Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

12 JULY 2013

REPORT OF FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.6 INITIAL FINANCIAL BASELINE 2014/15

(Report prepared by Finance and Procurement)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To present an initial financial baseline for 2014/15 against which the Financial Strategy will build upon over the course of the year.

EXECUTIVE SUMMARY

- The initial financial baseline for 2014/15 sets out an initial budget ‘gap’ of **£1.300m.** For the purposes of the initial estimates, this is based on a 0% increase in the level of Council Tax and the provisional government financial settlement amount for 2014/15.

- The above is based on the continuation of the difficult financial environment and year on year reductions in funding from the Government, which are expected to see further reductions beyond 2014/15.

- With the changes introduced in 2013/14, such as the business rates retention scheme and the Local Council Tax Support Scheme (LCTSS), a significant level of financial risk has also now been introduced into the Council’s funding position.

- A self-sufficiency style approach has been introduced that will play an important role in helping to support the Council’s financial position in future years. This is based on the shift in how much of the Council’s funding is now raised locally.

- In respect of funding raised locally, this has increased to approximately **60%** through council tax and locally retained business rates, compared to around **40%** via council tax alone in 2012/13. Such a shift brought about primarily by the introduction of the business rates retention scheme supports a self-sufficiency style approach, which along with the New Homes Bonus, provides an incentive for council’s to ‘grow’ their own income through maximising opportunities for the right housing and business growth within their areas. This in itself brings with it the associated focus on local decision making where such decisions now have a greater impact on the Council’s overall financial position.

- The initial forecast does not currently provide for a number of items such as cost pressures and potential changes to budgets, for example pension costs, with further details likely to emerge of the course of the year. Therefore it is recognised that the budget ‘gap’ could increase further.

- Recent announcements by the Government, including the additional 1% cuts to the budgets of Government Departments in 2013/14 and 2014/15 suggest a disproportionate share of this burden will fall to 'unprotected' services such as Local Government. The forecast therefore sets out an initial savings target of **£2.000m** to meet the potential for further reductions in government support in 2014/15, additional costs that may emerge over the course of the year and to provide a strong position going into 2015/16 and beyond where further reductions in government support are anticipated.

- An updated position bringing together the various strands of the financial forecast will be presented to Members in the autumn as part of the Council's Financial Strategy framework

- This forecast baseline position enables the Council to begin the discussions and considerations of how the forecast budget 'gap' / savings target can be addressed.

- In respect of the recently introduced Local Council Tax Support Scheme and its development in 2014/15 and beyond, potential changes to funding have been identified and set out below that will need to be considered over the coming months along with other non-financial considerations that will inform the design of the scheme going forward.

- In addition, following the recent announcement by the Government to support a Council Tax 'freeze' in 2014/15 and 2015/16, the **£0.159m** previously set aside on a local basis to support such a 'freeze' beyond 2013/14 can now be reallocated elsewhere. It is therefore proposed on transferring this to the Leisure Capital Projects Reserve.

RECOMMENDATION(S)

(a) That Cabinet agrees the initial financial baseline for 2014/15 and requests officers to report back with an updated position as part of the Financial Strategy process later in the year.

(b) That Corporate Management Committee be consulted on the initial financial baseline for 2014/15 and be requested to form a view on the funding of the LCTSS in 2014/15.

(c) That the £0.159m previously set aside to fund a 'freeze' in Council Tax beyond 2013/14 be contributed to the Leisure Capital Projects Reserve.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

This report will have direct implications for the Council's ability to deliver on the commitments, objectives and priorities set out in the Corporate Plan, the Corporate Goals and the Community Strategy.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are fully considered in the body of the report.

Risk

There are clearly risks associated with the strategy such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process.

The actual funding gap could therefore be greater than that anticipated which would require a corresponding increase in the savings etc. necessary to balance the budget.

This strategy is risk-based. There are a substantial number of areas that could lead to additional expenditure being incurred, such as: -

- Deteriorating economic environment;
- Emergence of cost pressures;
- Changes to the local authority funding mechanism;
- Cost of the local council tax support scheme;
- New legislation placing unfunded duties on the Council or reducing the level of the Council's core funding;
- Local or national emergency;
- Breaches or failure of sea defences;
- Income is less than that budgeted for.

It is important that the Council continues to maintain a sufficient level of reserves to support the strategy's risk-based approach. A risk reserve (the general balance) of **£4.000m** (including the **£1.600m** minimum working balance) has been approved previously to insure against the eventuality that some of the events listed above actually occur. As part of the Financial Strategy process, the level of this reserve is subject to review with the outcome scheduled to be included in the updated position later in the year.

