

<b>MEETING:</b>	<b>CABINET</b>
<b>MEETING DATE:</b>	<b>23 JANUARY 2014</b>
<b>TITLE OF REPORT:</b>	<b>BUDGET 2014/15 AND MEDIUM TERM FINANCIAL STRATEGY</b>
<b>REPORT BY:</b>	<b>CHIEF FINANCIAL OFFICER</b>

## **Classification**

Open

## **Key Decision**

This is not a key decision.

## **Wards Affected**

County-wide

## **Purpose**

To propose the medium term financial strategy for 2014/15 to 2016/17 and to finalise the 2014/15 revenue and capital budget to be recommended to Full Council on 7<sup>th</sup> February 2014.

## **Recommendation(s)**

**THAT: Cabinet recommends to Council on 7<sup>th</sup> February;**

- (a) Approval of the revenue budget set out in Appendix 1; and**
- (b) Approval of a band D council tax of £1,251.32, a council tax increase of 1.9%, therefore rejecting the 2014/15 council tax freeze grant; and**
- (c) Approval of the medium term financial strategy shown in Appendix 3 ;**
- (d) Approval of the Capital Programme outlined in Section 4.13 of the medium term financial strategy; and**
- (e) Approval of the Treasury Management Strategy for 2014/15 attached as Appendix 4.**

## Alternative Options

- 1 It is open to Cabinet to amend the proposals; however, any amendments to increase expenditure in one area must be accompanied by compensating savings elsewhere to ensure the budget is balanced.

## Reasons for Recommendations

- 2 The council has a legal obligation to set a balanced budget.

## Key Considerations

### 3 Summary

- The budget proposals (appendix 1) will mean a band D council tax of £1,251.32, a below inflation increase of 1.9% and below that required for a referendum
- The council's draft medium-term financial strategy is attached as Appendix 3. As a result of reduced funding from central government, compounded by increasing costs and demands for services, Herefordshire Council will need to save £33m by 2016/17.
- In order to achieve this target the council must make savings of £15.4m in 2014/15. This is in addition to the £34m savings required in the previous three financial years.
- The 2014/15 proposed capital programme, included in Section 4.13 of the medium term financial strategy totals £85.3m and is funded by borrowing (£57.2m), grants (£24.9m) and the capital receipts reserve (£3.2m).
- The draft Treasury Management Strategy is attached as Appendix 4

### 4 Pensions

- 4.1 The pension fund's Actuaries have undertaken their triennial review of the pension fund assets and liabilities and revised the contribution rates required to bring the fund into balance over a period of 21 years. The financial implications are included in the council's medium term financial plan.
- 4.2 The estimated deficit on the fund for Herefordshire is £138m, against a required balance to pay future liabilities of £394m. This proportionate level of deficit is normal for Local Authority pension funds and relates to falling returns on investments and employees living significantly longer than anticipated when the scheme was initially set-up. We have agreed with the Actuary that in order to recover the deficit over 21 years that the employer's deficit contribution increases from £4.5m in 2014/15 to £7.6m by 2016/17 (£4.2m in 2013/14). The Actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. This amount will be reflected in a percentage charge still but it will be recognised as a fixed cost rather than a variable one based on staff numbers employed.
- 4.3 The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% to 14.6%. We have agreed with the Actuary to phase this in by paying 12.2% in 2014/15 and 14.6% from 2015/16. This equates to an increase from £4.2m per annum in 2013/14 to £4.6m in 2014/15 and £5.5m per annum thereafter based on current employee numbers.

### 5 Waste Disposal Contract

- 5.1 Cabinet have approved the recommendation to conclude a variation to the Waste

Disposal contract within the parameters defined within the Cabinet report dated 12<sup>th</sup> December 2013. For 2014/15 the waste disposal revenue budget has been increased by £400k to reflect this approval. This is a saving of £100k from the previous revenue budget increase included in Appendix B of the Medium Term Financial Strategy (MTFS) approved by Full Council on the 18<sup>th</sup> February 2013.

