

Scrutiny Committee 28 January 2015

Cabinet	Agenda Item: 4
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Meeting Date	3 December 2014
Report Title	Medium Term Financial Plan and 2015/16 Budget
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Abdool Kara, Chief Executive
Head of Service	Nick Vickers, Head of Finance
Lead Officer	Nick Vickers, Head of Finance
Key Decision	Yes
Classification	Open
Forward Plan	Reference number: 5

Recommendations	1. To note the draft proposals.
	2. To note the Medium Term Financial Plan.

1. Purpose of the Report and Executive Summary

- 1.1 This report set out the Council's Medium Term Financial Plan and proposals for the 2015/16 Budget.
- 1.2 Over the last six years the Council has had to manage the implications of national deficit recovery funding reductions whilst at the same time continuing to develop our services for residents and achieve our Corporate Plan priorities.
- 1.3 We have achieved a stable financial position by rigorously prioritising our expenditure priorities. Our independent external auditor, Grant Thornton LP, stated in their Annual Letter:

“We concluded that the Council continues to have robust arrangements for financial management and budgetary control, and that it has an effective framework to address financial pressures.”

- 1.4 Whilst some councils seem to be locked in a downward spiral of lower spending and reduced services, we have taken a radically different approach. Fundamental to this is the identification and generation of new income sources to replace diminishing Government Revenue Support Grant. The two most important sources of new income are Business Rates and New Homes Bonus.
- 1.5 The Council has not yet received the Local Government Financial Settlement, which will be announced some time before Christmas. The implications of the final settlement will be addressed in the budget report to Cabinet on 4 February.

- 1.6 The budget proposals in this report will be submitted to Scrutiny Committee on 28 January.

2. Background

Local Government Finance

- 2.1 The Local Government Finance Settlement 2014/15 announced on 18 December 2013 included indicative figures for 2015/16. The headline figures were:

- (1) Nationally a 13.2% reduction in the Settlement Funding Assessment (compared with 9.4% for 2014/15).
- (2) For Swale the 2015/16 Settlement Funding Assessment was for a 15.7% reduction (compared with 13.6% in 2014/15).

So 2015/16 is to be one of the toughest settlements for local authorities in this whole period of deficit reduction. To date there has been no announcement from Government of a Council Tax Freeze Grant for 2015/16 - in the last few years these have provided the Council with some assistance.

- 2.2 The Council uses the independent financial research company LG Futures for support on financial forecasting. Their core forecasts are:

- (1) Funding reduction to the Settlement Funding Assessment nationally of 9%, 9% and 2% for 2016/17, 2017/18 and 2018/19.
- (2) The reduction in overall funding nationally between 2014/15 and 2018/19 is forecast at 27% of the 2014/15 base.
- (3) The total cut in Revenue Support Grant (RSG) between 2014/15 and 2018/19 is 60% of RSG in 2014/15.
- (4) The relative share of RSG as a share of external funding nationally is reduced by half to 22%.
- (5) The relative share of business rates as a share of external funding nationally increases by more than a third to 70%.

- 2.3 It is expected that in the summer of 2015 there will be a new Comprehensive Spending Review and this will allow us to update the figures for 2016/17 and beyond.

- 2.4 The impact of these forecasts on the Council will be set out later in the report.

Business Rates

- 2.5 From 1 April 2013 Business Rates were localised. Whilst the rate in the pound is still set nationally, local authorities retain 50% of income collected. The income is then split between the different tiers of councils with Swale retaining around £4m

of the £40m it collects. The Council though retains 80% of 50% of any growth on the 1 April 2013 baseline.

2.6 The in-year cycle for business rates income forecasting is:

- (1) January NNDR1 – forecast for the following year reported to Government.
- (2) June NNDR3 – out-turn statement for the previous financial year.
- (3) October – half year monitoring.

2.7 However, in practice the NNDR1 forecast for the next year is made before the out-turn for the current year is known. Whilst the actual cash collected is known there are two variables which are hard to forecast:

- (1) Movements in the underlying business base - so whilst major new developments may be well known, for example, the opening of the two new Morrison's stores in 2013, closures of businesses are much harder to predict. So in the period since we have had localised business rates one of our largest properties, Thames Steel, has paid no business rates at all.
- (2) The majority of businesses will appeal their valuation as they have no incentive not to. The appeal is made via the Valuation Office and decisions are made by the Tribunal. Since 2010 we have had 237 appeals. In making the NNDR1 return to Government, assumptions are made about the likely level of appeals, but it is only an estimate.
- (3) There are also levies on councils where there has been significant business rate growth and safety net payments made to councils who have reduced business rate income.

