for 2013/14 (10% less than the previous benefit subsidy amount), has now been incorporated into the base settlement funding assessment but this figure is not separately identifiable in the settlement figures.

In total this further reduction in 2015/16 coupled with reductions in the previous 4 years spending round (starting 2011/12) means that this authority has had its Central Government Settlement grant reduced by £4.1m (excluding impact of council tax freeze grants) or 45% in cash terms. Government Settlement funding is now below the cash levels received in 1993 when Council Tax was introduced and is programmed to fall even lower in the next spending review period as detailed in the paragraphs below.

Future Spending Review Period 2016/17-2019/20

Public spending control remains central to the Government's commitment to reducing the deficit. The Government's fiscal assumption is that Totally Managed Expenditure (TME) for 2016/17 and 2017/18 will fall in real terms at the same rate as between 2010/11 and 2014/15 which for Gedling equates to 34% or £1.68m. TME will then stay flat in real terms in 2018/19 and 2019/20.

Council Tax Freeze Grant

The Government have announced that funding will be available to local authorities which freeze council tax for 2015/16, which will be built into the baseline for subsequent years. Councils that do so will get a grant equivalent to raising their council tax by 1% in each year, adjusted to exclude the reductions given to those receiving council tax support, which equates to approximately £60,600 for Gedling.

Council Tax Reduction Scheme Grant

The Council Tax Benefit system was replaced on 1 April 2013 with the Council Tax Reduction Scheme (CTRS) which provides a discount on the council tax bill for eligible applicants. Gedling's initial scheme, which was approved by Council on 19 December 2012, was devised to ensure the most vulnerable are protected by making the discount receivable equivalent to the benefit which would have been payable under the previous system. The basis of the original scheme is proposed to continue for the 2015/16 financial year.

The CTRS is funded partly by Government Grant, initially set at a rate 10% less than previously available as benefit subsidy, and the remainder by introducing new tax charges for empty properties. The Council Tax Reduction Scheme non-ringfenced grant was previously specified at £706,325 for 2013/14, but this has now been incorporated into the base Settlement funding assessment and specific grant figures for CTRS are no longer identifiable.

The non-ringfenced CTRS grant includes an amount to fund the impact of taxbase reductions on local parish precepts, initially predicted at £47,500. The impact of the initial scheme on 2013/14 taxbase figures, when adjusted for Gedling's own

technical changes, resulted in a precept reduction of £28,400 for Parish Councils as a whole and grant of this amount was paid to Parish Councils to ensure no financial loss was suffered from the implementation of CTRS. The remainder of the grant was used to part establish a hardship fund for vulnerable claimants including those in Parish area. Demand on that fund is lower than anticipated and despite the Council facing a further cut of 15.8% in its funding for 2015/16, Cabinet approved in principle, at its meeting on 8 January, to make an additional grant payment to the Parish Councils of £19,100 in recognition of the work they do in their communities.

Total grant support to Parish Councils of £47,500 for 2015/16 is included in the General Fund budget at paragraph 2.2.2 below. As the CTRS grant is not protected from future funding reductions the amount of grant to be paid to Parish Councils will need to be determined on an annual basis.

Council Tax Increase Referendum Trigger

The Localism Act 2011 gives powers to the local community to either endorse or veto Council Tax rises that are above a limit which is to be set annually by the House of Commons. If a local authority decides to implement a council tax increase above the government set limit this will trigger a referendum so that local voters can either support or reject the proposed rise.

The referendum limit for 2015/16 has been set at 2%. In previous years it has also been set at 2%. Any Council which sets an increase greater than the referendum limit and does not get support from the electorate via the referendum will have to revert to a council tax level that is compliant.

New Homes Bonus

During 2011/12 Central Government introduced the New Homes Bonus (NHB) which is now a significant and permanent feature of future local government funding. The Government have committed to funding NHB from the centrally retained share of Business Rates income which will continue to be paid as a separate non-ringfenced grant.

The principles of the grant are to reward local authorities for each new property completed within their boundary. The value of the reward is linked to the average council tax band D property and each individual award will be for a six year period.