- 5.2 The capital budget implications of this decision are covered in paragraph 18.3 below and the borrowing requirements have been included in the Treasury Management Strategy. Borrowing to fund this variation will result in a surplus being generated on the loan provided. An element of this surplus will be used to improve the affordability of the variation and the remainder will be set aside to the waste disposal reserve. Contract negotiations will continue until financial close, expected in March 2014, and continued professional industry advice is being obtained to ensure the council takes all precautions to mitigate all financial risks that this variation may pose.

## 6 Savings

- 6.1 A budget gap of £33m has been estimated in the medium-term financial plan. However, there is further work to do to ensure there is allowance in the budget for slippage, changes arising out of the Local Government Settlement and other potential changes in assumptions. Directors have been tasked with identifying further savings.

- 6.2 Proposed savings for 2014/15 to 2016/17 are as follows;

	2014/15	2015/16	2016/17	Total
	£000	£000	£000	£000
Childrens Wellbeing	2,500	1,632	2,236	6,368
Adults and Wellbeing	5,490	3,435	3,146	12,071
Economy, Communities & Corporate and Organisational Development	7,407	3,602	4,269	15,278
<b>Savings Identified</b>	<b>15,397</b>	<b>8,669</b>	<b>9,651</b>	<b>33,717</b>

- 6.3 In 2014/15 over £10m of the savings, approximately 65%, relate to efficiency savings.
- 6.4 The council will also receive a £7.9m ring-fenced grant from the Department of Health for Public Health responsibilities as set out in the Health and Social Care Act 2012. This grant comes with a set of conditions for its use. The Director of Public Health works collaboratively within the council to maximise use of the grant for demand management on other services, enabling them to make further efficiencies.

## 7 Revenue Budget

The recommended budget position is as follows;

	£000
Directorate budgets	128,431
Capital Financing – principal/debt repayment	10,196
Capital Financing – interest	5,929
Managing change	2,000
Central Government grants	(5,064)
Other centrally held budgets	1,384
Repayment of 13/14 overspend/top-up reserves	3,580
<b>Net revenue budget requirement</b>	<b>146,456</b>

<b>Funding for the budget will be:</b>	<b>£000</b>
Revenue support grant	35,803
Council tax	81,263
Retained business rates	22,704
Business Rates top-up from central government	6,686
	<b>146,456</b>

- 8 A summary of the draft budget proposal is attached as Appendix 1.
- 9 In the 2013 Spending Round the Government announced funding will be made available to support local authorities that choose to freeze their council tax in 2014/15 and 2015/16. Authorities that freeze or reduce their band D council tax will receive a grant equivalent to a 1% increase on 2013/14 Band D council levels for 2014/15 and 2015/16. A 1% increase for Herefordshire equates to £0.8m. The draft budget proposal has assumed a council tax increase of 1.9% which equates to £1.5m which is below the anticipated threshold for a referendum of 2%.
- 10 The council tax collection fund is estimated to break-even at 31<sup>st</sup> March 2014. In terms of performance, the in-year collection rate is expected to be 98.5% in line with the target set, with a final collection rate over future years of 99.5%. For 2014/15 the assumed final collection rate has been reduced to 99% to take account of additional risks around the impact of welfare reforms, the council tax reduction scheme and the continuing effects of the economic downturn.
- 11 The business rates collection fund is also estimated to break-even for 2013/14, so there is no impact on the 2014/15 budget.
- 12 The provisional settlement for 2014/15 was announced on 18<sup>th</sup> December 2013. The Settlement Funding Allocation is £64.9m but may change in the Final Settlement expected in early February 2014. This includes Revenue support grant, estimated local rates and a business rates top-up. The provisional settlement confirms that Herefordshire will face another year of funding reductions with more than £6m being cut in 2014/15 and a further £9m in 2015/16. The position for Herefordshire is broadly in line with budget assumptions in the medium-term financial plan. However, additional funding for rural authorities of £9.5m has been included in the Settlement which has given Herefordshire an extra £598k in 2014/15 and 2015/16.
- 13 The estimated Amount of Dedicated School grant for Herefordshire to be received in 2014/15 is anticipated to be £110.6m of which an estimated £34.5m will go directly to Academy schools and £76.1m through the council to County schools.
- 14 The government has announced the creation of a Better Care Fund (BCF) in 2015/16, in order to improve integration across health and social care. A key component of this will be funding (section 256) received from the Department of Health to support activities and programmes that are jointly agreed with the Clinical Commissioning Group (CCG) and have joint benefits. Confirmation of 2014/15 funding has not yet been received but is estimated to be approximately £4.3m (an increase of £0.6m from 2013/14) and this funding has been assumed within Adult Wellbeing budgets for 2014/15. The allocation method for distribution of the BCF has yet to be confirmed but the government has confirmed a proportion of the funding will be performance based. The fund will also contain capital elements including the Disabled Facilities Grant and capital funding for adult social care (2013/14 values £0.7m and £0.5m respectively).