LEGAL

The arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The previous legislation defining the arrangements for charging, collecting and pooling of Business Rates was contained within the Local Government Finance Act 1988. These have both been amended as appropriate to reflect the introduction of the Local Government Finance Act 2012.

The Local Government Finance Act 2012 provided the legislative framework for the introduction of the Rates Retention Scheme and the Localisation of Council Tax Support.

The Calculation of Council Tax Base Regulations 2012 set out arrangements for calculation of the council tax base following implementation of the Local Council Tax Support Scheme. The new arrangements mean that there will be a lower tax base for the district council, major preceptors and town and parish councils.

The Localism Act 2012 introduced legislation around the right of veto for residents on excessive council tax increases.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no other implications that significantly impact on the financial baseline. However, the ability of the Council to appropriately address these issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

Before looking ahead to 2014/15 is it worth looking back to the changes over the last few years and the background to the 2013/14 budget which saw some significant changes such as the Local Council Tax Support Scheme and business rates retention model. Such changes are in addition to the unprecedented cuts in public sector funding which has seen this Council's overall spending fall by 20% since 2010/11 as set out in the table below.

Year	The Council's Net Budget 'Requirement' £m	General Government Formula Grant £m
2010/11	21.924	14.199
2011/12	18.863	11.133
2012/13	17.384	9.663
2013/14	17.646	*9.579

**Excludes Local Council Tax Support scheme grant for comparison purposes.*

The above position is also compounded by the adverse impact of the current economic climate which in particular has seen increased pressure on the Council's income streams such as leisure facilities, planning and building control.

Taking into account the savings required to not only meet the reduction in Government funding but to also respond to the adverse economic conditions, savings of **£5.5m** have been identified over the last three years to ensure a balanced budget can be set.

For information a summary of the 2013/14 budget is set out below:

	Budget 2013/14 £m
Net Cost of Services	18.602
Revenue support for capital investment	0.881
Financing Items	(0.958)
Net Expenditure	**18.525**
Net Movement of Reserves	(0.879)
Total Net Budget	**17.646**
Funded By	
Locally Raised	
Local Retained Share of Business Rates (net of Tariff / Levy)*	4.503
Collection Fund Surplus	0.151
Council Tax	6.272
Funded by Government Grant	
Revenue Support Grant	6.720
Total Funding	**17.646**

**This represents the net position after taking into account the Tariff and Levy adjustments*

After adjusting for the business rate tariff/levy, the above table highlights that approximately 60% of funding is now derived locally through business rates and council tax. Previously council tax, being the primary locally raised funding stream, accounted for approximately 40% of the total funding required in 2012/13. Therefore the introduction of the new business rates retention scheme has introduced a significantly greater proportion of the Council's funding being directly in the control of local authorities in-line with the Government's intention to incentivise councils in 'growing' their own income in what is being branded a 'self-sufficiency' style approach to budgeting.

A SELF-SUFFICIENCY APPROACH

As mentioned above, the concept of self-sufficiency revolves around key income streams for the Council – council tax and locally retained business rates. Many details emerged from the Government quite late in the budget setting process for 2013/14 so for information and completeness this section of the report revisits the calculations and changes which will hopefully be helpful before looking ahead to the 2014/15 forecast.

In respect of council tax, this can be further split over the actual council tax raised and the New Homes Bonus. Further context and details around the above issues are set out in turn below:

COUNCIL TAX

Tendring District Council's Band D council tax for 2013/14 is **£147.64,** a reduction of **0.5%** over 2012/13 and the third year of such a reduction. Council tax now makes up about **35%** of the Council's total funding.

Tendring has the second lowest council tax in Essex. The level of council tax (Band D Equivalent) across Essex is as follows:

Authority	Band D Council Tax
Harlow	£255.33
Basildon	£252.81
Castle Point	£234.09
Rochford	£205.11
Colchester	£175.23
Maldon	£173.04
Brentwood	£170.70
Chelmsford	£170.62
Braintree	£161.19
Epping Forest	£148.77
Tendring	£147.64
Uttlesford	£145.95

Since 2012/13 local authorities have to determine whether the amount of council tax they plan to raise is 'excessive'. A set of principles defined by the Secretary of State are applied to determine if this is the case with a specific 'allowable' percentage published each year. For 2013/14 the 'allowable' percentage was 2%. If an authority wishes to raise council tax above these published amounts then they are required to hold a referendum. The current forecast is based on a nil increase in council tax for 2014/15.

