

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

13 SEPTEMBER 2012

REPORT OF FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.1 INITIAL FINANCIAL STRATEGY 2013/14

(Report prepared by Karen Neath and Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present the Initial Financial Forecast and Initial Financial Strategy for 2013/14 and beyond.

EXECUTIVE SUMMARY

The setting of local authority budgets for 2013/14 will be undertaken against the background of continued economic uncertainty, the need to make further savings and significant welfare changes.

From April 2013 there will be significant change in the mechanism for determining local authority core funding. In May and July 2012 the Government published a number of technical and consultation papers on the Business Rate Retention Scheme and Localising Support for Council Tax.

Under the Business Rates Retention Scheme, each local authority will be set a spending level in line with the Government's overall spending control totals which will be funded by retained business rates and Revenue Support Grant. The share of business rates to be retained locally will be 50% and the amounts in year 1 (2013/14) will form a baseline level for local authorities that will not be reviewed until a reset of the system which is not expected until 2020 at the earliest. Any business rates that are collected above the baseline level can be retained locally at 100% of the 50% local share. Other features of the Business Rates Retention Scheme will include a levy on any disproportionate business rate growth, a safety net against a drop in business rates, pooling and special criteria for renewable energy projects.

Localising Support for Council Tax will see the existing national council tax benefit system replaced by local support schemes. Government funding for council tax support, previously paid as uncapped subsidy, is being reduced by 10% and changed to a fixed grant that will be rolled into the Business Rates Retention Scheme. Accounting changes resulting from the introduction of the Localisation of Support for Council Tax will have implications for the taxbase and council tax levels not only of the District Council, but also for County, Fire, Police and Town and Parish Councils.

In terms of the overall spending control totals for local government, the recent technical consultation paper on Business Rates Retention states that, as a result of changes brought about by the introduction of this scheme, the year on year reduction in local government control totals for non police and fire authorities will be 12.2% in 2013/14 and 8.7% in 2014/15. The comparative figures previously included in Spending Review 2012

were a reduction of 0.6% in 2013/14 and 6.5% in 2014/15.

There will be a number of transfers and adjustments whereby funding streams are added to or removed from the overall control total. The final local government spending control total for 2013/14 and 2014/15 after transfers and adjustments is **£24,759m** and **£23,046m** respectively.

The New Homes Bonus will continue to be a feature of local government funding but will sit outside the Business Rates Retention Scheme and funded through a top slice from the Business Rates income available. The methodology by which Government determines to top slice this funding will have an impact on overall spending controls. The highlighted figures above are based on the Government's primary proposal for topslicing which would remove **£2bn** per year from the business rates pot. An alternative proposal would see a lesser reduction each year.

The Local Government Finance Settlement for Tendring District Council was **£9.663** in 2012/13 which represents a reduction in funding of **£3.001m** over 2010/11. Tendring District Council's Band D council tax for 2012/13 is **£148.38** which is a reduction of 0.5% over 2011/12 and is the second lowest in Essex.

The initial forecast for 2013/14 shows a funding gap of **£0.774m**. The overall savings target for the Council up to and including 2016/17 is **£4.2m**. In addition, there are some ongoing issues / initiatives which could add up to a further **£0.5m** to the budget making the over funding gap in 2013/14 **£1.285m** and **£4.7m** over the following four years.

RECOMMENDATION(S)

- (a) That Cabinet agrees the initial financial strategy and initial financial forecast for 2013/14.**
- (b) That the comments to the cost pressures in Appendix A and any actions therein be agreed.**
- (c) That Corporate Management Committee be consulted on these initial proposals, recognising that any further inclusion of cost pressures or other budgetary demands would require matching measures to ensure that the funding gap was not increased.**
- (d) That, subject to confirming that it is beneficial for Tendring District Council, authority to enter into a local authority business rates pool be delegated to the Head of Resource Management in consultation with the Finance and Asset Management Portfolio Holder.**
- (e) That the letter in Appendix C be sent to CLG in response to the paper Business Rates Retention Scheme: Technical Consultation and that authority be given to the Head of Resource Management in consultation with the Finance and Asset Management Portfolio Holder to respond separately to the detailed questions contained within that paper.**

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. Not allowing any provision for cost pressures or inflation gives rise to the potential for items that have not been funded to emerge. Should the actual funding gap be greater than that anticipated then there would be 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 not included;
- Changes to the local authority funding mechanism;
- Introduction 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 **£4.0m** (including the **£1.6m** minimum working balance) has been approved previously to insure against the eventuality that some of the events listed above actually occur.