Gedling has been awarded £467,744 for 2015/16 which is in addition to the £1,563,784 awarded for 2011/12-2014/15, giving a total cumulative New Homes bonus of £2,031,528. The Council's Medium Term Financial Plan assumes a further increase in grant of £350,000 in 2016/17, reaching a cumulative total of £2,381,528 by 2016/17 which is the end of the six year period after which it is expected to stabilise at this level.

The receipt of the New Homes Bonus has enabled the Council to protect core services and to respond to local priorities by investing in its Economic Development activities through the introduction of free town centre car parking, investment in Arnold leisure centre and theatre facilities, the establishment of an increased staffing and projects resource for economic development work.

2.2.2 General Fund Budget 2015/16 Summary

In developing a budget proposal, assumptions on the core budget have to be made and the various assumptions in respect of inflation are shown at Appendix 2. These have been included in both the annual base budget and MTFP calculations. The following table summarises the proposed General Fund Budget for 2015/16. The detailed budgets are presented at Appendix 3 together with an explanation of major variances between the original estimate for 2014/15 and the estimate for 2015/16.

General Fund Budget Summary 2015/16

| Portfolio | Original Budget 2014/15 £ | Base Budget 2015/16 £ | Variance £ |
|-------------------------------------|-------------------------------------|---------------------------------|----------------------|
| Community Development | 1,605,300 | 1,468,900 | (136,400) |
| Health & Housing | 1,116,100 | 1,113,400 | (2,700) |
| Public Protection and Communication | 1,625,900 | 1,643,100 | 17,200 |
| Environment | 4,499,300 | 4,473,600 | (25,700) |
| Leisure & Development | 1,891,600 | 2,089,700 | 198,100 |
| Finance & Performance | 2,241,200 | 2,089,100 | (152,100) |
| Base Budget | 12,979,400 | 12,877,800 | (101,600) |

2.2.3 Major Budget Pressures

In addition to the expected inflationary pressures detailed in Appendix 2 the base budget and medium term financial plan include the following major budget pressures greater than £50,000:

- Waste Management - growth in number of households and increase in sickness cover £114,800;
- Planning and Building Control – additional staffing requirements and establishment of risk management reserve due to workload pressures and reduction in income £123,900;
- Community Grants – reinstatement of CVS and RCAN grants, establishment of Borough Wide Initiatives budget and Drama Outreach grant and increase

in Parish Council grants £51,600;

- Elections – cost of Borough Council election £90,000;
- Housing Benefit – reduction in admin subsidy grant and additional rent allowances £93,500.

2.2.4 **Major Budget Reductions**

Budget Reduction Proposals 2014/15 Budget Process – Progress Update

During the 2014/15 budget process, in response to reductions in government grant funding, a significant programme of budget reductions totalling £2.458m was approved for delivery between 2014/15 and 2016/17 to ensure achievement of a sustainable medium term financial plan. The approved budget reductions covered a range of revenue and capital related proposals using a variety of strategies i.e. efficiency, new ways of working, income generation and service cuts. It was anticipated that the programme of budget reductions would not be achievable in full so a budget reduction risk reserve was established with a final total forecast of £179,500 for non-delivery at the end of the programme implementation. Delivery of the programme has progressed well and final outturn is expected to be broadly in line with the original estimates. Items planned for delivery during 2015/16 have now been reflected in the budget and are included in the variance table at paragraph 2.2.6 below.

In order to facilitate the delivery of the budget reduction programme the 2014/15 budget report also proposed the establishment of a Transformation Reserve over 3 years i.e. £300,000 2014/15, £150,000 2015/16 and £50,000 2016/17. Therefore the budget for 2015/16 and the MTFP include the planned budgets of £150,000 and £50,000 respectively.

Other Major Budget Reductions

The base budget and medium term financial plan include the following major budget reductions greater than £50,000:

- Senior Leadership Team deletion of one Corporate Director post saving £93,000;
- Hackney Carriage Licencing net saving of £186,000 - the original budget for 2014/15 assumed a reduction in demand for taxi licencing arising from the introduction of a knowledge test for drivers. However, the expected reduction in demand from drivers licencing with us has not fallen, although indications are that the huge growth experienced in previous years has slowed. Additional income of £307,000 arising from increased demand, fee increases of 10% above inflation and fees for the delivery of safeguarding training have been partly offset by additional costs of £121,000 for staffing costs in Licencing, Fleet and Customer Services and the cost of safeguarding training.