NEW HOMES BONUS

2014/15 will be the fourth year that the New Homes Bonus Scheme has been in operation.

The scheme is based on the government paying authorities the equivalent to the national average council tax for each new home or property brought back into use within its area. The amount per property is payable for 6 years with a cumulative effect as set out in the table below.

In two tier areas, 80% is payable to the billing authority and 20% to the County Council. Based on amounts paid to the Council to date, the amount receivable equates to approximately £950 per property per year.

A summary of the amounts receivable to date that have been included in the budget are as follows:

Year	Amount Receivable 2011/12	Amount Receivable 2012/13	Amount Receivable 2013/14
2011/12	£282,980	£282,980	£282,980
2012/13	0	£387,830	£387,830
2013/14	0	0	£380,240
TOTAL	**£282,980**	**£670,810**	**£1,051,050**

In respect of the 2014/15 forecast no additional amount over and above the 2013/14 figure of **£1,051,050** has currently been included. Further considerations and details for 2014/15 are set out later on in this report.

The Government have stated that the scheme will be reviewed in 2013 and if changes are made to the scheme, then they will need to be considered as part of the on-going Financial Strategy process.

The amount received up until the end of 2012/13 was approved to be carryforward into 2013/14 as part of the 2012/13 outturn report presented to Cabinet at its 14 June 2013 meeting. As part of the same report, Cabinet also approved the allocation of **£1.000m** of the New Homes Bonus receivable to date to a new Inward and Investment and Growth budget to formally recognise this commitment that was set out by the Leader when he presented the 2013/14 budget to Full Council on 12 February 2013.

Business Rates Retention
2013/14 saw the introduction of the Business Rates Retention Scheme. This scheme is based on business rates that are collectable locally being retained locally after paying a share to the Government and the Major Preceptors (excluding Police).

Based on a Government assessment of how much each authority retains by referring to baseline levels of ‘need’ that form part of the formula grant settlement calculations, there will either be an excess or shortfall in the amount retained by a billing authority after paying the relevant share to the Government and Major Preceptors. A tariff or top-up is therefore payable depending on an individual authority’s excess or shortfall position.

The table below sets out the position for this Council which hopefully clarifies the workings of the scheme as briefly explained above:

		2013/14 Position
Amount Collectable from Businesses in the District		(£24,196,175)
Government Share (50%)		£12,098,088
ECC Share (9%)		£2,177,656
Fire Authority Share (1%)		£241,962
Initially Retained By TDC		**(£9,678,470)**
Tariff and Levy payable to the Government*		£5,175,019
Retained by TDC after Tariff and Levy		**£4,503,451**

**This is based on a notional assessment by the Government where the amount initially retained locally is in excess of the Council's baseline funding 'need'. A further levy is payable where 50% of any 'growth' in business rates collectable over and above this baseline figure is due to the Government.*

The changes above are driven by the aim of incentivising local authorities to 'grow' their business rates through inward investment and growth. Therefore if the business rates collectable figure at the start of the calculations above increases through growth, then working though the relevant steps in the calculations results in TDC retaining 20% of any future business rate growth. It is also important to note that if business rate growth is associated with renewable energy, then up to 100% can be retained by the Council.

On the 'flip side' if the amount collectable reduced then the Council would retain less income. The Government have recognised this risk by applying a safety net. The calculations behind the safety net mean that the Council would fund the first 7.5% of any reduction before assistance from the Government was available. This does inject a new and significant risk into the Council's funding position which to a large extent is out of the Council's control such as the wider economic climate.

Self-Sufficiency Approach

As previously mentioned a significant element of the Council's funding is now raised locally and therefore there is now a greater impact of local decisions on the financial position of the Council.

This is a significant shift in how the Council has been funded in the past and therefore acknowledging and recognising this change will play a key role the Council's financial position in the years to come.

It could be argued that the Local Plan and associated planning decisions now have a stronger bond to the Council's Financial Strategy and budget setting as a significant 'enabler' for inward investment and growth will be the ability to support the 'right' housing and business development in the district.

A self-sufficiency approach also now needs to form an integral part of everything the Council does, as by capturing the impact of the Council's decisions in terms of how they can help 'grow' the Council's funding position will prove to be an invaluable element of delivery a balanced and sustainable budget in the future. By maximising such opportunities will reduce the pressure of finding savings elsewhere in the budget. The start of bringing this approach into supporting the Council's financial position therefore now needs to be considered.