LEGAL

The Localism Act requires the Council to calculate a council tax requirement and set a council tax levy for each financial year.

The act also requires any billing or precepting authority which sets an excessive council tax increase to hold a referendum. The determination of whether a council tax increase is excessive is determined by reference to principles set by the Secretary of State.

The Local Government Finance Bill proposes other changes to the local government finance system and, in particular, will:-

- Enable local authorities to retain a proportion of the business rates generated in their area;
- Enable local authorities to carry out Tax Increment Finance;

- Provide a framework for the localisation of support for council tax in England;
- Make other changes to council tax rules.

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 Strategy. 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

Economic Background

The setting of local authority budgets for 2013/14 will be undertaken against the background of continued economic uncertainty. Although Local Government has made substantial savings over the past two years further savings will be required. Major changes in the welfare system coupled with economic hardship mean that many households are facing 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 the major UK banks mean that interest rates and investment income remain at an all time low.

Local Authority Funding

From April 2013 there will be significant change in the mechanism for determining local authority core funding. On 17th May the Government published a set of seven technical papers relating to the Local Government Finance Bill. These were:-

- Business Rates Retention Scheme
 - The Central and Local Shares of Business Rates
 - The Safety Net and Levy
 - Pooling Prospectus
 - The Economic Benefits of Local Business Rates Retention
 - Renewable Energy Projects
- Localising Support for Council Tax
 - Funding Arrangements Consultation
 - Statement of Intent

On 16th and 17th July the Government issued the following further papers:-

- Business Rates Retention Scheme
 - Technical Consultation
 - A Plain English Guide to business Rates Retention
 - A step-by-step guide
 - Polling Prospectus
- Localising Support for Council Tax
 - Draft Council Tax Reduction Schemes (Default Scheme) Regulations
 - Draft Council Tax Reduction Scheme (Prescribed Requirements)

- Regulations
- o Explanatory Note on Draft Regulations

Business Rates Retention

The papers on Business Rates Retention set out proposals to enable local authorities to retain a share of business rates collected in their area from April 2013. Currently all business rates are paid into a central pool and then redistributed through the Formula Grant Settlement. Under the new system each authority will be set a start up funding allocation (i.e. the total amount of spending that will be supported by Business Rate Retention and Government funding). The total of the start up funding allocations will be consistent with overall government control totals for local government. The total forecast business rates collection will be shared with 50% retained locally and 50% returned to Government. The local share must be allocated between the billing and precepting authorities (excluding Police who will be funded outside of this system) and will determine whether each individual authority is in a tariff or top-up position compared to their baseline funding level (the amount of start up funding allocation to be met from retained business rates). Any shortfall between the amount of locally retained business rates and the start up funding allocation will be met through Government funded Revenue Support Grant. The level and share of business rates in year 1 will form a baseline level for local authorities that will not be reviewed until a reset of the system. The Government does not intend to reset the system until 2020 at the earliest. Any business rates that are collected above the baseline level can be retained locally at 100% of the 50% share.

There will be a system to measure whether there is any disproportionate benefit to individual authorities from business rate retention and where that is the case a levy will be imposed. These levies will be retained centrally to fund a safety net mechanism in the event that any authority sees a specified percentage reduction in the level of business rates collected.

There will be the opportunity for local authorities to pool for the purpose of business rate retention. Local authorities in a pool would be treated as a single body for the purposes of tariffs, top-ups, levies and safety net payments. Early indications are that there could be an advantage to the Essex authorities forming a pool as this could negate some of the tariffs and/or levies that would exist were authorities considered on an individual basis. An expression of interest in pooling has been submitted to Government on behalf of the Essex Authorities, however, further detailed analysis is required to determine whether Tendring should commit to pooling in the longer term. Final proposals need to be submitted to CLG by 19 October.

It is intended that business rates from certain specified renewable energy projects will be retained in full by the billing authority and disregarded from the calculations in the rates retention scheme regarding local and central shares, levies and tariff and top-up amounts.

Localising Support for Council Tax

At present Council Tax Benefit is determined in accordance with nationally prescribed regulations. It is applied to relevant council tax bills as a rebate once the council tax bill has been calculated. The total amount of Council Tax Benefit paid out by any local authority is reimbursed in full through subsidy payment from Government. Subsidy is unlimited and therefore any increase in caseload or demand will be funded by a corresponding increase in subsidy.