2.8 Additionally, in looking at the 2015/16 position we do so only having one full year of operating the new system.

2.9 The forecast position for the Council is set out below in Appendix I.

2.10 In making these forecasts we have:

- (1) Made a prudent provision for appeals totalling £2.4m.
- (2) Built into the forecast for 2015/16 only known changes at this point i.e. we are not forecasting any growth in 2015/16 and beyond.

2.11 The Council's total business rate income for 2014/15 is forecast to be £4.9m and £5.0m for 2015/16. Any surplus on the business rate income will be put into the business rate volatility reserve as agreed at Cabinet in February. For the current financial year a £1m levy payment to the Government is forecast – this is the highest for any of the Kent Borough Councils and implies strong growth in the underlying business rate base.

2.12 Legislation allows councils to voluntarily enter into a business rates retention pool. Councils within a pool are treated as a single entity with tariffs and top ups netted off and a single levy rate applied. In two tier areas this creates the

potential for the levy paid by Borough Councils being reduced thus retaining more resources in the local area. In 2014/15 Kent County Council (KCC) and Maidstone Borough Council created a pool. In September Cabinet agreed to the principle of participation in a pool and 10 of the 12 Borough Councils have now committed to a pool with KCC for 2015/16. Within the pool in each Borough area additional income is divided 30% Borough/30% KCC/30% for projects in the Borough area and 10% for a contingency. Any potential revenue will be one-off and not taken into the base budget.

- 2.13 The localised business rates are probably the most complex area of local government finance. This Council is a significant beneficiary of the new flexibilities and business rates growth has made a major contribution to balancing the 2015/16 budget.

Council Tax

- 2.14 The proposed level of Council Tax for 2015/16 will be determined after details of the settlement are known.

New Homes Bonus

- 2.15 The New Homes Bonus is a specific Government grant where match funding is provided based upon additional Council Tax for new properties for a six year period. Our forward projections are:

2015/16	£2.7m
2016/17	£3.1m
2017/18	£2.7m

The actual allocation should be known in December.

- 2.16 The table above for 2017/18 shows a reduction in income as the first year of the six year period drops out.
- 2.17 The Council uses all of the income to support discretionary spend in the base budget except for £250,000, which is top-sliced to pump prime the Regeneration Fund.
- 2.18 The future of New Homes Bonus is a major financial risk for the Council. We will continue to budget on the basis that New Homes Bonus continues.

Fees & Charges

- 2.19 The annual review of Fees & Charges has been undertaken and reported to Cabinet and Council in November. The review covers charges for discretionary services.

Staff Pay

- 2.20 The Council has already agreed a 1% pay award for staff for 2015/16 as the second year of a two year agreement. The increase also applies to Members allowances.
- 2.21 Staff who are not on the top of their grade also receive an annual increment if they have achieved the required performance.

Lower Medway Internal Drainage Board

- 2.22 Parts of the Borough are covered by the Lower Medway Internal Drainage Board which is responsible for the maintenance of certain waterways and ditches. The Board also has to pay a levy to the Environment Agency. In 2014/15 our payment was £320,215.
- 2.23 The maintenance of the waterways is an important issue, but the constraints on all aspects of our expenditure means that the discussions over the precept increase have been very difficult in recent years. The Board meets on 1 December to set its precept.

Sittingbourne Town Centre Regeneration

- 2.24 With the planning application now submitted by Spirit of Sittingbourne the regeneration project starts to enter a new phase for the Council. There are some significant financial consequences which will impact in 2015/16:
- (1) Funding the construction of a 310 space multi-story car park – Council has agreed the project and funding will be via reserves or some degree of external funding. This will be determined when the actual cost of the project is known.
 - (2) Prince's Street depot – Biffa's lease has been extended, but this site is earmarked for retail development. The £70,000 annual income from Biffa will be lost.
 - (3) Car Park Income – there will be a potential impact on car parking income from the redevelopment of the car park. Timing and the actual loss of income are uncertain.