FINANCIAL FORECAST 2014/15

The following table sets out the initial financial baseline for 2014/15. Although this will be subject to revisions and updates as the year progresses, it does set out the estimated initial funding 'gap' for the year.

This initial position does not currently include cost pressures and other potential changes that may emerge later in the year. Initial consideration of such items are set out in a separate section of the report below.

Initial Financial Baseline 2014/15

	2013/14 Original £m	**2014/15 Initial Forecast £m**
Net Cost of Services	18.602	18.334
Revenue support for capital investment	0.881	0.121
Financing items	(0.958)	(1.069)
Net Expenditure	**18.525**	**17.386**
Contribution to /(from) Reserves	(0.879)	(0.107)
Total Net Budget	**17.646**	**17.279**
Locally retained share of Business Rates	(4.503)	(4.555)
Formula Grant / Revenue Support Grant	(6.720)	(5.152)
Collection Fund Surplus	(0.151)	(0)
Council Tax Requirement (for Tendring District Council)	**6.272**	**7.572**

The council tax requirement figure of **£7.572m** above represents an increase of **£1.300m** compared to 2013/14 and if no further actions were taken, this amount would require a notional **21%** increase in the level of council tax to fully fund the budget. However assuming no increase in the level of council tax in 2014/15, net savings of **£1.300m** therefore need to be identified to reduce the council tax requirement down to the 2013/14 amount of **£6.272m.**

The amount of £1.300m therefore becomes the starting point or baseline funding 'gap' that needs to be addressed in 2014/15 based on an initial assumption of a 0% increase in the level of council tax for TDC Services.

<u>Background to this Initial Forecast</u>

General Economic Outlook

The setting of local authority budgets in 2014/15 and beyond will be undertaken against the background of continued economic uncertainty. Although Local Government has made substantial savings over the past few years, further savings will be required. Major changes in the welfare system coupled with economic conditions mean that many households continue to face increasing financial pressure. This has an impact not only on the demand for support from Local Authorities but on income levels for both statutory and discretionary services. The continued uncertainty in the Eurozone and negative headlines concerning credit ratings and challenges in the banking sector mean that interest rates and investment income remain at historic lows. There will also be specific challenges around business rates retention and the Local Council Tax Support Scheme which has introduced significant and additional risk to the Council's budget setting processes and financial position.

Taking each line of the forecast set out in the table above, the major changes to the budget for 2014/15 are as follows:

Net Cost of Services

The initial forecast reflects a **£0.268**m reduction compared to 2013/14. This is primarily due to the removal of the one-off Fit for Purpose and Contingency Budgets that total **£0.930m.**

This is partly offset by expected additional items as follows:

Item	Adjustment Included	Comments
INFLATION		
Salaries and Increments	£0.380m	2% general pay award included plus progression of staff along salary grades where appropriate.
Major Contracts	£0.150m	This primarily reflects the Council's most significant contracts such as Waste, Recycling and Street Cleansing.
NNDR	£0.019m	This assumes an inflationary uplift for properties where the Council is liable for business rates.
TOTAL INFLATION	**£0.549m**	
OTHER ADJUSTMENTS		
Mobile Telephone Contract Renewal	**(£0.010m)**	The Council's has recently renewed is contract with a Government Framework provider, the timing of which has enabled this saving to be included in the initial forecast.
Reduction in Government Grants *Community Right to Bid* *Community Right to Challenge* *Council Tax New Burdens* **TOTAL**	 £0.008m £0.008m £0.107m **£0.123m**	This adjustment is where a grant has been received that supports the general budget position rather than where there is an associated expenditure budget. There is enough uncertainty around the continuation of these 3 grants and therefore they have been removed for the purposes of the initial forecast.

Revenue Support for Capital Investment

The initial forecast reflects a **£0.760m** reduction compared to 2013/14. This relates to schemes that are being funded from reserves in 2013/14 such as the Cremator Replacement project. A corresponding adjustment is set out below under Use of Reserves with no overall net impact on the budget.

The **£0.121m** contribution currently included in 2014/15 primarily reflects the IT Core Infrastructure Scheme which is currently an on-going budget included each year.

Financing Items

The initial forecast reflects a **£0.111m** favourable reduction compared to 2013/14. This reflects the additional funding due from ECC, Fire and Police under the Second Homes / Discount Scheme agreement that was revised in 2013/14. The associated agreement sets out an increase from a 25% sharing model in 2013/14 to 30% and 35% in 2014/15 and 2015/16 respectively.