## 15 Reserves and Balances

The projected general fund working balance, based on the October forecast is as follows;

	£m
31 <sup>st</sup> March 2013	4.6
31 <sup>st</sup> March 2014	2.2
31 <sup>st</sup> March 2015	5.7

The proposed 2014/15 budget includes repayment of the potential overspend in 2013/14 plus an additional £1m contribution to reserves.

- 16 In addition the council has a number of revenue reserves which are earmarked for specific purposes; note the council cannot use schools balances. Including these earmarked reserves total reserves are estimated as follows;

	General working balance £m	Earmarked reserves £m	Schools £m	Total £m
31 <sup>st</sup> March 2013	4.6	8.5	5.5	18.6
31 <sup>st</sup> March 2014	2.2	9.0	5.0	16.2
31 <sup>st</sup> March 2015	5.7	8.8	4.5	19.0

## 17 Medium Term Financial Strategy (MTFS)

- 17.1 The MTFS (Appendix 3) covers the period 2014/15 to 2016/17 and is designed to match available resources to corporate priorities, which are;

- To keep Children and Young People safe and give them a great start in life
- Enable residents to live safe, healthy and independent lives
- Invest in projects to improve roads, create jobs and build more homes

- 17.2 The strategy sets out the projected financial position for the council, the funding gap and the savings proposals to deliver a balanced budget.

## 18 Capital Programme

Capital scheme	2014/15	2015/16	2016/17	Total
	£000	£000	£000	£000
<b>Capital Schemes approved in prior years</b>	<b>57,075</b>	<b>17,609</b>	<b>3,066</b>	<b>77,750</b>
<b>New Capital Schemes – all self funded / equivalent savings</b>				
Energy from waste plant	11,000	14,000	15,000	40,000
Road infrastructure	15,000	5,000	-	20,000
Leisure Centres	2,000	3,300	3,370	8,670
Disabled Facilities Grants	200	-	-	200
Closed Landfill Sites	76	-	-	76
<b>Total</b>	<b>85,351</b>	<b>39,909</b>	<b>21,436</b>	<b>146,696</b>

Further detail is included in section 4.13 of the Medium-term financial strategy

- 18.1 The following additional capital schemes are proposed as part of the 2014/15 capital budget.
- (a) **Closed landfill sites** – This is for replacement boreholes at the Belmont site and improvements to the Leominster site, the total for both schemes being £76k with the cost of borrowing funded by a revenue budget contribution.
  - (b) **Disabled Facilities Grants (DFGs)** - The council has a statutory duty to provide DFGs and providing funding reduces the risk of the hospitalisation of vulnerable people, enabling them to remain in their own homes. The council receives grant funding from the Government, which used to require a match funding commitment and although this requirement has been removed the need exceeds current grant value by an estimated £200k. The cost of borrowing (£200k) will be funded by a revenue budget contribution.
- 18.2 The capital programme also includes an additional £20m (£15m in 2014/15 and £5m in 2015/16) to be spent on road improvements which will reduce the need to spend on road maintenance, this was approved by Cabinet on 25<sup>th</sup> July 2013. Spending will be funded by prudential borrowing, with the repayments funded by Local Transport Plan (LTP) capital grant and the commensurate savings in the roads revenue maintenance budget.
- 18.3 Approval of the proposed variation to the waste disposal contract will add up to £40m to the capital programme (exact value to be confirmed at financial close expected in March 2014) to support the capital cost of building the new Energy from Waste plant in Hartlebury. The cost of borrowing will be financed by the contractor Mercia via loan repayments as detailed in the Cabinet report approved on the 12<sup>th</sup> December 2013. The scheme is projected to save £32m over the life of the plant in comparison to continuing as is (sending residual waste to landfill) based on Net Present Values.
- 18.4 An indicative allocation of £8.67m has been included as capital investment in the refurbishment and enhancement of leisure centres. The investment is anticipated to increase usage of Herefordshire Leisure Centres and thus income covering both the cost of borrowing and planned reductions in the leisure subsidy paid by the council built into the MTFS. The full details and approval of this funding is planned for January 2014. The cost of borrowing will be financed by rental charges for the centres payable by the provider, currently Halo Leisure.