From April 2013, Council Tax Benefit will cease and local authorities must agree local council tax support schemes which will determine eligibility and the amount of support to be paid. In addition, the amount of Government funding will be reduced by 10% and

capped. Local authorities must therefore either reduce the amount of support they give or fund the shortfall between the cost of support and the amount of Government funding. Pensioners will be protected nationally through regulation and local schemes should also seek to protect the vulnerable meaning that a higher proportion of the reduction will fall on working age claimants. After protecting pensioners and the vulnerable it is estimated that, in Tendring, the actual reduction in support to be borne by working age claimants will be around 40%.

The change to a local council tax support scheme will also impact on the calculation of the council tax levy and taxbase (i.e. number of paying households) each year. At present no account is taken in this calculation of whether a household is in receipt of council tax benefit or not. However, under the new regime, those households that are receiving support are excluded from the number of paying households. This will reduce the total amount of council tax income collected. The shortfall is intended to be met by Council Tax Support Grant which will be provided by the Government. This accounting change will also have implications for the taxbase and council tax levels for the County, Fire, Police and Town and Parish Councils, although Government are reconsidering the impact on Town and Parish Councils.

The changed regime is expected to have a negative effect on council tax collection rates as households which previously received a nil council tax bill will now be asked to make a payment. The change in Council Tax Benefit sits alongside significant other welfare changes which, together, could have a considerable impact on the income levels of many households.

Other Council Tax Exemptions

The Local Government Finance Bill also proposes some changes to other council tax exemptions. These include:-

- replacing the empty dwelling exemption with a discount, the level of which can be set at the local level;
- setting an "empty homes premium" which can be charged on a properties which have been empty for more than two years;
- making the mortgagee (the lender) responsible for paying the council tax when a property is repossessed;
- enabling local authorities to publish council tax information on their websites rather than in paper format.

Spending Review

The Spending Review in 2010 set Government spending levels up to 2014/15. This implemented the worst Local Government Finance Settlement for many years and resulted in an average reduction of 15% and 13% in 2011/12 and 2012/13 respectively in shire district local authority formula grant funding.

At that time, the overall spending limits for Local Government demonstrated a further reduction in funding of 0.6% in 2013/14 and 6.5% in 2014/15. The technical consultation paper on Business Rates Retention states that, as a result of changes brought about by the introduction of this scheme, the year on year reduction in local government control totals for non police and fire authorities will be 12.2% in 2013/14 and 8.7% in 2014/15 before the transfer in or out of certain other funding streams.

This is primarily due to the setting aside of funding for the New Homes Bonus (see below). The consultation states that spending control totals for 2015/16 and subsequent years will be considered as part of the next Spending Review. However, the global spending totals published as part of the 2012 Budget indicate real terms reductions of around 5% in both 2015/16 and 2016/17. A supplementary consultation paper issued on 23 August proposes an alternative methodology for funding New Homes Bonus

From 2013/14 the figures previously announced annually as the Local Government Formula Grant Settlement will form the basis for each authority's spending control total for the purposes of the rates retention scheme. Even apart from the identified reduction in funding there is the potential for an increasing gap to develop over time between the given spending control level and the real resource needs of a local authority. This is especially the case given that there is no intention to reset the system until 2020.

Other Funding Streams

Since the Coalition Government came into power many individual grant streams have either been removed or subsumed into the formula calculation. The Government has stated that certain funding streams will be rolled into the Business Rates Retention system from 2013/14 and certain education funding will be removed. The technical paper Business Rates Retention Scheme: The Central and Local Shares of Business Rates states that *"The spending control totals will be adjusted to take account of the additional grants rolled into the rates retention system....."*

The relevant grants for Tendring are:-

- 2011/12 Council Tax Freeze Grant
- Council Tax Support Grant
- Homelessness Prevention Grant

The final local government spending control total for 2013/14 and 2014/15 after transfers and adjustments is **£24,759m** and **£23,046m** respectively. The distribution by local authority of each of the grants to be rolled into the Business Rates Retention system will be set out with the Local Government Finance Report for 2013/14 which is expected in late November / early December.

On 1 February, the Minister for Housing and Local Government announced the New Homes Bonus allocations for 2012/13. New Homes Bonus is paid on net new properties in any year for that year and the following six years. The 2012/13 figure for Tendring DC is **£670,813**. This includes the second year payment for 2011/12 and the first year payment for 2012/13. From 2013/14 the Government are proposing to set aside **£2bn** in each year up to 2020 to fund the New Homes Bonus by removing this from upper and lower tier authority start up funding allocations. Any funding that is set aside and not required will be returned to local authorities. A supplementary consultation paper issued on 23 August proposes an alternative methodology for funding New Homes Bonus which only removes from the overall spending total the amount required to fund the year in questions.