- Members Expenses net saving of £53,300 – reduction in the number of Members reducing allowances and members pot and savings on superannuation due to regulation changes, partly offset by the inflationary increase in allowances.

2.2.5 Proposed Revenue Resource Developments 2015/16

Following discussions with the Leader, the Resource Developments detailed in the tables below are recommended to Cabinet for approval.

In light of the overall financial position, and the need to reduce net revenue expenditure significantly in order to achieve a balanced budget over time, revenue resource developments included in the budget proposal for 2015/16 are primarily one off project funds focussed on delivering against key priorities e.g. Economic Development. The MTFP, at paragraph 3 below, assumes no future ongoing revenue development bids. There were no other revenue development proposals for 2015/16.

Work is ongoing on developing the Council's longer term leisure centre strategy. This includes examining options for replacement and/or refurbishment of current leisure centre provision. Although this work is ongoing it is clear that a significant capital investment will be required in the medium to long term. The Council's capital resources remain limited and the current revenue position is such that significant borrowing is not currently affordable. It is therefore considered prudent to begin to make provision for future investment and consequently it is recommended that a sum of £1m is earmarked from the General Fund Balance in 2015/16 for this purpose. This is reflected in the Medium Term Financial Plan as paragraph 3 below. Additional contributions to this reserve will be considered on an annual basis.

General Fund Revenue Resource Development 2015/16

(a) One Off Resource Developments

| Description | Gross Rev Bid 2015/16 | Gross Rev Bid 2016/17 |
|--|-----------------------|-----------------------|
| | £ | £ |
| <u>Environment</u> | | |
| Environmental Projects Fund | 37,500 | 0 |
| <u>Leisure and Development</u> | | |
| Economic Development Fund | 220,000 | 0 |
| Access to Swimming Initiative | 15,000 | 15,000 |
| Total One Off Resource Developments | 272,500 | 15,000 |

(b) Ongoing Resource Developments

| Description | Gross Revenue Bid 15/16 | 2016/17 Ongoing |
|--|-------------------------|-----------------|
| | £ | £ |
| Public Protection and Communication | | |
| ECOSTars Fleet Recognition System | 7,000 | 7,000 |
| Additional Edition of Contacts | 12,000 | 12,000 |
| Community Hub Carlton | 30,000 | 90,000 |
| Leisure and Development | | |
| Planning Pre-Application Advice | 7,200 | 4,500 |
| Total Ongoing Resource Developments | 56,200 | 113,500 |

2.2.6 Summary of Significant Budget Changes 2015/16

In summary, the table below highlights the areas of significant variance in expenditure/income, in excess of £10,000, per annum which have been reflected in the base budget 2015/16.

Significant Budget Changes 2015/16

| | Budget Impact 2015/16 £ | £ |
|---|----------------------------|-------------------|
| Original Budget 2014/15 | | 12,979,400 |
| Revenue Budget Pressures | | |
| Inflation (Pay 1% 2014/15/NNDR 2%/Fuel/Contracts/Postage) | 135,300 | |
| Increased Insurance Premiums | 29,900 | |
| Holiday Pay Provision | 20,000 | |
| Borough Council Elections | 90,000 | |
| Reduced Housing Benefit Admin Grant | 75,800 | |
| Increase in Rent Allowances | 17,700 | |
| Waste Management growth and increase sickness cover | 114,800 | |
| Reduce Waste Recycling Income | 13,600 | |
| Planning and Building Control staffing and income reduction | 123,900 | |
| | Budget | |