- 2.25 As the redevelopment proceeds there will be increased Council Tax, New Homes Bonus and Business Rates income.

Price Inflation

- 2.26 The Council's major contracts all have price uplifts linked to the Retail Price Index (normally for September – 2.3%) or the Consumer Price Index. We will continue to firm up on these figures for the February budget report.

Reserves

- 2.27 Over the last few years there has been an upward movement with reserves at 31 March 2014 totalling £13.8m including general reserves which can be spent

on any activity, capital receipts from the sale of assets and earmarked reserves allocated for specific functions, The use of some of these reserves has already been committed. The reserves have allowed the Council to fund service improvements and developments even at a time when the base resources of the Council are reducing. It also means that we have the financial capacity to fund a major project such as building a multi-story car park which will generate new revenue streams.

Capital Budget

2.28 The Council has a limited Capital Budget. The main source of external grant has been the Disabled Facilities Grant, but arrangements for this change for 2015/16 with it now being included in the Better Care Funding arrangements via KCC. The Council will receive £1.04m for 2015/16.

2.29 Other capital bids for projects will be brought to Cabinet in July.

3. Proposal

Medium Term Financial Plan

3.1 The purpose of the Medium term Financial Plan is to forecast the financial position over the next three years to assist the Council in meeting its objectives as set out in the Corporate Plan.

3.2 The Medium Term Financial Plan is attached in Appendix II. This is a key document as it summarises the Council's financial position for the next three years. The detailed budget variations are set out in Appendix III.

Unavoidable Cost Pressures;
Growth items;
Service Savings;
Increased Fees & Charges; and
Loss of Income.

Council Tax

3.3 The Council meeting on 18 February 2015 will determine the level of Council Tax.

Reserves

3.4 The main principles of the management of reserves moving forward will be:

maintain a prudent level of reserves to allow the Council to deal with unexpected one-off events; and

fund one-off items of expenditure against the Council's highest priorities, as determined by Members.

Capital

3.5 The Council's priorities for the use of available capital funds as set out in the agreed Capital Strategy will be:

Projects which support the Council's Corporate priorities;

Earmarked receipts related to specific projects e.g. Section 106 monies;

Acceptable meeting of legal duties e.g. Disabled Facilities Grant;

Essential remedial expenditure on the Council's IT systems.

3.6 The Council is debt free and has no firm plans at this time to borrow for capital purposes. Council in September did agree to allow for borrowing to be part of the solution to funding the multi-story car park.

4. Alternative Options

4.1 This paper details the budget proposals of the Cabinet, who invite alternative proposals to be put forward.

5. Consultation Undertaken or Proposed

5.1 The consultation will focus on:

Communication with representatives of local business groups; and

the budget proposals will be considered by Scrutiny on 28 January 2015.

5.2 There will also be appropriate consultation with service users on savings proposals.

6. Implications

Issue	Implications
Corporate Plan	The budget proposals for 2015/16 explicitly link to delivery of the Corporate Plan.
Financial, Resource and Property	This report sets out the approach to the 2015/16 budget and the Medium Term Financial Plan.
Legal and Statutory	The approach set out reflects the legal requirement for the Council to agree a balanced budget.
Crime and Disorder	Any potential impact will be addressed by service managers in their budget proposals
Sustainability	The sustainability implications of budget decisions will be fully investigated by service managers in drawing up their detailed proposals.

Issue	Implications
Health and Wellbeing	Any potential impact will be addressed by service managers in their budget proposals.
Risk Management and Health and Safety	Risks will be reviewed as part of the strategic risk update. Specific H&S risks will be addressed by service managers in their budget proposals.
Equality and Diversity	There will be full appropriate consultation with service users on savings proposals and this should specifically address equality and diversity issues with appropriate Community Impact Assessment undertaken.

7. Appendices

7.1 The following documents are published with this report:

Appendix I: Business Rates Forecast Income

Appendix II: Medium Term Financial Plan

Appendix III: Budget Proposals

8. Background Papers

8.1 19 February 2014 Council Budget report.