Overview for Tendring

The Local Government Finance Settlement for Tendring District Council was **£9.663** in 2012/13. This compares to a grant of **£12.664** in 2010/11 (after adjusting for the transfer of concessionary fares to upper tier authorities) and therefore equates to a reduction in funding of **£3.001m**. The budget for 2012/13 was agreed by Council on 7th February 2012 and presented a balanced budget together with an uncommitted fit for purpose budget of **£2.6m** in 2011/12 and **£1.2m** in 2012/13. This budget is to support the Council in

delivering a balanced and sustainable budget in future years and to deliver organisational change.

Tendring District Council's Band D council tax for 2012/13 is **£148.38** which is a reduction of 0.5% over 2011/12 and is the second lowest in Essex. The all England Districts average is **£165.21** and the Essex average is **£183.58**. The highest Band D charge for Essex is **£252.81**.

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 and Brooklands, Grasslands and part of the village of Jaywick has now become the most deprived. The Council provides a coastal and tourism based infrastructure and is looking to enhance its tourist seafront areas, develop the business and economic potential within and around Harwich and encourage development in the Jaywick area through a change in planning policy.

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 substantially met its savings target up to 2013/14, there are further reductions in funding and, based on the latest Government control totals, this could mean further savings of up to **£4.2m** being required by 2016/17. This, together with the changes in the mechanisms for core funding, means that the council must continue to manage its finances prudently.

FINANCIAL STRATEGY 2013/14 AND BEYOND

PREPARATION OF AN INITIAL FINANCIAL FORECAST FOR 2013/14 AND BEYOND

It is very important for the Council to understand its likely financial position as well as the challenges it faces before it considers and sets the Budget. As set out above the preparation of the 2013/14 Initial Financial Strategy is set against the background of a continuing economic uncertainty. In order to be clear on how the council can face up to the challenge of further reductions in funding over the short to medium term, it is necessary to update the financial forecast.

The Initial Base Budget for 2013/14 – What's Included and What's Excluded?

The starting point for the initial analysis is to move the 2012/13 budget onto a base budget position for 2013/14 that incorporates the following assumptions:

- **Cost Pressures**

As with last year, a more cursory engagement with Heads of Department has been undertaken to gather information on cost pressures for 2013/14 onwards on a summary basis. Heads of Department, mindful of the financial position of the Council have again restricted cost pressure requests for 2013/14 onwards. Furthermore, as a number of the cost pressures submitted in past years have been in relation to refurbishment of assets these have been separately identified with a view to funding any repairs that are considered high priority from the Asset Refurbishment / Replacement Reserve.

The list of submissions together with a commentary agreed with the Finance and Asset Management Portfolio Holder is attached at **Appendix A**. At this stage no cost pressures have been included in the initial financial forecast.

- **Inflation**

A total of **£0.530m** has been included for inflation.

National Employers have advised local government trade unions that they are not in a position to offer a pay award for 2012/13. They have however, stated that they are keen to avoid a fourth year of pay freeze in 2013. The initial forecast, therefore, includes **£0.350m** in each year to fund a **2%** pay award and relevant increments in 2013/14 onwards.

The inflationary rate for contracts has been set in line with indexation set out in the new contracts for waste collection and recycling and street sweeping and totals **£0.150m**.

An allowance of **£0.030m** has been included in relation to a 3% increase in National Non Domestic Rates for council properties.

At this stage no allowance for inflation on any other expenditure budgets has been included in the initial forecast. Departments will be expected to maintain inflationary increases within budget but should this not be possible use of one-off funding can be considered.

No allowance has been made for a general increase in fees and charges. However, Heads of Department will be expected to review all fees and charges to identify where existing charges can be increased or new charges added to raise additional income. The Government has recently consulted on proposals to allow local authorities to set their own planning fees. This has the potential to increase the amount of income earned from planning fees. However, over the past few years planning income has been below the budget and, whilst an increase in income would help to close any gap, no increase in the budgeted figure has been assumed at this stage.

