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Budget 2014/15

Report by the Treasurer and the Chief Officer

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1. Introduction

- 1.1. This report is an updated version of that presented to the Finance and General Purpose Committee on 29th January 2014. This report now reflects F&GP's recommendation to accept the council tax freeze grant for 2014/15 and the recommendation that the budget surplus is added to the Capital Payments reserve.
- 1.2. The figures have also been updated to reflect the billing authorities' final tax base, the final position on their council tax collection fund, the share of business rates due to the Authority and the position on their business rates collection fund. Also details of the Section 31 grant Government are issuing in response to the capping of business rate increases and to fund the specific range of business rate reliefs announced, has now also been confirmed.
- 1.3. However, at the time of writing this report one district council has still not confirmed the final section 31 grant payable to the Authority. It is estimated that the final figures are likely to change by around £3,000 once this is confirmed. The report therefore includes a recommendation that should the billing authorities amend any submitted figures that the Chairman, Chief Officer and Treasurer be given delegated authority to adjust the revenue budget accordingly. In practice, this would just be the contribution to the capital payments reserve from the budget surplus.

2. Recommendations

- 2.1. That if any subsequent changes are required to the budget, the Chairman, Chief Officer and Treasurer are given delegated authority to reflect the actual position in the budget.
- 2.2. That the council tax freeze grant for not increasing council tax in 2014/15 should be accepted.
- 2.3. That the revenue budget for 2014/15 as set out in Appendix A be approved.
- 2.4. That the Capital Programme for 2014/15 as set out in Appendix E be approved.

- 2.5. That the recommendations set out in Appendix G covering the Treasury Management strategy which incorporates the Prudential Indicators and the policy on the minimum revenue provision be approved.
- 2.6. That the budget requirement for the general expenses of the Authority for the year beginning 1st April 2014 be £66,248,710.
- 2.7. That the Council Tax requirement for the Authority for the year beginning 1st April 2014 be £36,059,088.44
- 2.8. That the Authority's council tax for the year beginning 1st April 2014 for the properties in each band be:

Band A:	£40.92	Band E:	£75.02
Band B:	£47.74	Band F:	£88.66
Band C:	£54.56	Band G:	£102.30
Band D:	£61.38	Band H:	£122.76

- 2.9. That the precepts totalling £36,059,088.44 are issued on the billing authorities in Hampshire, requiring the payment in such instalments and on such dates set by them and previously notified to the Authority, in proportion to the tax base of each billing authority's area as determined by them, which is set out below:

Basingstoke and Deane Borough Council	60,797.30
East Hampshire District Council	46,802.77
Eastleigh Borough Council	41,934.45
Fareham Borough Council	40,974.40
Gosport Borough Council	24,794.10
Hart District Council	37,544.47
Havant Borough Council	38,002.43
New Forest District Council	68,581.20
Portsmouth City Council	51,532.10
Rushmoor Borough Council	29,540.17
Southampton City Council	57,044.00
Test Valley Borough Council	44,164.00
Winchester City Council	45,761.97
Total	<u>587,473.36</u>

- 2.10. That in accordance with the set of principles set by the Secretary of State for Communities and Local Government for the year, it is determined that the relevant basic amount of council tax for 2014/15 is not excessive.

3. Summary

- 3.1. At its meeting on 3 December 2013, the Authority received a report outlining the medium term financial position (MTFS) for the Authority which detailed the projected 2014/15 budget position following details announced in the Comprehensive Spending Review (CSR) for 2015/16. This set out the expected reductions in Government funding over the next four financial years. It also set out the service's achievements to date in securing efficiencies and making reductions in spending but highlighted the future challenge which would need to be addressed.
- 3.2. Since that meeting more detailed estimates of expenditure for 2014/15 have been developed and expenditure to be funded from reserves has been finalised. Government grant towards spending has been announced, tax bases have been finalised and the surpluses / deficits on both the business rates and council tax collection fund have been obtained.
- 3.3. The Authority is now in a position to agree the total budget for 2014/15. Part of this involves accepting the recommendation to freeze council tax in return for a council tax freeze grant.
- 3.4. Government has also made the announcement that there will be no fixed capital grant for fire authorities in 2015/16 to support investment in vehicles and equipment (the current annual capital programme requirement is around £3.5m p.a.). This along with the projected funding gap of £12m means the Authority may need to start considering council tax increases from 2015/16 onwards to contribute towards the budget deficit.