Business Rates Forecast Income

Row		2013/14 Outturn £m	2014/15 Forecast £m	2015/16 Forecast £m	2016/17 Forecast £m	2017/18 Forecast £m	
(A)	Total Business Rates Collected	38.736	41.079	42.024	42.821	43.633	
(B)	Business Rates paid to Govt, KCC and Kent Fire	-23.242	-24.647	-25.214	-25.692	-26.179	
(C)	Business Rates Income for Council	(A)-(B)	15.494	16.432	16.810	17.129	17.454
(D)	Grants and reliefs from changes to the business rates system	0.590	0.841	0.860	0.877	0.894	
(E)	Business Rates income before Tariff payment	(C)+(D)	16.084	17.273	17.670	18.006	18.348
(F)	The Tariff the Council pays to the Govt (Govt forecast on business rates income to Council less Govt forecast on what Council will need to fund services)	-11.087	-11.303	-11.563	-11.783	-12.007	
(G)	Pre Levy Income (Business Rate income less the Tariff to be paid to Govt)	(E)-(F)	4.997	5.970	6.107	6.223	6.341
(H)	Less Baseline Funding (Govt set figure equivalent to what the Council used to get as business rates from the National Pool)	-3.748	-3.821	-3.909	-3.983	-4.059	
(I)	Difference	(G)-(H)	1.249	2.149	2.198	2.240	2.282
(J)	Less 50% levy paid to the Govt on above	I*50%	-0.625	-1.075	-1.099	-1.120	-1.141
(K)	Business Rates Income less Levy	(G)-(J)	4.372	4.895	5.008	5.103	5.200
(L)	Other adjustments	-0.047	0.045	0.045	-0.013	-0.012	
(M)	Final Business Rates Forecast for MTFP	(K)+/-(L)	4.325	4.940	5.053	5.090	5.188

Medium Term Financial Plan

	2014/15 Forecast £'000	2015/16 Forecast £'000	2016/17 Forecast £'000	2017/18 Forecast £'000
Base Budget	17,583	17,583	17,583	17,583
Growth Items	0	243	193	193
Unavoidable cost pressures	0	115	62	90
Loss of income	0	190	190	190
Additional income	0	(157)	(136)	(137)
Committed price increases	0	186	329	475
Salary Related:				
Increments	0	89	139	168
Pay Award	0	118	237	358
Contribution to/(from) reserves	931	237	317	317
Revenue Support Grant (RSG)	(4,296)	(2,930)	(2,222)	(1,633)
Business Rates	(4,940)	(5,053)	(5,090)	(5,188)
Council Tax (nil increase assumed)	(6,690)	(6,756)	(6,824)	(6,892)
Council Tax Freeze Grant 2014/15	(79)	(79)	(79)	(79)
Council Tax Freeze Grant 2015/16		(80)	(80)	(80)
Council Tax Freeze Grant 2016/17			(80)	(80)
Council Tax Freeze Grant 2017/18				(80)
New Homes Bonus	(2,269)	(2,724)	(3,134)	(2,754)
Collection Fund (Surplus)/ Deficit	(178)	(30)	0	0
Savings Required	62	952	1,405	2,451
Preceptors Council Tax Support	(125)	(125)	(125)	0
Service savings	0	(731)	(751)	(815)
Requirement for a balanced position	0	(96)	(529)	(1,636)
Committed savings	(125)	(952)	(1,405)	(2,451)
Contribution (to) / from General Fund	(63)	0	0	0
Balance of General Fund at 31 March	(3,650)	(3,650)	(3,650)	(3,650)

Budget Proposals

Growth Items:

No.	Description	Cabinet Member / Head of Service	2015/16 over 2014/15 £
	Commissioning & Customer Contact		
1	Procurement - greater use of electronic procurement systems to advertise contract opportunities.	Cllr D. Dewar-Whalley / D. Thomas	10,000
2	Swale Community Leisure Ltd grant for Executive officer post - one off cost to be met from the General Reserve.	Cllr D. Simmons / D. Thomas	50,000
3	Additional waste contract monitoring activity.	Cllr D. Simmons / D. Thomas	50,000
	Director of Regeneration		
4	Increase Director post by two days.	Cllr M. Cosgrove / P. Raine	53,540
	Economic & Community Services		
5	Heritage activities.	Cllr M. Whiting / E. Wiggins	10,000
6	New structure in the Communications Team.	Cllr A. Bowles / E. Wiggins	16,290
7	Increased grants for the First World War commemoration.	Cllr M. Whiting / E. Wiggins	5,000
	Environmental Health		
8	Shellfish Sampling - increase to fee.	Cllr D. Simmons / M. Radford	9,620
	Service Delivery		
9	Christmas car parking concessions.	Cllr D. Simmons / B. Planner	25,000
10	Resilience Officer - increase in hours.	Cllr D. Simmons / B. Planner	13,700
	Total Growth Items		243,150

