

REDDITCH BOROUGH COUNCIL

EXECUTIVE

23rd FEBRUARY 2015

MEDIUM TERM FINANCIAL PLAN 2015/16 – 2017/18

| | |
|----------------------------|----------------------------------|
| Relevant Portfolio Holder | John Fisher |
| Portfolio Holder Consulted | Yes |
| Relevant Head of Service | Jayne Pickering (Exec Director) |
| Wards Affected | All |
| Ward Councillor Consulted | None specific |

1. SUMMARY OF PROPOSALS

- 1.1 To enable Members to consider the current financial position for the revenue budget 2015/16 – 2017/18.

2. RECOMMENDATIONS

2.1 Executive is asked to recommend to Full Council:

- 1) Approve the bids of £91k for 2015/16 as detailed within the report in relation to Essential Living Fund, Small Business Support and the spend to save funds for energy management.

- 2) Approve the unavoidable pressures as detailed in Appendix 1 of;

2015/16 £238k
2016/17 £230k
2017/18 £241k

- 3) Approve the savings as detailed at Appendix 2 of ;
2015/16 £986k
2016/17 £1.476m
2017/18 £1.516m

- 4) Approve the increase in Council Tax of 1.9% for 2015/16

- 5) Approve the Capital Bids as detailed in Appendix 3 of;

2015/16 £2.574m
2016/17 £1.395m
2017/18 £1.385m

3. KEY ISSUES

Financial Implications

3.1 As Members are aware the Council's Medium Term Financial Plan (MTFP) provides the framework within which the revenue and capital spending decisions can be made. As part of the budget process for 2014/15 a one year budget was agreed by Members. This was to enable officers and Members to review the costs associated with the delivery of services across the Borough to make informed proposals on future years spending plans. The Medium Term Plan included within this report is for a 3 year period and provides sustainable financial funding to the Strategic Purposes and ensure residents receive quality services to meet their needs in the future. The Purposes that drive the financial considerations are :

- Help me find somewhere to live in my locality
- Provide good things for me to see, do and visit
- Help me live my life independently
- Help me run a successful business
- Help me be financially independent
- Keep my place safe and looking good

Formula Grant / Localised Business Rates

3.2 The provisional settlement that was received recently by the Council for 2015/16 was as indicated previously at £3.580m. However this confirms the £652k reduction in the grant allocated for 2014/15. The grant includes a number of allocations that were previously received as separate funding streams and therefore the cut is across all funding received by Central Government.

3.3 Forecasting Government funding beyond 2015/16 is challenging, the key issue will be the outcome of the next Comprehensive Spending Review (CSR), due for publication after the General Election in May 2015. Recent Government and opposition announcements indicate that the austerity measures are set to continue into future years, in line with the Government's objective of achieving a budget surplus. Further estimated reductions on Formula Grant are therefore factored into the MTFP, in line with previous estimates. Reductions have been included at 5% of the Revenue Support Grant (£1.567m) element of the main settlement.

3.4 The budget for 2015/16 – 2017/18 includes a Council Tax increase of 1.9% p.a. It is worth noting that the Government has continued to provide a Council Tax Freeze Grant of up to 1% as part of the settlement for 2015/16. It is proposed that the Council does not take up

this grant due to the impact it has on the future Council Tax income rises.

- 3.5 The new localised regime on Business Rates (BR) took effect in April 2013. Redditch is part of the Greater Birmingham and Solihull Business Rates Pool, set up as a mechanism to retain more BR growth funding within the area, and to manage risk on BR losses on a shared basis.
- 3.6 In the first year of this new regime, all members of the pool benefited financially from being in the pool. The net financial growth across all the Pool Partners was £750k. This would have been returned to Central Government had the Pool not existed. From this £750k Redditch received £203k for 2013/14 as the Council saw decline in its Business Rates Baseline Income and had to make a number of payments as a result of nationally agreed appeals by businesses. We therefore reached a “safety net” level whereby a payment was made to mitigate the effect of the decline in income. This was a one off payment for 2013/14 as part of the Pooling Agreement. Of the remaining £547k, funding of £307k was set aside for LEP projects and £240k returned to the 3 Councils that generated growth in their Business Rates position.

New Homes Bonus

- 3.7 The Council will receive £803k in 2015/16. This has been increased based on assumptions of planning growth over the next 3 years.
- 3.8 As Members are aware all income received from New Homes Bonus grant is currently used within the General Funds of the Council and is utilised to offset the pressures facing the Council over the medium term. At present there are no proposed changes to the funding mechanism for New Homes Bonus by Central Government but it is a funding stream that could be revised in the future and therefore impact on the budget position moving forward.