Use of Reserves

The initial forecast reflects a net change **£0.772m** compared to 2013/14.

This adjustment is on the whole 'the other side' of the changes mentioned above:

- Removal of the Use of Reserves that funded the Revenue Contribution to the Capital Programme - **£0.760m**
- Removal of Use of Reserves relating to formula grant that was carried forward into 2013/14 - **£0.087m**
- Remove contribution to reserves relating to the Business Rates Retention Scheme - **£0.084m.** This amount related to the initial assessment of 'growth' in business rates following the Government return that was completed earlier in the year. Due to the level of uncertainty around this figure which will not be confirmable until 2014 when the outturn position for 2013/14 becomes clear, a contribution to reserves was made in 2013/14 rather than use the funding to support the general budget. This gives the ability to remove the contribution without effecting the overall financial position if the income is not achieved.
- Reduction in the Use of Reserves to Fund the Jaywick Team - **£0.009m.** The Jaywick Team are currently funded via a direct TDC budget 'topped' up by the use of the specific reserve that was set up for this purpose using historic contributions from funding partners. As money is forecast to remain in the reserve at the end of 2013/14, for the purposes of the baseline position, it is assumed that this will be drawn down and available to fund the Jaywick Team in 2014/15.

Business Rates – Tariff / Levy and Locally retained share of Business Rates

The net amount retained locally from Business Rates has increased from **£4.503m** (locally retained share of business rates of £9.678m less tariff / levy of £5.175m) to **£4.555m** (locally retained share of business rates of £9.802m less tariff / levy of £5.247m).

At this stage, the position simply reflects the amount set out in the Government's Provisional settlement for 2014/15. This will be reviewed in light of business rate estimates and returns that will be made later in the budget setting process.

Spending Review and RSG

Similarly to the business rate figures above, the current amount included in the budget reflects the Government's provisional grant settlement for 2014/15.

A key consideration is the potential impact of the Chancellors statement he made as part of the budget announcements in March that concerns an additional 1% 'cut' to the budgets of Government Departments in 2013/14 and 2014/15. Local Authorities will not be directly affected by the 2013/14 'cut' as the formula grant process was already announced and figures agreed.

Although Local Authority's provisional financial settlement figures for 2014/15 were published along with the 2013/14 amounts, the additional 1% 'cut' is a worrying development which may have a disproportionate impact across the different areas of the public sector. Based on further announcements made by the Government it is acknowledged that some budgets are ‘protected’ such as those relating to the NHS and education and along with increased Government costs elsewhere such as welfare benefits and debt servicing costs, the 1% cut sets out a more worrying position as a disproportionate burden may fall to ‘unprotected’ sectors such as Local Government.

The 2014/15 provisional settlement already reflects a significant reduction compared to 2013/14. (**£6.720m** to **£5.152m**). If the grant for 2014/15 is subject to further reductions, the initial forecast budget ‘gap’ could be greater than **£1.300m** with some potential scenarios set out below:

Initial forecasted budget ‘gap’	£1.300
Potential ‘gap’ if further reductions are made to RSG over and above the provisional settlement for 2014/15	
1% reduction	£1.350m
5% reduction	£1.560m
10% reduction	£1.820m

At the time of printing, the detailed outcome and impact from the Government’s latest spending review that informs the Local Government funding position from 2015/16 was still to be confirmed. However this will be reviewed and details included within the five year forecast that will form part the Financial Strategy process later in the year.

At this stage it would be prudent to look to identify savings of **£2.000m**. By taking this approach it not only provides a robust position against which to set a balanced budget for 2014/15 (set against the backcloth of potential further reductions in government support), but also to respond to additional cost that may emerge and to recognise that significant additional savings are expected to be required from 2015/16 and beyond so any savings identified in advance will support the Council in delivering a sustainable budget in the long term.

Other Considerations

<u>Localising Support for Council Tax</u>

2013/14 is the first year of operation of the new Localised Council Tax Support Scheme (LCTSS).

From a purely financial perspective, this introduces a significant level of risk in terms of the cost of the scheme being balanced against the level of government grant funding. The 2013/14 scheme agreed by Council on 27 November 2012 was based on an overall net neutral position which also took into account other council tax changes such as those relating to second homes and empty property discounts.

The cost of the scheme will be closely monitored during the year set against the underlying aim of achieving a cost neutral position.