4. The current year 2013/14

- 4.1. The latest budget monitoring report presented to the Finance and General Purposes Committee last month forecasts there will be an underspend of £1.213m after allowing for potential carry forwards and a £2m contribution to service improvement initiatives. At the meeting it was agreed that, subject to confirmation at the end of the financial year, the balance is added to the capital payments reserve.

5. Changes to the draft budget

- 5.1. A number of small changes have been made to the draft budget presented in December. These are...

	£'000
Total surplus reported to HFRA (3 December 2013)	1,611
Increase in precepts collected locally	569
Decrease in business rates	-63
Decrease in business rates top up grant	-19
Net contribution from collection funds	56
Returned top sliced funding	38
Changes in council tax freeze grants	39
Section 31 grant	373
Changes in the base budget (detailed in paragraph 8.1)	38
Current projected 2014/15 surplus	2,642

6. Council tax collection fund and tax base

- 6.1. Finalised estimates have been received from the billing authorities on their tax bases. The tax base has increased from last financial year by 1.6%, which is a favourable position since this generates extra council tax revenue on an on going basis.
- 6.2. Final estimates have also been received from the billing authorities on their council tax collection fund surpluses/deficits for years prior to 2014/15. Overall, these show a surplus of £544,520 allocated to the Authority. This is a one-off sum and can only be taken into account in 2014/15.

7. Business rates retention scheme

- 7.1. The Business rates retention scheme, which was introduced in April 2013, saw HFRA receive an initial top up grant from central government of £6,344,000. In the medium term projections it was assumed this would increase by 2.25% due to the Government announcing all baseline funding would be uprated in line with the RPI. The actual top up grant was announced at £6,467,549 being inflated by just 1.95% following the Government's decision to cap the level of business rate increases for next year.
- 7.2. The billing authorities have now also finalised their estimates of the business rates and the proportion due to the Authority in 2014/15. This amounts to is £6,396,871. This sum will obviously not be the exact sum collected and therefore the difference will be adjusted in future years in the same way as council tax via the collection fund.
- 7.3. Section 31 grant funding to compensate Authorities for the loss in income arising from the 1.95% cap on increases in business rates and the business rate top up grant has now been calculated to be £136,556. However, there are also a number of other business rate reliefs to be funded by central government which increase the total section 31 grant payable to the Authority to £373,094 in 2014/15.
- 7.4. Final estimates have also been received from the billing authorities on their business rates collection fund for 2013/14. Overall this is a deficit of £488,854 which will be a one off cost to the Authority in 2014/15, in the same way that the council tax fund operates.

8. Budget requirement 2014/15

- 8.1. The table below summarised the adjustments made to the base budget (previously presented to the Authority on the 3rd December 2013)

	2014/15
	£000
Estimated budget as reported to HFRA (3 December 2013)	64,438
Reduction in inflation and base changes	(140)
Increase in pension costs	41
Reduction in capital financing costs	(6)
Reduction in efficiencies secured	67
Latest estimate of draft budget	64,400

8.2 Appendix A sets out the details of the proposed budget calculation and Appendix B outlines the revenue budget for 2014/15.

8.3 The following table sets out the headline grant position for the Authority

	2014/15
	£000
Sources of income	
Revenue Support Grant	15,890
2011/12 freeze grant	968
Business rates top up grant	6,468
Retained business rates	6,397
Collection fund surplus / (deficit)	56
Returned funding (one off)	38
Council tax	36,059
Section 31 grant funding	373
2013/14 freeze grant	395
2014/15 freeze grant	398
TOTAL INCOME	67,042
Draft Budget	64,400
TOTAL SURPLUS (+) / DEFICIT (-)	2,642

8.4 The figures in the report show the Authority accepting the 1% council tax freeze grant (CTFG) which Government announced for not increasing council tax in 2014/15. It is proposed this is accepted due to the projected budget surplus in 2014/15. However, this proposal is also being influenced by the expected requirement to hold a referendum if the council tax is increased by more than a limit set annually by central government. This limit is thought to be between 0% & 2%. If this is the case, the cost of holding a referendum and potential re-billing of council tax would be very significant. It would wipe out a large part (if not all) of the additional income generated through a council tax increase above the limit.

