

**MEDIUM TERM FINANCIAL PLAN – ANNUAL BUDGET REPORT
2013/14****1. INTRODUCTION****2. BACKGROUND**

- 2.1 Details of a “New Look” Local Government Finance Settlement started to be released on the 19 December 2012. Included were details of a new business rate retention funding scheme that aims to “reward” Local Authorities for growth that will commence in April 2013. The settlement also included the government’s ongoing approach to financial austerity, with planned reductions in grants outlined over the next few years.
- 2.2 The changes to the Local Government Finance Settlement and its lateness has made the overall budget process this year much more complicated both for the Council and the government. Details of the government’s financial settlement have both been slow in being released and have contained errors that have needed later to be corrected.
- 2.3 The Annual Budget Report sets out to explain the many changes that are taking place to the Council’s overall funding position together with details of the budget expenditure planned for 2013/14.

3. FUNDING (Appendix A)

- 3.1 Overall funding available (Council Tax and Government Grant) in the budget for 2012/13 was £20.678 million. Based on the Provisional Local Government Finance Settlement announcement this overall funding will reduce by £524,000 (a 2.5% reduction) in 2013/14 and reduce further in 2014/15 by £968,000 (a further 4.8% reduction). Over the next two years available funding is now expected to reduce by approximately £1.5 million (7.2% of the 2012/13 budget). Details of these changes are summarised as follows.

3.2 Council Tax Related Funding**3.2.1 Council Tax including Freeze Grant**

The Council has not increased Council Tax for the last two years and the Medium Term Financial Plan provides for a third year zero increase in 2013/14. Council Tax is planned to remain at its 2010/11 level of £155.76 (Band D). Any growth in income forecast is the result of either a general increase in dwellings or improved collection performance.

Government have provided Council Tax Freeze grant in each of the last two years, 2011/12 and 2012/13, to help councils avoid increasing their Council Tax. Any authority that agreed not to increase Council Tax was eligible to receive a grant from the government equivalent to a 2.5% increase in Council

Tax. The 2011/12 grant was to be paid for four years and the 2012/13 grant for one year only.

For 2013/14 a new grant scheme is available to local authorities who decide to freeze, or reduce their Council Tax in 2013/14. If they do, councils will receive funding in both financial years 2013/14 and 2014/15, equivalent to raising their 2012/13 Council Tax by 1%.

A summary of the Council Tax Freeze Grant position is as follows:

	Budget 2012/13 £	Budget 2013/14 £
2011/12	285,000	285,000
2012/13	284,000	Nil
2013/14	<u>Nil</u>	<u>115,000</u>
Total	<u>569,000</u>	<u>400,000</u>
Equivalent Council Tax increase	5.4%	3.8%

The table above shows that in 2013/14 £169,000 less in Council Tax Freeze grant will be received than in 2012/13, equivalent to an extra 1.6% on Council Tax.

The Government announced the level of permitted increase in Council Tax in 2013/14 before the need for a local referendum as being 2%.

3.2.2 Council Tax Reduction Scheme Funding

The Spending Review 2010 included a commitment that support for council tax would be localised from 2013/14 and expenditure reduced by 10% at the same time.

To implement a local council tax reduction scheme in April 2013, the council needed to prepare a scheme and consult on it with the major precepting authorities (County Council, Police and Fire Services), taxpayers and claimants. In order to deliver a scheme within the governments timetable Cabinet established a "Task & Finish" group of members to undertake this review. The outcome of their work is set out in Cabinet – Item 5 Report B.

The proposals for the Reduction Scheme in 2013/14 are based on the assumption that working age claimants will contribute no more than 8.5% towards their net Council Tax Liability and as a consequence this will attract a Transition Grant from the government for one year only. Although subject to an annual decision of Council the proposal for 2014/15 and future years is based on the Task and Finish Group recommendation.

The financial implications of the proposed Council Tax Reduction Scheme as it affects the Council are set out as follows:

	2013/14 £	2014/15 £
Estimated value of share of current benefits	1,057,000	1,057,000
Government Grant	<u>(937,000)</u>	<u>(937,000)</u>
Estimated Funding “Shortfall”	120,000	120,000
Estimated savings from new Reduction Scheme	(28,000)	(70,000)*
Transition Grant	<u>(25,000)</u>	<u>Nil</u>
Estimated Net Cost	<u>67,000</u>	<u>50,000</u>

*assumption based on Task and Finish Group recommendation.

3.2.3 Town & Parish Grant

Following a number of consultations the Government determined that Town and Parish Councils should bear their fair share of the cost associated with the new Local Reduction Scheme. The estimated cost to Towns and Parishes of the Local Reduction Scheme based on caseload is estimated to be £472,000.

The government have made an identified grant available to the District Council of £392,000 in 2013/14 to cover the costs related to Towns and Parishes. Cabinet’s budget strategy provided that any government funding identified for Towns and Parish Councils was to be passed on in order that local taxpayers were protected from the impact of the changes. In 2013/14 this will also include a share of Transition Grant making the total amount to be passed on to Towns and Parishes based on caseload in 2013/14 £404,000.