Budget Proposals

Unavoidable Cost Pressures:

No.	Description	Cabinet Member / Head of Service	2015/16 over 2014/15 £
	Democratic Services		
1	Elections - one off cost to be met from the General Reserve.	Cllr A. Bowles / M. Radford	80,000
2	Members Allowances – 1% increase.	Cllr A. Bowles / M. Radford	3,600
	Finance		
3	Insurance increase from annual renewal. The projection assumes a 3% increase pa.	Cllr D. Dewar-Whalley / N. Vickers	10,000
4	Increase in precept from Lower Medway Internal Drainage Board 2%	Cllr D. Dewar-Whalley / N. Vickers	3,200
	Property Services		
5	Maintenance cost of new equipment in Print Room.	Cllr D. Dewar-Whalley / A. Adams	2,210
6	Maintenance cost of new equipment in Council Chamber.	Cllr D. Dewar-Whalley / A. Adams	850
	Service Delivery		
7	Increase in electricity charges for SBC owned street lighting.	Cllr D. Simmons / B. Planner	880
8	Council Tax - Single person discount review.	Cllr D. Dewar-Whalley / B. Planner	4,000
9	Council Tax - court costs of recovery action.	Cllr D. Dewar-Whalley / B. Planner	10,000
	Total Unavoidable Cost Pressures		114,740

Budget Proposals

Loss of Income:

No.	Description	Cabinet Member / Head of Service	2015/16 over 2014/15 £
	Commissioning & Customer Contact		
1	Kent County Council recycling credits replaced by enabling payments as part of the new joint waste contract.	Cllr D. Simmons / D. Thomas	83,000
	Economic & Cultural Services		
2	CCTV - loss of income.	Cllr K. Pugh / E. Wiggins	12,150
	Property Services		
3	Transfer of Princes Street Depot – Sittingbourne Town Centre Regeneration.	Cllr D. Dewar-Whalley / A. Adams	70,000
	Service Delivery		
4	Parking Enforcement – reduced income	Cllr D. Simmons / B. Planner	25,000
	Total Loss of Income		190,150

Budget Proposals

Service Savings:

No.	Description	Cabinet Member / Head of Service	2015/16 over 2014/15 £
	Commissioning & Customer Contact		
1	Reduce the number of play area inspections by Zurich from two to one per year.	Cllr D. Simmons / D. Thomas	(5,000)
2	Reduce budget commitment for contract variations for the leisure contract.	Cllr D. Simmons / D. Thomas	(1,200)
3	Graffiti cleaning – now included in the main waste contract.	Cllr D. Simmons / D. Thomas	(6,000)
4	Bring site repairs - cease to exist.	Cllr D. Simmons / D. Thomas	(1,000)
5	Bring site maintenance - cease to exist.	Cllr D. Simmons / D. Thomas	(2,840)
6	Recycling credit payments	Cllr D. Simmons / D. Thomas	(58,700)
7	Additional waste contract savings.	Cllr D. Simmons / D. Thomas	(250,000)
8	Channel shift – greater use of digital as opposed to face to face contact.	Cllr A. Bowles / D. Thomas	(19,000)
9	Automated switchboard facility, fewer calls handled by Customer Services Centre staff - channel shift.	Cllr A. Bowles / D. Thomas	(9,000)
10	Swale Community Leisure Ltd reduction in utility levy.	Cllr D. Simmons / D. Thomas	(40,000)
	Economic & Community Services		
11	Kemsley Hall - asset transfer efficiencies.	Cllr M. Whiting / E. Wiggins	(10,000)
	Finance		
12	Minimum Revenue Provision Reduction – accountancy charge for capital expenditure.	Cllr D. Dewar-Whalley / N. Vickers	(56,600)
	Housing		
13	Reduction in use of emergency accommodation in Medway through the provision of a Council owned House in Multiple Occupation (HMO).	Cllr J. Wright/ A. Christou	(6,000)
14	Council tax payment for housing in Teynham owned by the Council.	Cllr J. Wright/ A. Christou	(1,500)