8.5 The Government has announced from 2015/16 that the 2011/12 and the 2013/14 freeze grant will be incorporated into future Government funding and also that the freeze grant for 2014/15 and 2015/16 will be included in the base used for the Spending Review in 2016/17.

8.6 Although this news is positive for the Authority because around £2m of council tax freeze grants were expected to end in 2016/17, Government grant reductions could be more severe over the next Spending Review period than is currently being anticipated to take account of this. Overall however, it is thought that the Authority will be better off.

8.7 The section dealing with capital spending (which features later in this report) shows the grant funding for capital investment is £1.4m for 2014/15. Although annual spending fluctuates, the average spending on vehicles and buildings is around £3.5m per annum. The Authority has sought to overcome this shortfall in funding by establishing a capital payments reserve which will be available to

pay for capital spending without borrowing. It is assumed that any revenue surplus which exists in the budget in 2014/15 will be transferred to the capital payments reserve.

9. Level of reserves and general balance

9.1. General Balance

- Last year a detailed exercise was carried out to risk assess the level of general balance that the Authority should hold. There has been a review again this year and it is considered that there is no requirement to alter the level of general balance and it is therefore recommend that the balance remain at £2.5m.

9.2. Specific Reserves

- 'Improvement and sustainability reserve'. This is used to help deliver value for money improvements, and to 'pump-prime' environmental initiatives. Also at the end of this financial year the earmarked balance from the Service Improvement budget will be added here so that it can be spent by Heads of Service in future financial years subject to the agreement of a satisfactory business case and approval by F&GP for schemes costing over £100k.
- 'Capital payments reserve'. This provides an essential resource for the capital programme and helps to reduce the need for borrowing. As mentioned elsewhere in the report it is recommended that the underspend from the current year is added to this reserve. This will put the Authority in a more secure position as government funding for capital is now on a 'bids' basis and therefore the Authority may not always be successful.
- 'Grant equalisation reserve'. This was initially held to pay the worst case redundancy costs related to the staff review. At the end of the 2013/14 financial year a contribution of £384k was made to fund other priorities.

9.3. Details of the expected balance on each of the specific reserves and the general balance over the period 2014/15 to 2017/18 are set out in Appendix D.

10. Capital

10.1. No changes have been made to the proposed capital programme from 2014/15 presented to the Authority in December and this is reproduced as Appendix E. However, given the announcement by the Government that the capital funding for 2015/16 will only be on a bids basis and that beyond this year is unknown, the programme for 2016/17 onwards remains at this stage an indication of the Authority's capital proposals. At this stage, the Authority has planned effectively and should be able to fund the current programme from the Capital Payments Reserve, but longer term capital spending may have to be reviewed in line with future council tax and other spending decisions.

11. Capital Financing

11.1. The 2014/15 capital grant was set last year at £1.4m. The Government has subsequently announced that capital allocations for 2015/16 will be made based on bids submitted for transformational projects if they show value for money and sustainability. It had previously been assumed that the Authority would receive a general capital grant of £1m in 2015/16. This is a major reduction in support for essential investment.

11.2. The proposed financing is now set out in detail in Appendix F. This currently assumes we are not successful in bidding for any transformational funds from 2015/16 onwards due to the fact that the majority of our capital programme set out for future years simply relates to replacing vehicles and maintaining the buildings needed to sustain an effective level of service delivery.

12. Treasury Management

12.1. Attached as Appendix G is the Treasury Management Strategy Statement and Investment Strategy which requires approval on an annual basis. This document includes the Prudential Indicators and statement on Minimum Revenue Provision.

12.2. The Treasury Management Strategy and Investment Strategy for 2014/15 follow a similar format and have a similar content to previous years. The most significant change in the Treasury Management environment is as a result of proposed UK and EU legislation, which reduces the likelihood that the UK and other governments will support failing banks and increases the risk to the security of investments from bank 'bail-ins'. In the event of a 'bail in' investors funds would be top-sliced to meet the losses of the failing bank and restore it to an acceptable level of financial health, resulting in a capital loss to those investors.