- **Other Budget Adjustments**

Various budget adjustments have been included to reflect ongoing initiatives and agreed decisions. These include the removal of the Fit for Purpose Budget from 2012/13 only as this was a one-off sum which reflected the fact that the council had achieved more savings in 2012/13 than was required to balance the budget in that year i.e. some savings had been achieved earlier than required. These savings are built into the budget on an ongoing basis. As a result, the total of the other budget adjustments is a reduction of **£0.982m** with the details set out in **Appendix B**.

The one-off Fit for Purpose Budget which has been carried forward since 2010/11 now stands at **£2.4m**. There are still some commitments resulting from the ongoing departmental Fundamental Service Reviews that will need to be met from this sum.

- **Outturn Review**

A review of variances arising from the 2011/12 outturn position has been undertaken and it is proposed to remove **£0.147m** from the budget on an ongoing basis. The detail is set out in **Appendix B**.

- **Changes to Grants**

As set out above a number of former grants streams have either been removed or will be rolled into overall spending controls as part of the new business rates retention system. It has been assumed that, where grants are rolled in, the amount

of grant will remain the same as now.

As part of the move to a Local Council Tax Support Scheme the council will no longer receive Council Tax Benefit Subsidy but will instead receive Council Tax Support Grant, although, as set out above, this will be added to each individual authority's start up funding allocation. The total paid out in Council Tax Benefit by Tendring DC in 2011/12 was **£15.3m**. Indicative figures contained within the paper on Localising Support for Council Tax: Funding Arrangements Consultation provide Council Tax Support Grant of **£13.3m** for the Tendring area (i.e. for the County, District, Town and Parish councils and Fire and Police). Projecting the figures into 2013/14 gives a reduction of **£2.5m** or **16%** which is greater than the advertised **10%** reduction due to the assumptions that Government has made on forecasting Council Tax Benefit into 2013/14. For the purposes of the initial forecast no residual cost to the council from implementation of the scheme has been assumed. The position will be reviewed once the Council's Local Council Tax Support Scheme has been considered by Council and the final grant figures are available.

As set out above the Government is top slicing **£2bn** per annum from the overall local government control totals to fund the New Homes Bonus. Whilst the start up funding allocation for each authority will therefore be lower, funding should be returned to authorities through the New Homes Bonus. However, there is clearly an issue for individual authorities if the sum received through the New Homes Bonus is lower than what would have been received if the funding had remained part of the start up funding allocation or if an authority chooses to use its New Homes Bonus other than to support its overall budget.

No income from the New Homes Bonus has been included in the forecast at this stage for 2013/14 and beyond. However, in light of the forecast funding gap consideration will need to be given as to whether the New Homes Bonus should now be treated simply as a Government funding stream.

▪ Carry Forwards from the Base Budget

The following items have been removed for 2013/14.

Carry Forwards from the Base Budget	£'000
Use of 2011/12 RSG	76
Use of 2012/13 RSG	(87)
Contribution from reserves	(87)
Total	(98)

▪ Central Government Support

The Local Government Finance Settlement for Tendring District Council was **£9.663** in 2012/13. This was the last settlement announcement in its current form. The estimates of retained business rates and revenue support grant set out in **Appendix B** have been based primarily on information on overall Government control spending totals and methodology contained in the document Business Rates Retention Scheme: Technical Consultation.

In order to be able to finalise the position on the 2013/14 budget various announcements and final figures are still awaited from Government. These are:-

- Spending Control Total;
- Baseline Business Rates Total and central and local shares;

- Revenue Support Grant;
- Final distribution of grants including the Council Tax Support Grant;
- Principles for an excessive council tax in 2013/14.

Announcements on these are expected over the coming months with much of the information to be contained within the Local Government Finance Report which will be published in late November / early December. Given the imperativeness of gaining certainty about individual authority figures **Appendix C** sets out a proposed letter to go to CLG following on from the consultation document on Business Rates Retention Scheme: Technical Consultation. The consultation ends on 24th September and answers to the individual consultation questions are being considered however, it is proposed to send this letter separately and in advance of any other response.

▪ Council Tax Assumptions

The council tax grant which was available in 2011/12 to enable local authorities to freeze or reduce their council tax will continue in 2013/14 to fund the equivalent of a 2.5% increase ongoing from 2011/12 but it will be rolled into the business rates retention system. For the purposes of the initial forecast a **0%** increase on council tax has been assumed but this may need to be revisited as part of the Revised Financial Strategy.

The methodology for the new Council Tax Support Scheme means that support will now be treated as a discount as part of the council tax calculations. This will reduce the taxbase (i.e. the number of households that pay council tax) and therefore reduce the amount of council tax collected. The gap will be covered by Council Tax Grant at a headline level of 90% of the previous amount of Council Tax Benefit Subsidy.