In terms of the scheme going into 2014/15, this will be subject to further consideration by Council later in the year. For the purposes of the initial financial forecast and therefore from a purely financial perspective, the forecast is set against the continuation of a cost neutral scheme, with the two main factors that need to be considered being the financial performance of the scheme in 2013/14 and the level of funding from the Government that supports the cost of the scheme.

In respect of the first point, this will emerge over the course of the year that will be fed into the consideration / development of the 2014/15 scheme.

In respect of the second point, the level of grant funding to support the LCTSS needs to be reviewed. Although this will be subject to Member consideration later in the year, it is timely to set out some points within the initial forecast to start the necessary discussion on how this may affect the scheme.

Members may recall that with the introduction of the LCTSS, the previous 100% grant / subsidy receivable from the government was reduced by 10%. Local Authorities therefore had to consider whether the shortfall between the actual cost of the existing scheme and the government grant was met locally within the overall budget or the benefits provided by the scheme were reduced by a corresponding amount. The Council agreed on 27 November 2012 a scheme that was based on a reduction in the level of support by 10% for working age claimants that enabled a net neutral scheme to be delivered.

An added change in 2013/14 was the 'rolling-in' of the specific LCTSS grant into the overall grant settlement / RSG rather than a separate and specific grant. For 2013/14 the 'rolled in' figure was **£1.644m** which included an amount to cover the Parish / Town Council element of the scheme.

Although there has been a considerable reduction in the overall level of government grant / RSG in 2014/15 as previously set out, the Government have suggested that there has been no reduction in the 'element' relating to the LCTSS and so it should be assumed that a similar level of funding remains available within the overall grant settlement amount for 2014/15. However there are no ring-fencing arrangements within the general government grant amount so it is up to the councils on a local basis to determine any such arrangements.

As an underlying principle, that principle being for the benefit of all, it could be argued that any reduction in government support should be supported by identifying savings across the whole range of Council services which would include the LCTSS, rather than locally 'protecting' one particular activity. Furthermore, the further we move away from the year when the change was made the harder it will be to argue which elements of the formula grant relate to the LCTSS and which do not as it is an argument difficult to sustain in the longer term.

Within this context, there are two choices in terms of how to on take the LCTSS forward into 2014/15 and beyond.

- The first is to assume no reduction in the LCTSS element of the formula grant / RSG or a local decision is made to 'protect' the level of funding to support the scheme. Therefore subject to the performance of the scheme to date, do not look to make further reductions in the support to working age council tax claimants over and above the current 10%. By 'protecting' this area of the budget would therefore mean that the burden of the need to identify savings would fall to other areas of the Council's budget.

- The second option is to assume that all areas of the Council's budget should 'contribute' to closing the budget 'gap'. This would therefore mean that the current LCTS scheme would require the identification of further reductions to the level of support given to working age claimants over and above the 10% amount that they are currently required to pay.

What could this mean for 2014/15? - Taking the provisional settlement figures for 2014/15 including business rate retention, this represents a reduction in overall funding of approximately 15% compared to 2013/14. If this is applied to the LCTS scheme, this would represent a reduction of **£0.247m** in the level of support for the LCTSS (TDC element only so excludes similar position for major preceptors). The scheme design for 2014/15 would therefore need to take this into account by identifying further reductions in the level of support provided to claimants to meet this reduction in funding. This approach would reduce the initial forecast budget 'gap' by a corresponding amount.

The view the Major Preceptors will also play an important part in the development of the scheme in 2014/15 against this background. Such discussions will need to be undertaken in the coming months to determine a consensus as to how to take the scheme forward. It would be helpful at this stage for Cabinet to consider the options to enable them to be fed into any such discussions with other stakeholders as appropriate although a final scheme will be presented to Cabinet later in the year that will need to reflect the funding issue along with other aspects of the scheme.

The issue discussed above also extends to Parish / Town Councils. As part of the council tax base calculations, a grant has been paid to each Parish / Town Council to offset the cost of the LCTSS which fed through to them via a reduction in the tax bases in their particular areas. The grant receivable by this Council that has now been 'rolled' into the general grant / RSG, includes a non-ringfenced amount relating to Parish/Town Councils that has therefore been 'passported' across to them. The issue now is if this Council's grant funding is reducing, then in line with the second option discussed above, it could be argued that the element relating to Parish and Town Councils should also be reduced. The total amount of grant paid to Parish / Town Councils in 2013/14 totalled **£0.202m**. Taking into account the percentage mentioned above, this would translate into a reduction of **£0.030m** to **£0.172m** for 2014/15. Subject to the design of the scheme in 2014/15 and beyond Parish / Town Councils may need to consider meeting this shortfall via increases in their precept or find savings elsewhere within their budgets.