## 19 Treasury Management Strategy

- 19.1 The Treasury management strategy, attached as Appendix 4, sets out the council's borrowing and investment strategy for 2014/15 and includes the Prudential Indicators for the budget proposals.
- 19.2 The strategy, based on the proposed capital programme, includes an estimated additional borrowing requirement of £57.2m for new capital spend in 2014/15.
- 19.3 The borrowing requirement has been calculated by reference to the projected Balance Sheet position which is set out below.

	2014/15	2015/16	2016/17
	£m	£m	£m
<b>Borrowing Requirement b fwd (excl. PFI contracts and long-term liabilities)</b>	<b>190.8</b>	<b>237.8</b>	<b>264.9</b>
New borrowing	57.2	37.4	20.8
Less MRP (provision for principal repayment)	(10.2)	(10.3)	(10.7)
<b>Borrowing Requirement c fwd</b>	<b>237.8</b>	<b>264.9</b>	<b>275.0</b>
Less existing long-term loans	(132.5)	(124.3)	(117.2)
Less estimated revenue and capital reserves	(19.6)	(18.9)	(18.5)
Less capital receipts reserve from proposed asset sales (cumulative)		(20.0)	(40.0)
<b>Additional Borrowing Requirement (excl. PFI contracts and other long-term liabilities)</b>	<b>85.7</b>	<b>101.7</b>	<b>99.3</b>

- 19.4 It should be noted that the above projection includes a proposal to reduce borrowing through the sale of assets (realising total receipts of £60m or £20m per annum over the three years 2015/16 to 2017/18 inclusive).
- 19.5 The forecast is for interest rates to stay low for the foreseeable future. Therefore council strategy is to continue to use short-term loans, which are the cheapest source of finance available both in the short and over the medium/long term. Also, the anticipated sale of assets supports the policy of borrowing in the short-term rather than locking in loans in advance of receiving capital receipts.
- 19.6 By the end of 2014/15 short-term loans could reach a total of £85.7m. Of this amount £57.2m relates to the borrowing requirement for 2014/15 with the balance relating to prior years. The advice from our Treasury Management Advisors is that this level of short-term borrowing, as a percentage of total debt, is in line with other local authorities. Interest rate projections are constantly monitored to ensure the strategy is in the long-term interests of the council. The Prudential indicator for the Upper Limit for Variable Interest Rate Exposure is set at 45% of debt in the draft Treasury management strategy.
- 19.7 The council is required to make an annual provision for the repayment of borrowing charged to its Revenue Account, £10.2m in 2014/15, referred to as the Minimum Revenue Provision. Prudential borrowing is repaid over the life of the asset on an equal instalment basis commencing in the year following the year in which the asset first becomes operational.

## 20 Consultation

### 20.1 Internal

- The budget proposals are considered to be deliverable by the Management Board
- The Chief Finance Officer held a cross party budget consultation event on 18<sup>th</sup> December 2013.
- The budget proposals will be considered by General Overview and Scrutiny Committee on 13<sup>th</sup> January 2014

### 20.2 External

- The council has consulted with the public on the proposed budget for 2014/15 and the plan for Herefordshire Council 2014/15 to 2016/17. The consultation closed on 20<sup>th</sup> December 2013 and results will be analysed in the New Year.
- A budget consultation meeting with Parish council representatives was held on 5<sup>th</sup> December 2013.

## 21 Risk Assessment

The most substantial risks have been assessed in the budget process and reasonable mitigation has been made. Risks will be monitored through the year and reported to Cabinet as part of budget monitoring.