Each local authority will need to implement a scheme that reduces the current level of support to claimants in order to make the scheme cost neutral. This means that many households that have not previously been asked to pay council tax will now receive a bill or receive a higher amount bill. There is therefore expected to be a downturn in the collection rates for council tax. At present an increase in non collection of **2.5%** has been assumed which equates to a cost of **£0.158m**. The assumed taxbase is 41,397 (51,499 in 2012/13) with an assumed council tax collection of **£6.142m** (**£7.641m** in 2012/13).

INITIAL FINANCIAL FORECAST REQUIREMENT 2013/14

Summary Financial Forecast for 2013/14

The overall base budget for 2013/14, taking into account the assumptions set out above, is as follows: -

Item	2013/14 £'000
Total Net Budget from 2012/13	17,384
Inflation	530
Other Budget Adjustments	(982)
Outturn Review	(147)
Changes to Grants	469
Carry Forwards from the Base Budget	(98)
Retained Business Rates	(3,940)

Revenue Support Grant	(6,150)
(Surplus) / Deficit on Collection Fund	(150)
Council Tax Requirement	6,916
Estimated Council Tax Collection	6,142
Funding Gap in 2013/14	774

ASSESSMENT OF THE FINANCIAL POSITION FOR 2013/14 AND BEYOND

The previous overall savings target for the Council up to and including 2014/15 was **£4.4m**. Following actions undertaken this target was largely met when the 2012/13 budget was prepared last year.

The council must now prepare itself to deal with further significant funding reductions over the coming four years. The forecast position for the coming four years is set out in **Appendix B** and shows that potential savings of up to **£4.2m** will be required over that period.

In relation to 2013/14 the forecast funding gap at this stage is **£0.774m**. Each of the Departments has undertaken a Fundamental Service Review which is nearing completion if not completed already. The savings from these have not yet been reflected within the budget but the expectation is that these will enable this forecast gap to be closed.

However, there a number of outstanding issues and initiatives which require further consideration or finalisation but which could, if progressed, increase the funding gap set out above. These are as follows:-

Outstanding Items

- Confirmation of spending control totals and Government funding from 2013/14 to 2016/17;
- Exploration of opportunities surrounding the hub project;
- The need to establish a comprehensive approach to coast defence and coastal enhancement for the district;
- The need to replace the cremators at the Crematorium and comply with mercury abatement requirements;
- The amount of grant funding paid to the Citizens Advice Bureau particularly in light of expected high levels of demand resulting from national welfare changes;
- Opportunities to enhance the cleansing provision in our most high profile tourist areas;
- Opportunities to introduce a Ranger brand across the Council to enhance our front facing contact with the public out and about in the district;
- The need to address the ongoing shortfall of sports and leisure income against budget.

It is thought that some of these initiatives could be undertaken in a way that could make them self financing. The cost of a long term coast defence solution runs into many millions and is beyond that which the council could fund alone. This remains an issue which must be taken forward in discussion with Partners. Setting this aside, it is estimated that the cost of the above could add another **£0.5m** to the budget on an ongoing basis, increasing the

target in 2013/14 to **£1.285m** and the four year savings target to **£4.7m**. In the short term, the further gap could be met from one-off funding, reserves or the New Homes Bonus or a combination of these. However, in the longer term compensating savings would need to be found.

The latest position on these issues will be taken into account when the Revised Financial Forecast and Initial Budget proposals are prepared for consideration by Cabinet.

MANAGEMENT OF THE BUDGET IN 2014/15 AND BEYOND

The magnitude of the forecast funding gap for the coming four years is worrying, particularly considering that the council has already found **£4.3m** of savings over the past couple of years. The latest Government figures indicate that further savings of up to **£4.7m** will be required over the coming four years. The forecast has been undertaken on a worst case scenario and it is imperative that detailed figures are received as soon as possible from Government in order that financial planning for the next four years can be done with confidence. However, in the meantime and over the coming months, further work will need to be undertaken to ensure that all possible savings and efficiencies are driven out of the budget, to focus on what the essential priorities of the council are and to undertake a detailed review of budgets and services within each Department. This will put us in the best possible position to find further savings should the need arise.

BACKGROUND PAPERS FOR THE DECISION

There are none.