3.3 Council Taxbase including Discounts

Each year the Council has to determine a Council Taxbase (Cabinet Item 7 – Report D). The Council Tax Reduction scheme is reflected within this calculation together with changes supported by the Task and Finish Group that undertook the review of the Discount scheme (Cabinet Item 6 - Report C).

The Council Taxbase for 2013/14 is estimated at 67,703 compared to 73,274 in the current year. The reasons for this major change are set out within the related Cabinet reports (B, C and D). Also included with the calculation is a reduction in Collection Rate from 98.5% to 98.3% reflecting the changes included with the Taxbase calculation.

3.4 Business Rates

A new business rates retention scheme will be introduced from April 2013. It aims to provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services. Councils will be able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area. The Council does not have the power to set the business rate. This will continue to be set at a national level.

The government's aim is to provide a strong financial incentive for councils to promote economic growth. Business rates retention is at the heart of the government's reform agenda and they believe it will help achieve 2 priorities: economic growth and localism.

In 2013/14 it is estimated (Cabinet Item 8 - Report E) that the Council will collect £55.63 million in business rates. Of this 50% will be paid to the government, 9% to the County Council and 1% to the Fire Authority with the District's baseline being 40% (estimated in 2013/14 to be £22.25 million).

However the government has undertaken a calculation to ensure that councils with more business rates than their current spending will be required to make a tariff payment to the government. This is the situation that this Council is in.

Similarly, where councils have greater needs than their business rates income, they will receive a top-up payment from the government. This is the case that the County Council is in. The total sums of these payments nationally will equal each other.

The government has calculated that the tariff required of the Council in 2013/14 is £18.76 million. The most significant sum, in terms of the Council's financial planning is the funding that the government assessed identifies as being able to be retained by the Council. This starting baseline sum is £3,492,109.

After this first year the levels of tariff and top-up payments will remain fixed only increasing in line with the Retail Price Index.

These baseline amounts will not change until the system is reset. The government has said that this will not occur before 2020 at the earliest. They state that this will provide councils with the certainty that they need to plan and budget.

In addition, safety net payments will be available if a council's business rates income falls by a certain amount. This will provide support if, for example, a major local employer closes.

This safety net will be funded by a levy paid by those councils whose business rates revenue increases by a disproportionate amount compared to their needs. The levy is designed to ensure that the more council's grow their business rates, the more they benefit.

Given the significantly higher risks that this new "local" system places on the Council has led to the requirement for the attached Cabinet report which sets out detailed estimates of the Council's likely business rates for 2013/14. For information 25% of the Council's total business rates are the liability of just 5 businesses including the refinery and two power stations. This lack of wider diversification represents a high risk to the Council's financial position. The sums set out within the Cabinet report

also provide appropriate provision (approximately £4 million, includes any backdating if appropriate) for appeals that are currently being considered by the Valuation Office.

3.5 Government Grant including New Homes Bonus and Formula Funding

3.5.1 New Homes Bonus

The New Homes Bonus is a key element of the government's housing growth focus. The Bonus is paid on the basis of the Council Tax generated from additional homes and those brought back into use, with an additional amount payable for affordable homes. It is payable annually for six years. The government's objective is to benefit those local authorities which promote and welcome growth. The District Council as Planning Authority receives 80% of the bonus. In 2013/14 the Council will receive approximately £989,000 in the form of 3 years new Homes Bonus. Full details are set out in Appendix A.

Although the overall grant has increased from 2012/13 (£720,000) the annual amounts received are declining. For 2011/12 £408,000 was payable whereas in 2013/14 this has reduced to £269,000 reflecting reduced growth in the District. In future years grant will "fall out" (after six years) at this time it is likely levels of funding will in total reduce. The relationship of New Homes Bonus to Formula Grant is also a significant concern given that the ratio is increasing from 19% in 2013/14 to an estimated 30% in 2014/15, reflecting the government's objective of rewarding development growth.

3.5.2 Formula Funding

For 2013/14 the government has made an assessment of start up funding and allocated this between the business rates baseline (referred to earlier) and formula funding. Within this assessment it has also included Council Tax Support Grant (90% of the previous Benefit funding), Council Tax Freeze Grant related to 2011/12 and Homelessness grant (which was previously paid separately). The table below highlights the reduction in Formula Grant due to "Austerity" that has taken place of £732,000 and the new start up funding assessment for both business rates and formula funding:

	2012/13 Total £000's	Total £000's	2013/14 Formula Funding £000's	Business Rates £000's
Formula Grant	7,781	7,049	4,233	2,816
Council Tax Support	1,329	1,329	798	531
Council Tax Freeze 2011/12	285	285	171	114
Homelessness	<u>78</u>	<u>78</u>	<u>47</u>	<u>31</u>
	9,473	8,741	5,249	3,492
Reduction		£732,000		

4. ANNUAL PORTFOLIO REVENUE EXPENDITURE (Appendix B)

Over the last 3 years the Council approach to offsetting both the reductions in government grant and income that has resulted from the economic recession has been one of continuous Service Review. This has enabled the Council to maintain the delivery of core services as well as investment in both assets and services despite the annual government grant reductions. In the last 3 years over £3.5 million of savings have been delivered and the 2013/14 budget will benefit by a further £770,000 from the ongoing process of service reviews.