| | Impact 2015/16 £ | £ |
|---|---------------------------------|------------------|
| Reduced Income – Leisure Centres (includes £25k loss re plant room refurbishment closure at Arnold Swimming Pool) | 34,000 | |
| Other Minor Variances (net) | 13,800 | |
| Total Pressures | | 668,800 |
| <u>Revenue Budget Growth</u> | | |
| Development Bid commitments made during 2014/15: | | |
| • Gedling Country Park Projects (rising to £100k in 2016/17) | 50,000 | |
| • Economic Development Fund | 100,000 | |
| One off revenue development bids 2015/16 (see table above) | 272,500 | |
| Ongoing revenue development bids (see table above)(rising to £113,200 2016/17) | 56,200 | |
| Direct Revenue Financing of capital programme (one off) | 500,000 | |
| Community Grants (CVS;RCAN; Parish; Borough Wide Initiatives; Drama Outreach) | 51,600 | |
| Total Growth | | 1,030,300 |
| <u>Other Base Budget Reductions</u> | | |
| Efficiency Commitments made during 2014/15 Budget Process: | | |
| Reduce grass cutting frequencies | (40,000) | |
| Reduction in civic expenses | (15,000) | |
| Reduced debt interest and minimum revenue provision | (48,700) | |
| Service working practice reviews – staffing savings | (149,000) | |
| Reduction in Senior Leadership Team | (93,000) | |
| Fees and Charges income inflation (see para 2.2.8) | (88,800) | |
| Hackney Carriage demand increase (net) | (186,000) | |
| Reduction in Members expenses (including members pot) | (53,300) | |
| Reduction in External Audit Fees | (21,900) | |
| Removal of Council Tax Reduction Scheme Hardship Fund | (25,000) | |
| Council Tax Benefit run off – net overpayment recoveries | (30,000) | |
| Removal of Leisure Centre Options Consultancy (one off 2014/15) | (50,000) | |
| | Budget | |

| | Impact 2015/16 £ | £ |
|---|---------------------------------|--------------------|
| Removal of Glass Recycling Bins (one off) | (40,000) | |
| Removal of Budget Reduction Risk Reserve | (260,000) | |
| Reduction in Transformation Reserve (leaves £150k in 2015/16) | (150,000) | |
| Removal of 2014/15 Environmental Projects Fund (partly offset by new budget developments above) | (50,000) | |
| Removal of 2014/15 Economic Dev Fund (partly offset by new budgets developments above) | (500,000) | |
| Total Other Budget Reductions | | (1,800,700) |
| Net Decrease in Budget 2015/16 | | (101,600) |
| Proposed 2015/16 Net Budget | | 12,877,800 |

Note: In addition to the above 2015/16 budget changes the MTFP includes the following:

- Changes to National Insurance contracted out contribution rates and rebates – £176,000 per annum from 2016/17;
- Impact of Pension Auto Enrolments £61,200 in 2017/18 rising to £122,400 2018/19;
- Service demands arising from an increasing number of households and ageing population are anticipated in the MTFP to the value of £100,000 in 2016/17 rising to £200,000 in 2017/18;
- Revenue Maintenance pressures £10,000 in 2017/18 rising to £25,000 in 2018/19;
- Assumptions about the transfer of Housing Benefit administration to the Department of Works and Pensions following the introduction of Universal Credit have been made. The net cost to the authority is expected to be £150,000 in 2016/17 rising to £200,000 by 2018/19;
- Assumptions have been made regarding the transfer of Land Charges to the Land Registry in 2017/18 which has a budget impact of £84,000.

2.2.7 Review of Balance Sheet Reserves and Provisions

Reserves and Provisions on the balance sheet have been reviewed to ensure appropriate levels of funds are retained for specific future purposes and risks.

As detailed in paragraph 2.2.4 the additions proposed to the Transformation Reserve during the 2014/15 budget process i.e. £150,000 2015/16, £50,000 2016/17 have been reflected in the 2015/16 budget and MTFP respectively. This will continue to accommodate any change management costs that arise during the planned service reviews.

2.2.8 Income Inflation

Discretionary fees and charges have been increased by 3% equating to £88,800. Specific charges are at the discretion of individual Portfolio Holders provided that the overall level of increase is achieved. Changes in expected volumes of customers, both upwards and downward have also been anticipated, again in line with market expectations.

Some of the services operated by the Council are not included in the general fee inflation increase due either to: fees being statutorily set e.g. planning fees; the sensitivity of demand to price changes e.g. Leisure DNA or; being operated on a commercial basis and therefore required to break even e.g. Trade Waste Services and Building Control. The level of fees which are set in these areas are considered separately and the base budget has been amended to ensure appropriate fees are set.