Council Tax

- 3.9 To ensure that necessary levels of funding are available given the large reductions in government grant highlighted above, the Council Tax increases will have to be sufficient to ensure that funding is available for the services that create value to the customer to have appropriate levels of financial resource.
- 3.10 The government have offered a grant equivalent to a 1% rise in Council Tax for 2015/16 for councils who freeze their Council Tax in the next financial year. Acceptance of this freeze grant will cost the Council

£101k pa once the grant ceases (assuming Council Tax would otherwise rise by 1.9% in 2015/16). It is proposed that the freeze grant is not accepted due to the impact on future years funding.

Transformation

- 3.11 The significant reductions in funding are not anticipated to improve for a number of years and therefore officers have looked at alternative ways to deliver savings whilst improving services to the community. As previously reported the services provided by the Council are undergoing transformational change using a different approach to assessing the value provided by the service. This work will focus on the purpose of services to the community and will aim to realise savings and protect those services that create value to our customers.
- 3.12 Members will be aware of the recent review to the provision of some services across a locality /place and the significant savings that have been identified whilst improving and enhancing the services to the community. In addition the work across customer services and departments continues to develop to ensure that an expert is on hand to support our residents. There are a number of savings that are estimated to be delivered as a result of transformation over the next 3 years.
- 3.13 Officers are focused on reducing costs of services that do not provide front line services to support the Strategic Purposes and will continue to drive out waste and redesign provision to reduce costs.

Financial Projections

- 3.14 Officers have also identified a number of budget pressures that have been deemed “unavoidable”. Unavoidable includes the ongoing effects of pressures identified during 2014/15 together with any issues that have been raised as fundamental to maintaining service provision as part of the budget process. In addition income shortfalls that cannot be managed by improved marketing or price increases have been addressed during the budget planning. These pressures are detailed in Appendix 1.
- 3.15 In addition to the unavoidable pressures 3 revenue bids have been identified to continue to support the community across the Borough. These are :
- **Essential Living Fund - £30k** to provide funding for vulnerable members of the community when they need urgent financial support. County Council will provide match funding of £30k for 2015/16 and have approved a further £108k from a recent allocation from Central Government for welfare assistance and social care. This will enable funds of

£168k to be made available for 2015/16. provide support to the most vulnerable residents.

- **Small Business Support - £20k** to provide levels of funding for businesses in the Borough this may be via reduced Business Rates or set up financial support.
- **Energy Management - £41k** to provide funding for the Council to work with the County Council to review our energy efficiency / carbon footprint and to work to ensure the Council reduces its energy cost in the future. The £41k is for one year only and will realise savings of £60k per annum by 2017/18.

3.16 Officers have spent time reviewing the way that our services are delivered and have proposed savings that can be realised as a result of the financial principles that the Council agreed in relation to the budget:

- Reducing the cost of enabling services
- Reducing the cost of waste in the services
- Redesigning the service to meet customer need whilst reducing cost

3.17 Officers have reviewed service delivery across the Council and considered how to reduce waste and support front line services. The savings proposed have been assessed in a robust way to ensure that they are sustainable and that resulting costs meet the Strategic Purposes of the Council. The schedule at Appendix 2 details the savings proposed.

Financial Position

3.18 The current summary position at 3.19 includes the financial impact of the above in addition to the following assumptions:

- 2.2% pay award in relation to the National Agreement in place
- General inflationary increases in relation to contract arrangements
- An estimation of the reduction for 2016/17 (5%) & 2017/18 (5%) in Central Government Grant
- 3% increase in fees and charges (where appropriate)
- An estimation of the New Homes Bonus income
- Additional growth income estimated in relation to the Business Rates receivable by the Council
- Use of reserves of £875k. In previous years there have been drawdowns from reserves to fund the revenue budget. The majority of the use of reserves for 2015/16 (£755k) will be replaced by Capital receipts already received and therefore

REDDITCH BOROUGH COUNCIL

EXECUTIVE

23rd FEBRUARY 2015

not impact on the level of reserves available for future funding requirements. In addition a review has been undertaken of all reserves and any no longer required are to be released to support the revenue budget.

- £150k savings increasing to £300k in a full year for the delivery of alternative service provision for Leisure
- No use of balances across the 3 year plan

3.19 The revised position is shown below.

| | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|---|--------------------------|--------------------------|--------------------------|
| Base cost of General Fund Services | 11,783 | 11,126 | 10,822 |
| Additional re pay award / pension / incremental progression | | 235 | 153 |
| Pressures –unavoidable & income shortfalls | 238 | -8 | 11 |
| Savings Proposed | -986 | -490 | -40 |
| Bids | 91 | -41 | |
| Net Service Expenditure | 11,126 | 10,822 | 10,946 |
| Borrowing to fund capital programme | 1,057 | 1,057 | 1,057 |
| Investment Income | -484 | -484 | -484 |
| Recharge to capital programme | -598 | -598 | -598 |
| Vacancy Management | -190 | -190 | -190 |
| Net operating expenditure | 10,911 | 10,607 | 10,731 |
| New Homes Bonus | -803 | -1,011 | -1,015 |
| Parish Precept | 8 | 8 | 8 |