As you can see the recent changes have become particularly complicated and burdensome and difficult to explain to the various stakeholders and fundamentally to council tax payers. This is contrary to the Government's suggested idea of making the funding of Local Government simpler. It also makes it difficult to make comparisons across years until it is embedded over time which one could look at cynically, but from a practical perspective it does add a layer of complexity to what is already a challenging and difficult process.

OTHER BUDGET CONSIDERATIONS 2014/15

As previously mentioned this report sets out an initial financial baseline to enable the potential scale of the challenge for 2014/15 to be presented to members as early as possible.

However it is still proposed to present an Initial Financial Strategy to Cabinet in the autumn which will enable the initial baseline to be revisited and updated with information that will emerge over the coming months such as further details around the Government's spending review.

It is important to note that a number of issues and budget items have not currently been included and will therefore need further consideration as part of the Financial Strategy over the course of the year. These items may require additional savings to be identified if they cannot be managed within the overall budget position after taking into account the **£2.000m** initial savings target or conversely they may contribute to closing the budget 'gap'.

Although not exhaustive, some of the key issues are set out below:

- **COST PRESSURES -** No cost pressures have currently been included. An exercise is currently in progress in consultation with Departments to identify potential cost pressures in 2014/15 and beyond.

- **FUNDAMENTAL SERVICE REVIEW SAVINGS –** In setting the budget for 2013/14 some assumptions were made as to the level of FSR savings that would be achieved where such reviews had yet to be concluded. The FSR process has now been completed and the actual level of savings delivered will need to be reviewed against the assumed level of savings to identify if any further budget adjustments are required.

  It is planned on setting out a financial summary of the outcomes from the FSR process including savings achieved and the associated cost of redundancies where applicable, for presenting to Members later in the year.

- **TRIENNIAL PENSION REVIEW –** An actuarial review of the Essex scheme is scheduled this year to inform contribution rates from 2014/15 to 2016/17. Changes to the National Local Government Pension Scheme (LGPS) are also scheduled to come into force from April 2014. Although the design of the new scheme is based on a sustainable approach taking into account contribution rates, the extent of any changes and how much the Council is required to pay into the scheme will not become known until the autumn.

- **COUNCIL TAX FREEZE GRANT –** Although the Council will still receive grant amounts for 2014/15 relating to previous years decisions, no additional amounts have been included if the Council decides to freeze or reduce the level of Council Tax for next year as the Government has not made any further commitment to extend the current scheme.

- **SPECIFIC GOVERNMENT GRANTS –** The Council receives a number of specific grants from the Government. Most grants have a corresponding expenditure line included. Therefore if any such grant is no longer receivable, the expenditure line is also removed where possible, resulting in no overall net impact. At the present time no adjustments have been made to such budgets although this will be reviewed as grant amounts become known later in the year.

- **OUTCOMES FROM CORPORATE MANAGEMENT COMMITTEE'S WORKSTRANDS –** As part of the scrutiny process for 2013/14, a number of work strands were identified with the aim of supporting a balanced budget in 2014/15 and beyond. These relate to fees and charges and working in partnership including with the voluntary sector. Outcomes from the work of the Committee will therefore be included in the subsequent Financial Strategy process as the year progresses. A third strand of work relating to special expenses has also been identified which although not potentially having a net impact on the budget, will be a key consideration when the final budget for 2014/15 is presented.

- **OFFICE RATIONALISATION**
  This is a key council project to support a sustainable financial position in the long term. There are a number of strands to this project such as IT investment, the HUB project and flexible working. As the project progresses it is expected that on-going savings can be secured that contribute to the Council's overall financial position.

- **COAST PROTECTION**
The work to enable significant coastal defence works along Clacton and Holland continues to be implemented with a project appraisal report submitted to the Environment Agency on 17 May 2013. The Council has already identified **£3.000m** as its initial contribution towards this project and along with a similar commitment by ECC results in a potential budget of nearly **£30.000m** after taking into account the Environment Agency's potential grant award to the scheme of **£22.000m**. However as the project develops further and a final scheme is agreed, it may be necessary to look to identify additional money to support the project along with the longer term commitment required to 'recharge' the beach on a periodic basis.