2.2.9 Financing of the Capital Programme

As detailed in the Capital Programme report earlier on this agenda it is currently forecasted that some borrowing will be required to finance part of the capital programme in 2016/17 and 2017/18. Borrowing has an impact on the revenue budget in terms of interest costs and principal repayment. This is reflected in the Medium Term Financial Plan.

As detailed in the capital programme report (an item elsewhere on this agenda), a £500,000 contribution from the revenue budget is recommended to finance the 2015/16 capital programme. This contribution is required to bridge the funding gap arising from the reduced capital receipt generation forecast which was part of the 2014/15 budget reduction proposals. The £500,000 contribution is assessed as affordable following the early delivery of some of the planned 2014/15 revenue budget reduction proposals creating an underspend in 2013/14, and its usage enables the overall delivery of the planned capital and revenue budget reduction programme to remain within targets set.

2.2.10 **Business Ratepayers Consultation**

Statutory consultation with 100 business ratepayers has been undertaken and any responses will be reported at the meeting.

3. **MEDIUM TERM FINANCIAL PLAN**

3.1 The implementation of the Local Government Act 2003, which introduced a requirement for the Council's Chief Financial Officer to comment on the robustness of the Council's estimates, and the need to look at the medium term (3 years) in order to produce the required indicators as detailed in the Prudential Code, means great emphasis needs to be placed on the Council's medium term financial planning. Although an absolute requirement to look over three years is required, it is considered good practice to look over as long a period as is reasonable. This Council has a history of producing a medium term financial plan over a 5 year horizon and this is still considered the appropriate period for this authority.

3.2 The following table identifies the impact of all the options that are proposed in this report:

- The incremental increase in base revenue expenditure from 2014/15 and budget growth items (paragraph 2.2.3 and 2.2.5);
- Fees and charges to be increased by an average 3%;
- The achievement of the budget reductions (paragraph 2.2.4);
- Anticipated cost of borrowing to finance the capital programme for 2016/2017-2019/20 and a £500,000 contribution to capital in 2015/16;
- £1m transferred from the General Fund Balance to an Earmarked Reserve in 2015/16 for future leisure centre refurbishment/replacement (paragraph 2.2.5);
- A zero percent Council Tax increase has been assumed for 2015/16, beyond that a 1.95% increase is assumed. However, future council tax increases will be dependent upon future spending decisions, total local government funding, the achievement of efficiency savings and the continuation of the council tax freeze grant.

| | 2015/16 £ | 2016/17 £ | 2017/18 £ | 2018/19 £ | 2019/20 £ |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Net Projected Expenditure | 12,877,800 | 12,386,000 | 12,498,100 | 12,721,400 | 13,161,600 |
| Less: Net Settlement Funding Assess. (inc freeze grant) | (4,999,100) | (4,159,500) | (3,320,000) | (3,385,200) | (3,451,700) |
| New Homes Bonus | (2,031,500) | (2,381,500) | (2,381,500) | (2,381,500) | (2,381,500) |
| NNDR Growth/ Collection Fund (Surplus)/Deficit | 385,400 | (308,300) | (328,700) | (400,500) | (473,700) |
| Less: Amount (from)/to Balances | (781,800) | 43,700 | (755,000) | (705,600) | (867,400) |
| Council Tax Requirement | 5,450,800 | 5,580,400 | 5,712,900 | 5,848,600 | 5,987,300 |
| Percentage Council Tax increase | 0% | 1.95% | 1.95% | 1.95% | 1.95% |
| Tax Base | 35,610 | 35,760 | 35,910 | 36,060 | 36,210 |

| | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|------------------|
| Expected balances at year end | 4,236,300 | 4,280,000 | 3,525,000 | 2,819,400 | 1,952,000 |
| Required balance (7.5% projected exp) | 965,800 | 928,900 | 937,400 | 954,100 | 987,000 |
| (Surplus)/Deficit on required balances | (3,270,500) | (3,351,100) | (2,587,600) | (1,865,300) | (965,000) |
| | | | | | |