**21.1 Substantial Reductions to Directorate Budgets** - £15.4m of reductions have been identified within the draft budget proposals. These are in addition to the £34m savings in the previous three financial years, with savings also identified for 2015/16 and 2016/17 of £18.3m. Key risks for Directorates are set out below;

### 21.2 Economy, Communities and Corporate

- The economic climate continues to have a direct impact on income (planning and parking fees). The budget reflects prudent assumptions around the continued impact of the economic situation.
- There is risk to the budget for the emergency costs in response to severe weather conditions, such as flooding or harsh winter conditions. Whilst DCLG assist in the funding of these costs through the Bellwin scheme, the council would have to fund the remainder within current budgets. £450k has been included in the financial plan to cover this cost.

### 21.3 Adults Well-Being

- Demographic Pressures have been included within the draft budget proposals for expected growth, but pressures within Health funding may result in added costs due to earlier hospital discharges.
- Re-commissioning of services is dependent upon successful contract negotiations and an appetite within the marketplace for change and the management of delivering to proposed timescales.
- Reviews of high cost packages run the risk of care packages also increasing in value as well as decreasing in value.



- Increased income expectations are at risk as if successful at preventative and redirection demand initiatives, then this may reduce the ability to increase income generation.

#### 21.4 **Childrens Well being**

- Social Work Recruitment within Children's Services remains a risk and the use of agency staff has been profiled to reduce over the year. This national shortage is seen across the country. Work is progressing on a local social work academy to support a "Grow your Own" and "Progression" initiative in order to support a more sustainable workforce for the future.
- Foster Carers may be required to look after children until the age of 21. The Government are currently looking at proposals to extend the current age with circa £40m being allocated across the country. However, there is an expected increase in foster carers within Herefordshire of circa 20-30 by 2017 in order to meet current demand.
- Children's Placement budget has increased risks due to the transfer of responsibilities of Court Ordered Placements to the Local Authority. The lack of local residential opportunities has lead to increased cost. Work is underway to look at early intervention work, MST (Multi- Systemic Treatment Programme). In addition specialist foster carers are due to be recruited to support children with complex and challenging behaviours.
- Court Costs are a risk due to an increase in care proceedings.

#### 22 **Equality Impact assessment**

- 22.1 The impact of the main budget proposals in terms of equality issues has been assessed by each Director and are summarised in Appendix 2.
- 22.2 The possible cumulative impacts of budget reductions have been assessed and can be found in Appendix 5.

#### 23 **Statutory Statement by the Council's Chief Finance Officer**

- 23.1 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer must report on the:
- Robustness of the estimates made for the purposes of the budget calculations.
  - Adequacy of the proposed financial reserves.
- 23.2 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report to the Council when it is setting the budget and precept (Council tax). The Council is required to take this report into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.
- 23.3 The Chief Finance Officer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

- The council's corporate plans and strategies;
- The council's budget strategy;
- The need to protect the council's financial standing and manage corporate financial risks;
- This year's financial performance;
- The Government's financial policies;
- The council's medium-term financial planning framework;
- Capital programme obligations;
- Treasury Management best practice;
- The strengths of the council's financial control procedures;
- The extent of the council's balances and reserves; and
- Prevailing economic climate and future prospects.

## **Community Impact**

24 Not applicable.

## **Equality and Human Rights**

25 These are contained within the report.

## **Financial Implications**

26 These are contained within the report.

## **Legal Implications – DRAFT to be reviewed by Legal Services**

When setting the budget it is important that Councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and Council Tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.

The Local Government Finance Act 1992 requires a Council to set a balanced budget. To do this the Council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure. The Act also covers the legal issues around Council Tax setting.

Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under Local Government legislation.

Local authorities must decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on services. Because they decide on the Council Tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by: making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

Local government legislation requires an authority's Chief Finance Officer to make a report to the authority when it is considering its budget and Council Tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the paragraph 23 of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the Chief Finance Officer's statutory report. If they do not they must provide clear reasons for not following the professional advice put forward by the Chief Finance Officer.

**Risk Management**

27 None.

**Consultees**

28 None.

**Appendices**

Appendix 1 – Draft Revenue Budget Summary 2014/15	Page 23
Appendix 2 – Savings Proposals 2014/15	Page 29
Appendix 3 – Medium term financial strategy	Page 35
Appendix 4 – Treasury Management Strategy	Page 69
Appendix 5 – Equality impact of budget proposals	Page 91

**Background Papers**

- None identified.