2014/15 INITIAL FORECAST SUMMARY, CONCLUSIONS AND PROPOSED WAY FORWARD

Based on reflecting the adjustments to the base budget that we are currently aware of and taking into account the possibility of a worsening government grant settlement, an initial savings target of **£2.000m** for 2014/15 has been identified.

Further discussions have highlighted the potential for further changes along with a number of risks. It is also recognised that some changes may be favourable that will help offset any adverse adjustments.

Members and Officers now need to work to address the many issues discussed in this report. The main thread of such an approach will be the Financial Strategy process which sets a number of milestones along the way.

In coming back to a self-sufficiency approach, a large proportion of the Council's funding now comes from locally raised sources. The impact of local decisions that have an effect on the council tax property base, New Homes Bonus and locally retained business rates will need a renewed focus to ensure that the right growth in these areas is maximised where possible. Any additional funding realised from this approach will reduce the burden of savings elsewhere in the budget.

Notwithstanding the above, the Council provides a significant range of services over a large geographical area and has a high elderly population. Within our district are some of the most deprived areas in the country such as Brooklands, Grasslands and part of the village of Jaywick. The Council provides a coastal and tourism based infrastructure and is looking to enhance its tourist seafront areas and develop the business and economic potential within the district.

The Council must therefore ensure that its budget is sufficient to provide the wide range of services that its diversity and needs demand and also support new development and growth. Although the Council has met its savings target up to 2013/14, there are further reductions in funding and based on the latest Government announcements and the recent budget, this could mean further significant savings are required over the coming years.

This reports sets out an earlier approach to the financial forecast process via this financial baseline report to ensure that the Council is focused as early as possible on the financial challenge ahead. Set against the context above the proposed actions to deliver the savings target of **£2.000m** for 2014/15 are summarised as follows:

- **2012/13 Outturn Review** – A review of the end of year variances for 2012/13 to identify where budget reductions can be made on an on-going basis.

- **Efficiencies Review –** Departments / Services to challenge and review how their services are delivered to identify any savings that can be secured on an on-going basis. Such a review will also include outcomes from the ‘staff suggestion’ scheme initiative.

- **Use of New Homes Bonus –** As previously mentioned, although subject to a review by the Government, this stream of grant income could play a significant role in a self-sufficiency approach and support the Council’s budget in 2014/15 and beyond.

Activity against the items identified above along with any additional actions identified throughout the wider budget setting process, will be undertaken with an update provided to Cabinet as part of the Financial Strategy process over the course of the year to ensure that options to deliver a balanced budget in 2014/15 can be considered by Cabinet in December 2013.

As part of the Government’s 2013 Spending Review announcements, they set out their commitment to fund a further council tax ‘freeze’ in 2014/15 and 2015/16. Cabinet had already made such a commitment via the allocation of **£0.159m** from the outturn position for 2012/13 that they considered at their 14 June 2013 meeting.

There is now the opportunity to consider the **£0.159m** that was set aside by Cabinet given the Government’s renewed council tax ‘freeze’ commitment. It is proposed on reallocating this amount to the Leisure Capital Projects Reserve.

ASSESSMENT OF THE FINANCIAL POSITION FOR 2015/16 AND BEYOND

Although this report primarily focuses on an early / initial financial baseline for 2014/15 it is worth taking the opportunity at this stage to have a brief look to 2015/16 and beyond which will be covered in more detail when a financial update is provided to Cabinet later in the year where additional information is expected to be available.

Some of the main considerations in respect of the 2015/16 and beyond position are as follows:

- Government’s Spending Review 2013 and any further announcements
- Development of the Hub Project
- Further development of the coast defence and coastal enhancement project
- Further welfare changes
- Delivering against further Corporate Priorities / key projects
- Impact of Government led changes such as State Retirement pensions reforms
- Development of LCTSS and Business Retention model
- Building a self-sufficiency style approach

Based on the challenges and risks faced in 2014/15 and the items highlighted above, the potential magnitude of the funding gap in 2015/16 and beyond is difficult to forecast. However the Council needs to continue to rise to the financial challenges it faces and build on the significant actions and activities that have already delivered savings of **£5.5m** over the past few years. Over the coming months, further work will need to be undertaken to ensure that further savings and efficiencies are driven out of the budget, to focus on what the essential priorities of the Council are and to continue to undertake reviews of budgets and services within each Department and identify where the Council can maximise any commercial opportunities. This will put us in the best possible position going into 2015/16 and beyond.

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
NONE