4. COUNCIL TAX

- 4.1 The Council Taxpayer has to meet the difference between the planned expenditure and the Government grant receivable after the use of any balances are taken into account. It is this difference that is used to calculate individual Council Tax bills for 2014/15.
- 4.2 The council tax for a band D property for 2014/15 is £153.07. The level of council tax for 2015/16 depends on the extent of service reductions/developments and financial risk issues (see paragraph 5 below) that the Council decides to provide for in the budget for next year. For illustration, an increase in Council Tax by 1% provides additional funding of £54,500. In the above MTFP a freeze has been assumed which retains the Council Tax for a band D property at £153.07.
- 4.3 As detailed in paragraph 2.2.1 Council's that freeze Council Tax in 2015/16 will receive grant equivalent to a 1% increase, adjusted to exclude the reductions given to those receiving council tax support, which equates to approximately £60,600 for Gedling. Ministers have indicated that the funding for 2015/16 freeze grant will be built into the spending review baseline and this has been assumed in the MTFP. An

increase above 2% would require a referendum.

5. FINANCIAL RISK ISSUES

- 5.1 A minimum balance of 7.5% of total projected net expenditure on the General Fund is required in accordance with the Council's approved Financial Strategy. The external auditor regards this level of balance on the General Fund to be satisfactory, and it is also appropriate to reflect uncertainties in the financial process in the medium term. The minimum balance required for 2015/16 is £965,800.
- 5.2 The (surplus)/deficit on balances in the above table shows amounts (above)/below the recommended minimum General Fund balance in any one year. Current spending plans, incorporating Council Tax freeze in 2015/16 (which is yet to be determined by Budget Council 3 March) show a surplus of £3,270,500 in 2015/16 gradually declining to a surplus on balances of £965,000 by 2019/20. Underlying this is an annual deficit, from 2017/18, between the amounts of income expected and anticipated expenditure. Although the MTFP projections show that this can be accommodated within the five-year horizon, further adjustments will be required to rectify this core imbalance with a further £867,400 reduction per annum being required to ensure balances do not fall below the minimum required beyond the term of this MTFP. The Council remains well placed to deal with this remaining challenge.
- 5.3 Projections for Council Tax increases in the MTFP are estimated at 0% for 2015/16 as the Government indicates that the Council Tax Freeze Grant Scheme will become part of mainstream Settlement funding. Therefore there is very limited scope to fund the core imbalance by increasing Council Tax as it has already been assumed that rises just below the referendum trigger amount will be applied in future years. This will need review if the Government maintains Council Tax Freeze Grants beyond the current period.
- 5.4 The current uncertainty resulting from the Government's austerity programme results in increased risks in the financial planning process. However, as the economy continues to grow these uncertainties may reduce. Specific Risks in the MTFP Assumptions include:
- 5.4.1 The Local Government Finance Settlement has not announced indicative grant figures for the future spending review period 2016/17-2019/20. The Government's fiscal assumption is that Totally Managed Expenditure (TME) for 2016/17 and 2017/18 will fall in real terms at the same rate as between 2010/11 and 2014/15 which for Gedling equates to 34% or £1.68m. TME will then stay flat in real terms in 2018/19 and 2019/20. The grant figures included in the MTFP for 2016/17 onwards are based on these projections. However, there is also uncertainty regarding how these projections will translate to actual grant payments at a local level, given the experience of higher than projected grant reductions faced by District Councils in 2011/12-2015/16.

5.4.2 Central Government are implementing a number of initiatives which affect local government funding, namely Universal Credit, Localisation of Council Tax Support and Business Rates Retention:

Universal Credit – This will see a significant transfer of housing benefit expenditure and administration to the Department of Works and Pensions. This will happen in full over the lifetime of the MTFP, however many uncertainties on timing, staff transfer and residual functions exist. The Council has created a reserve to mitigate against any transfer costs arising from this change;

Localisation of Council Tax Support – 2013/14 was the first year of operation of this new discount scheme which replaces Council Tax Benefit. The Council moved to protect vulnerable groups with an extension of 'into work' incentives. The budget for this expenditure was based on modelling of existing caseload. As the projection for a growing economy continues the Council become less financially vulnerable to the risk of increasing caseload;

Business Rates Retention – This scheme was introduced in 2013/14 but the overall impact of tariffs, levies and surplus/deficits, along with difficulties in determining the impact of medium term growth (or decline) places greater uncertainty on the projections in the MTFP. The risks have been further evidenced through recent statutory business rates returns to Government made in the last 18 months which may prompt a future review of the minimum level of the general fund balance.