APPENDICES

APPENDIX A	Summary List of Cost Pressures
APPENDIX B	Initial Financial Forecast 2013/14 and Beyond
APPENDIX C	Letter to CLG on Business Rates Retention Scheme: Technical Consultation

COST PRESSURES 2013/14 AND BEYOND

NON ASSET ITEMS

Department / Service		Cost Pressure Ref	Description of Cost Pressure	Phasing of Costs					What is the risk if not funded?	Could this be funded from S106 money?
DEPT	SERV			2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000		
Public_Exp	Hort & Bervt	PEHor CP1	Payment to CAMEO or locally procured Mercury abatement burden sharing scheme from Dec12 for 50% (800) of total cremations a year. Quotations for local burden sharing scheme being sought shortly.	36	36	36	36	36	Legal requirement to either abate 50% of cremations of burden share for Dec12	NO
Public_Exp	Hort & Bervt	PEHor CP2	New 5th year CAPITAL Cost pressure for 2017/18 & adjustments to the approved Capital programme for 2013/14 - 2016/17 re The Council's 5 year rolling transport replacement programme. These vehicles & plant are purchased via a mixture of Contract Hire & Lea				-130	214	Service levels will reduce due to the lack of vehicles/plant to carry out the work.	NO
Public_Exp	Hort & Bervt	PEHor CP3	Revenue requirement re Contract Hire/Leasing of the Council's Transport fleet. Normally this would be covered by inflation being given on account codes.					10	Service levels will reduce due to the lack of vehicles/plant to carry out the work.	NO
Corporate_Servs	Regeneration	CSReg CP1	Jaywick Enterprise Centre - reduce income target from 12,940 to 6000	6	6	6			Income target won't be met	NO
Corporate_Servs	Regeneration	CSReg CP2	Jaywick Enterprise Centre - cleaning costs.	1	1	1			Unable to pay cleaning contractor	NO
Corporate_Servs	Regeneration	CSReg CP3	Jaywick Enterprise Centre - NNDR. Rise from 9000 to 12,000	3	3	3			Unable to pay NNDR in full	NO
Corporate_Servs	Regeneration	CSReg CP4	Jaywick Enterprise Centre - bulk bin collection	1	1	1			Bin won't be emptied	NO
Corporate_Servs	Business Mgt	CSBus CP1	ICT System to Support Performance Management	20					-	NO

COST PRESSURES 2013/14 AND BEYOND

ASSET REPAIR AND REFURBISHMENT ITEMS

Department / Service		Cost Pressure Ref	Asset to be Repaired / Refurbished and Work Required	Cost 2013/14 £000	Year Repair Last Done	Life of Asset
DEPT	SERV					
Public_Exp	Hort & Bervt	PEHor RR1	Clacton Cemetery - Drainage works & setting out of new burial section. Drainage work required to ensure new sections of the cemetery comply with the EA requirements not to bury into water and for the water to discharge in accordance with their requirements	120		
Public_Exp	Hort & Bervt	PEHor RR2	Weeley Crematorium - extension of Flower court to allow mourners to gather away from the chapel and not disturbing the next Service	110		
Public_Exp	Hort & Bervt	PEHor RR3	Weeley Crematorium - replacement of Cremators & consideration of installing Mercury Abatement Equipment prior to 2020. A report providing more information will be prepared shortly.	1700		
Corporate_Servs	Regeneration	CSReg RR1	External painting & maintenance Jaywick Community Resources Centre - increase in repair budget from £1000 to £2000	1		
Corporate_Servs	Regeneration	CSReg RR2	Jaywick Enterprise Centre - general maintenance budget (increase to £2000 from existing £900)	1		

What is the risk if not funded?
The Cemetery will run out of space in the current burial sections
Mourners from one service will continue to affect the next Service and as the trend for larger congregations increases so will the problems.
The cremators will be at the end of their effective life & failure would result in the Crematorium having to close
Building will continue to deteriorate
Building will deteriorate

Appendix A(i)

**Finance and Asset
Management Portfolio
Holder Comments**

To be reviewed alongside
fees and charges

Agreed. Impact is on
ongoing with revenue budget
to cover leasing rentals in
place, which remain subject
to annual review as part of
budget setting process

To be reviewed corporately
as part of detailed estimate
process

To be considered as part of
detailed estimates process

To be reviewed corporately
as part of detailed estimate
process

To be considered as part of
detailed estimates process

To be considered as part of
separate Business Case

Appendix A(ii)