REDDITCH BOROUGH COUNCIL

EXECUTIVE

23rd FEBRUARY 2015

| | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|---|--------------------------|--------------------------|--------------------------|
| Business Rate Retention (per NDR1 2015/16) | -2,222 | -2,186 | -2,186 |
| Surplus from Collection Fund | -55 | 0 | 0 |
| Government Grant | -1,567 | -1,499 | -1,424 |
| Assumed Council Tax | -5,397 | -5,504 | -5712 |
| Use of Reserves | -875 | - | - |
| Overall Shortfall | 0 | 415 | 402 |

3.21 As shown in the table above there remain shortfalls over the 3 year. Officers are committed to realise these future years' savings through transformation and redesigning systems and services within the Council to support the Strategic Purposes. Therefore we will continue to work with staff to enable services to be delivered at a reduced cost whilst meeting the demands of the community.

General Fund Balances

3.22 The level of the general fund balance is currently £1.1m. The current level of balances is sufficient but it is recommended that these should not drop below £750k. The current projections do include any use of balances over the 3 year financial plan.

3.23 The estimated level of government funding over the MTFP will reduce more rapidly than the increase in Council Tax revenues. Consequently, there will be a continuing focus on transforming service delivery to reduce waste and to ensure that the funding available is aligned to the services that create value to the community of Redditch.

Capital Programme

3.24 The Capital Programme is a 3 year rolling programme and officers have calculated the associated borrowing costs of the programme as part of the MTFP. Officers are to undertake a full review of the capital programme and associated borrowing costs to ensure that the maximum value is achieved from the receipts we have available.

- 3.25 The new capital bids for approval for the next 3 years are included at Appendix 3.

Legal Implications

- 3.26 There are a number of requirements that the Council's Section 151 Officer (the Council's designated Senior Finance Officer) has to include in the budget report. These are set out below, together with S.151 comments on each of the issues:

- a) The level and use of reserves to be formally determined by the Council must be informed by the judgement and advice of the Chief Financial Officer (CFO).

Section 151 Officer's comments: Review of general fund balances included above in report (3.22).

- b) The CFO to report the factors that have influenced his/her judgement in the context of the key financial assumptions underpinning the budget, and ensure that his/her advice is formally recorded. Where that advice is not accepted, this should be formally recorded in the minutes of the meeting.

Section 151 Officer's comments: The main assumptions included in the calculation of the budget are included within the report. The budget updates and considerations at previous Committee meetings have been formally recorded.

- c) The report should include a statement showing the estimated opening balance on general fund reserves for the year ahead, any contribution to/from the fund, and the estimated closing balance.

Section 151 Officer's comments: statement included in this report (3.22)

- d) The report should show the extent to which reserves are financing ongoing expenditure.

Section 151 Officer's comments: included in the report.

- e) The report should include a statement from the CFO on the adequacy of general reserves and provisions both for the forthcoming year and in the context of the medium term financial plan.

Section 151 Officer Comments: the Council holds adequate reserves to manage future liability and financial constraints as detailed in 3.23.

- f) The report should include a statement on the annual review of earmarked reserves showing:
 - i) list of earmarked reserves
 - ii) purpose of reserve
 - iii) advice on appropriate levels
 - iv) estimated opening / closing balances
 - v) planned additions / withdrawals.

Section 151 Officer's Comments: The current reserves are reported on a regular basis through the financial monitoring reports .

Service / Operational Implications

- 3.27 The MTFP will enable services to be maintained and, where achievable, improvements to the community.

Customer / Equalities and Diversity Implications

- 3.28 The impact on the customer has been reduced due to the savings being realised by reduction of waste in the services and ensuring that all service that create value to the customer are resourced.

4. RISK MANAGEMENT

- 4.1 There is a potential risk that savings proposed will not be achieved. There is a particular risk in relation to the saving of £150k a proposed new model to delivering leisure services as this will be predicated on Members making a decision in regard to the future delivery model. It is anticipated that a report will be presented to Members in the summer for consideration.
- 4.2 To mitigate the risks associated with the financial pressures facing the Authority regular monitoring reports are presented to both officers and Members to enable proactive action being undertaken to address any areas of concern.

5. APPENDICES

Appendix 1 – Unavoidable Pressures (including income shortfalls)
Appendix 2 – Savings Proposed
Appendix 3 – Capital Bids

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REDDITCH BOROUGH COUNCIL

EXECUTIVE

23rd FEBRUARY 2015

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