5.4.3 Initiatives introduced to manage within reduced resources bring increased risks both financially and in terms of service delivery. For example:

- Reduced maintenance budgets – can be accommodated in the medium term but may bring pressures in the longer term as major capital investment plans may need to be accelerated as assets deteriorate faster;
- Earmarked reserves for specific purposes/risk management have been reviewed and will be managed at minimum requirement levels providing less scope for managing emerging risks. Although additional reserves have been set aside for the potential staffing redundancy/transfer costs in respect of the move of rent allowances payments to the Universal Credit system.

5.5 The Council's Pay Policy Statement indicates that employee pay levels, across all grades, are substantially below the average when compared to our nearest neighbours. As the economy grows and the job market becomes more buoyant the low level of the pay line may present a risk for the Council in terms of the ability to retain and recruit quality staff which in turn could have an adverse effect on service delivery. A budget has been earmarked in 2014/15 to undertake a review of the pay line and determine the potential for upward pressure on the Council's employee budgets.

- 5.6 The Authority continues with activities undertaken in association with a variety of partners. This requires reliance on partnership funding and/or the delivery of integrated programmes and is an approach which is integral to the Council's efficiency programme. However, a significant number of the Council's partners are public sector organisations which are also facing significant budget pressures and changing roles. This places increasing risk on the Council both directly, in respect of possible withdrawal of partnership funding, and indirectly, with the Council potentially facing additional burdens resulting from budget cuts in other organisations.
- 5.7 Although there is increased risk arising from these assumptions, it is not considered necessary to increase minimum balances above the 7.5% of total projected net expenditure as the Council is responding to the challenges through efficiency measures and service reductions. It is considered that the annual and medium term budgets are robust, but given the above risk assessment the achievement of the estimated Medium Term Financial Plan is uncertain. However, reserves and balances remain above minimum levels for the period of the current MTFP.
- 5.8 Given the Council's excellent track record for budget management, careful budget monitoring and financial planning, which will continue, the structural deficit that remains in the Medium Term Financial Plan is considered to be at a manageable level.

6 Equality Issues

The Council has a duty under the Equality Act 2010 to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups (such as disabled people or ethnic minority groups) when considering proposed new or changing policies, services or functions, including decisions on funding for services.

Service Managers have been asked to assess the equalities impact of the proposals for service changes contained in this report. It is not anticipated that there will be any significant cumulative impact on any protected group arising from these budget proposals.

Where appropriate, individual Equality Impact Assessments will be carried out in relation to specific proposals identified in this report. Any equality issues arising will be brought to the attention of the decision maker when the decisions on those proposals are made.

7 Key Decision Thresholds

In accordance with the Council's constitution, full Council will in each year determine the financial thresholds for each service or function above which expenditure or saving is regarded to be significant and should therefore be regarded as a Key Decision. Traditionally the threshold has operated at above £0.5m and it is proposed that this value be continued for 2015/16.

Alternative Options

Cabinet could consider recommending an alternative budget and service plan. Recommending an alternative budget may alter the level of recommended Council Tax for 2015/16. If Cabinet chose not to recommend a budget to Council this would be in contravention of the Council's Constitution and would not be in compliance with the Local Government Finance Act 1992.

Financial Implications

As detailed in the report.

Appendices

Appendix 1 – Gedling Plan

Appendix 2 - Gedling Plan Performance Measures

Appendix 3 – Major Price Indices – Medium Term Financial Plan

Appendix 4 – Detailed Portfolio Budgets 2015/16

Background Papers

Finance and Efficiency Strategy

Central Government Report – Local Government Finance Settlement in England 2015/16

Treasury Strategy 2015/16

Capital Programme Report 2015/16

Recommendation(s)

Cabinet are asked to recommend to Council on 3 March 2015:

- i. the financial threshold above which decisions will be regarded as Key Decisions be set at £0.5m for 2015/16;
- ii. a Council Tax increase of 0% which balances the financing of a Net Council Tax Requirement of £5,450,800 in 2015/16;
- iii. the detailed budget, priorities, objectives and actions and performance measures for 2015/16, as detailed in Appendices 1, 2 and 4, be approved.

Reasons for Recommendations

To obtain approval of the Gedling Plan 2015/16 for referral to Council.