**Finance and Asset
Management Portfolio
Holder Comments**

To be considered for
funding by Asset
Refurbishment /
Replacement Reserve

The required works at the
Crematorium to be
considered against Cremator
Replacement Reserve,
review of related fees and
charges and procurement
processes support the
identification of total project
costs

To be considered as part of
detailed estimates process

To be considered as part of
detailed estimates process

	Assumed Govt Grant Decrease of 12.2%	Assumed Govt Grant Decrease of 8.7%	Assumed Govt Grant Decrease of 5%	Assumed Govt Grant Decrease of 5%
Movement in Budget	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000
Total Net Budget from prior year	17,384	17,156	17,686	18,216
Inflation	530	530	530	530
Salary and increments	350	350	350	350
Contracts	150	150	150	150
NNDR	30	30	30	30
Priority 1 Cost Pressures	0	0	0	0
Other Budget Adjustments	-982			
Fit for Purpose budget	-1,176			
Closure of cash offices	-75			
Reduction in audit fee for external audit	-50			
Revenue funding of capital items	-30			
Contingency	-23			
Pan Essex Travellers Unit - contribution	7			
CAROS	17			
Licence agreement for the IDOX system	49			
Supporting People funding	54			
Jaywick Team	85			
Council Tax Benefits overpayments	160			
Outturn Review	-147			
TDC Website	-16			
IT Direct Costs	-11			
Legal Services	-35			
Investment Income	-70			
Member Support	-2			
Public Experience Fees	-3			
Horticultural Services	-10			
Beach Hut Fees	-10			
Share Amenities	-4			
Treasury Advisers	2			
E learning	7			
Members Allowances	5			
Changes to Grants	469			
Council Tax Freeze Grant	384			
Homelessness Grant	85			
Carry Forwards from the Base Budget	-98			
RSG Funding 2011/12	76			
RSG Funding 2012/13	-87			
Use of reserves	-87			
TOTAL NET BUDGET	17,156	17,686	18,216	18,746
Retained Business Rates	-3,940	-3,940	-3,940	-3,940
Revenue Support Grant	-6,150	-5,420	-4,890	-4,470
Surplus on collection fund	-150	0	0	0
Council Tax Requirement	6,916	8,326	9,386	10,336
Estimated Council Tax Collection	6,142	6,142	6,142	6,142
Cumulative Funding Gap	774	2,184	3,244	4,194
Funding Gap in Year	774	1,410	1,060	950

Andrew Lock
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 Email:

Date:

Dear Mr Lock

Business Rates Retention: Technical Consultation

We write with reference to the above consultation.

The responses to the 83 individual questions contained within the consultation document are currently being considered. However, we are compelled to write separately and earlier concerning the overall spending control figures set out within Chapter 3 of the consultation.

It appears that, primarily in relation to the funding to be set aside for the New Homes Bonus, overall spending controls for non fire and police local authorities have changed from the Spending Review 2010 figures of a reduction of 0.6% in 2013/14 and 6.5% in 2014/15 to reductions of 12.2% and 8.7% in those respective years. Whilst we accept that it has always been clear that the New Homes Bonus would be funded within the Business Rates Retention Scheme the size of the change in overall spending totals is very worrying. Unless we determine to use the New Homes Bonus merely to support our budget, projections show that we would require savings over the coming four years equal in magnitude to those we have already found. Clearly, we would prefer to use the New Homes Bonus to support growth and economic development in our District but the proposed funding reductions make it difficult to do this.

Nor can we take comfort from the fact that it is proposed to transfer other funding into the Business Rates Retention Scheme. The Council Tax Freeze Grant ends in 2015/16 and the Council Tax Support Grant will only replace lost council tax resulting from a change in our taxbase from the introduction of local council tax support schemes. As an aside to the Council Tax Support Grant the figure that is stated to be transferred into spending controls in chapter 7 of the consultation is given as £3,387m whilst the total in the May consultation *Localising Support for Council Tax: Funding arrangements consultation* was £3,657m. Why has this reduced by £300m?

We are now building up to the formulation of our budget in December but it is very difficult to plan ahead when the scope of reductions we might be facing changes by such a degree at this stage, grant totals appear inconsistent and core local government funding in terms of formula grant and council tax is undergoing major changes in methodology. Whilst we accept that there is little likelihood of the overall spending controls being increased, it is imperative that the Government swiftly confirms the detailed figures for individual authorities. We would urge you to publish these as soon as possible and not to wait until the traditional date of publication in November / December.

Yours sincerely

Councillor Neil Stock
Leader of the Council

Ian Davidson
Chief Executive