Budget Proposals

No.	Description	Cabinet Member / Head of Service	2015/16 over 2014/15 £
15	Cost of maintenance for the Council owned Teynham house by using in house handyperson.	Cllr J. Wright/ A. Christou	(1,000)
16	Private Sector Housing Manager - reduced hours.	Cllr J. Wright/ A. Christou	(20,000)
17	Enhancements to the Housing ICT system following new allocations policy enabling management of homeless register and greater use of digital services.	Cllr J. Wright/ A. Christou	(23,600)
	Planning		
18	Non-salary shared service efficiency savings e.g. printing, advertising etc.	Cllr G. Lewin/ J. Freeman	(10,000)
	Policy		
19	Revised Team Structure.	Cllr A. Bowles / A. Kara	(5,860)
	Property Services		
20	Reduction in the cost of trade waste at Swale House.	Cllr D. Dewar-Whalley / A. Adams	(1,250)
21	End of leases at New Road Industrial Estate.	Cllr D. Dewar-Whalley / A. Adams	(33,110)
22	Reduction in running costs at Sheerness District office following move to Gateway and re-letting of building on FRI terms.	Cllr D. Dewar-Whalley / A. Adams	(6,950)
23	Reduction in staffing costs of community halls due to community asset transfer.	Cllr D. Dewar-Whalley / A. Adams	(11,100)
24	Reduction in utility costs at Swale House.	Cllr D. Dewar-Whalley / A. Adams	(8,640)
	Service Delivery		
25	Retirement of Head of Service.	Cllr D. Dewar-Whalley / B. Planner	(94,470)

Budget Proposals

No.	Description	Cabinet Member / Head of Service	2015/16 over 2014/15 £
	Mid Kent Improvement Partnership (MKIP) Services		
26	ICT predicted savings as agreed by Cabinet in April 2012 and based on savings against 2011/12 base budgets.	Cllr D. Dewar-Whalley / M. Radford	(15,000)
27	Savings on move to MKIP GIS service.	Cllr D. Dewar-Whalley / M. Radford	(5,000)
28	Corporate training budget to be reduced by 10%, this reflects the reduced staffing levels but also the increased efficiencies of purchasing for the three MKIP councils.	Cllr T. Wilcox/ D. Smart	(9,000)
29	Extension of HR shared service to Tunbridge Wells Borough Council.	Cllr T. Wilcox/ D. Smart	(19,690)
	Total Service Savings		(731,510)

Budget Proposals

Additional Income:

No.	Description	Cabinet Member / Head of Service	2015/16 over 2014/15 £
	Commissioning & Customer Contact		
1	Introduction of extra beach huts to sell and lease on to the public.	Cllr D. Simmons / D. Thomas	(20,000)
2	Ground rent for extra beach huts.	Cllr D. Simmons / D. Thomas	(2,500)
3	Sell space for memorial plaques at the new Iwade cemetery.	Cllr D. Simmons / D. Thomas	(3,000)
4	Swale Indoor bowls - increasing existing fees & charges.	Cllr D. Simmons / D. Thomas	(2,500)
5	Increased income from seafront concessions.	Cllr D. Simmons / D. Thomas	(4,600)
6	Increased subscriptions to garden waste service.	Cllr D. Simmons / D. Thomas	(12,430)
	Finance		
7	Investment income.	Cllr D. Dewar-Whalley / N. Vickers	(10,000)
	Planning		
8	Anticipated increase in planning fees.	Cllr G. Lewin/ J. Freeman	(34,000)
9	Anticipated increase in pre-application advice fees.	Cllr G. Lewin/ J. Freeman	(20,000)
	Property Services		
10	Increase in rental income from miscellaneous properties.	Cllr D. Dewar-Whalley / A. Adams	(47,500)
	Total Additional Income		(156,530)