12.3. The counterparty limit for banks and building societies is being maintained at £7m to allow for peaks in the cash balance, such as when the annual Pension Grant is received. Operationally the amount invested with any individual counterparty will be reduced, through the use of more counterparties that meet the Authority's credit criteria. This will ensure that the Authority has a greater level of diversification in its cash investments across a range of creditworthy counterparties.

13. Referendum

13.1. Under the localism Act there is a requirement for an Authority to formally determine whether or not their council tax increase is excessive. A set of principles determined on an annual basis by the Secretary of State for Communities and Local Government will form the basis of that decision.

13.2. On the 12th of February the Government is set to announce the limit which if a council tax increase is over then it would be deemed excessive and would require the approval of the local electorate.

13.3. Given that the Authority is not increasing council tax, this is not relevant to the Authority and therefore Members are recommended to determine the increase is not excessive.

14. Consultation

14.1. Formal consultation with the business community took place on 7th January 2014, setting out the wider context of the savings programme that has been put in place up to the 2014/15 financial year and the future challenge that the Authority faces over the medium term. It was fully appreciated that the budget proposals for 2014/15 were already well formulated in terms of the efficiency savings programme and the budget surplus in the year meant that any proposal to increase council tax would look out of step against the current financial position. However, as in previous consultation meetings businesses

acknowledged that the Authority will need to consider increases in council tax from 2015/16 onwards in order to help address the budget deficit in future years.

15. Robustness and Adequacy of reserves

15.1. Under S.25 of the Local Government Act 2003 the Chief Financial Officer has to report to the Authority when setting its council tax on two issues:

- The robustness of the estimates included in the budget
- The adequacy of the financial reserves in the budget.

Members are required to have regard to this in approving the budget and council tax.

15.2. The estimates have been prepared on an incremental basis derived from existing commitments. Inflation has been calculated and applied to budgets where it is certain it will be required, with the remainder being put in a contingency so whether or not it is required and where can be reviewed throughout the year.

15.3. With effective budgetary and management control arrangements that are in place, the budget can be regarded as robust. However, a few budgets are higher risk in the current economic climate. But the level of reserves and the fact there is a budget surplus in 2014/15 of £2.5m more than mitigates these risks.

15.4. There are other uncertainties such as the timing of capital payments or capital receipts from the sale of surplus property sales which are difficult to budget accurately for. These have been taken in to account when proposing to retain the general balance of £2.5m. The budget is also reliant on achieving a significant level of efficiency savings however; with the Safer Stronger Board overseeing the progress the Authority is on target to achieve the necessary savings.

16. Supporting our corporate aims and objectives

16.1. The draft budget and future spending plans underpin the HFRA service plan for the medium term. The budgets proposed will allow the Service Plan priorities to be addressed over the coming years.

16.2. The Service will be seeking alternative funding sources to help overcome the budget deficit currently predicted in 2015/16 and beyond. In addition the Service has begun formulating proposals for phase 2 efficiency savings, building on the work to date of the Safer Stronger Board and the Budget Alignment Group.

16.3. The Risk Review, a fundamental examination of the way operational services are provided, is set to start in the early part of 2014 and has been challenged with coming up with savings proposals that will form a major element of meeting the budget deficit.

17. Risk analysis

- 17.1. The Authority has an established process for planning ahead to meet financial targets. This has helped considerably in managing the reductions in Government grant as set out in this report.
- 17.2. The current savings programme has progressed according to plan but development and implementation of a new savings programme will need to be kept under review over the coming years in particular.
- 17.3. There is a real risk of a budget deficit in future years which will require reductions across the Service and increases in council tax. The Service has begun early planning to identify how a shortfall could be overcome, including examining other potential income sources. However, as a backstop position, the Authority has sufficient reserves to meet the gap thereby mitigating this risk in the short to medium term.

18. People impact assessment

- 18.1. The proposals within this report are considered compatible with the provisions of the equality and human rights legislation.

19. Background papers

- 19.1. The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report:

None

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.

List of Appendices

Appendix A	Calculation of the base budget
Appendix B	Outline of revenue base budget 2014/15
Appendix C	Efficiency Savings programme
Appendix D	Level of specific reserves and general balance 2014/15 to 2016/17
Appendix E	Proposed capital programme 2014/15 to 2016/17 (yellow)
Appendix F	Financing of capital programme (yellow)
Appendix G	Treasury Management Strategy Statement (salmon)