At the same time as the Provisional Local Government Finance Settlement announcement the Local Government Minister produced a guidance document “50 ways to save: examples of sensible savings in local government”.

Members may wish to note that this list included many issues that the Council has already undertaken as part of the Service Review process including:

- sharing back offices
- using transparency to cut waste
- clamping down on corporate charge cards
- tackling local fraud
- improving collection rates of Council Tax
- encourage direct debit and e-billing
- improving property management
- closing subsidised council canteens
- reducing senior pay and posts
- cut spending on consultants and agency staff
- reduce printing costs
- hire out the town hall

In addition to the savings from Service Reviews additional income has been generated in areas like the Council’s Health & Leisure Centres. This together with other savings is expected to realise benefits over £300,000.

Costs related to fuel, employees and the loss of specific grants and other changes are expected to increase the budget by approximately £540,000.

Taking all these issues into account overall Portfolio Budget expenditure is anticipated to reduce in 2013/14 by £530,000 (2.8%).

Lower interest rates are expected to continue and the more favourable rates that were achieved in 2012/13 are not likely to be available in 2013/14 resulting in a £120,000 lower level of anticipated earnings.

5. CAPITAL & MAINTENANCE INVESTMENT

An important part of the Council’s financial strategy has been to ensure that resources are identified to support an appropriate level of investment as well as support for the local community. Provision is made for draft plans for the Council’s investment in its own assets of £1.383million, Health & Leisure equipment of £213,000, Service Vehicles of £1.523 million, ICT Service developments and PC/equipment replacements of £620,000 and local Community support of £117,000.

6. HOUSING REVENUE ACCOUNT

In 2012 the Council acquired from the government fuller ownership of its Housing stock and took the opportunity to develop a long term business plan and Housing Strategy to provide increased numbers of affordable housing as part of the Council's own stock. The business plan as developed was supported by a rents strategy that continued adoption of the DCLG proposals for rent restructuring. In accordance with this strategy it is proposed that average rents will increase in 2013/14 by 4.1% an increase of approximately £3.70. Average rents for 2014/15 will be approximately £94.18.

A full and detailed report on the Housing Revenue Account Budget proposals will be presented to Cabinet and Council in February 2013.

7. MEDIUM TERM PLANS AND RISKS (Appendix C)

The Council's approach to financial planning will enable a balanced budget (no use of reserves) to be delivered in 2013/14. Revenue reserves remain at £2.036 million and Capital and Maintenance Investment reserves at the start of 2013/14 will be c£5.2 million. This level of reserves is adequate to manage the financial risks that are likely to be faced in the medium term.

Looking forward it is clear that funds available to the Council are likely to reduce in the medium term early indications are that by 2014/15 approximately £1.5 million less will be available. It is therefore proposed that during 2013/14 the Council continues to develop the process of Service Reviews and engagement of member Task and Finish Groups to identify savings or new income streams to bridge the anticipated funding gap.

Work has already commenced with Cabinet to identify new areas of review and it is planned that proposals be outlined before the start of the new financial year.

8. PORTFOLIO HOLDER COMMENTS

This is once more another difficult budget that we will be presenting to Council in February. In addition to the financial austerity measures that we were all anticipating we are also managing the many changes introduced by government. Budget planning this year has not been helped by the late timing of the Local Government Finance Settlement. Further difficulties have been experienced as the government have had problems with getting their figures correct.

Over recent years we have sought to ensure that in these difficult times local taxpayers are protected by our approach to a "Zero" increase in Council tax. Not only will we propose to Council in February a further "Zero" increase but in the way that we are proposing to pass on funding to our Town and Parish Councils we are looking to further protect local taxpayers from the consequence of all the changes that are to be made.

The Council Tax reduction scheme has been the most significant change we have had to manage this year. In our proposals we have not only considered the implications for our local taxpayers and residents from the impact of 10% less

funding but we have also taken seriously our responsibilities to the major preceptors and claimants alike. May I thank the Task and Finish group for their many hours of work that has contributed to the scheme we have developed as part of the budget process. I with the Task and Finish Group will monitor the implementation of the scheme closely as we go forward with schemes in future years.

The budget also sees significant changes in our sources of funding. The changes to Business Rates are particularly significant. Currently, I do have genuine concerns that we in the New Forest may potentially face more risks from this change than opportunities. Again I will ensure good monitoring arrangements are put in place.

The current times we live in are dominated by economic austerity but our approach to financial planning has enabled us to continue to invest and developments like the Ringwood Gateway project and the sharing of Lymington Town Hall demonstrate our approach to sensible investment. I look for this to continue.

It is also pleasing to report that our "Sensible" approach to financial planning and service reviews has now been picked up by the Minister for Local Government. We need to continue with Service Reviews as the challenge still remains to prepare ourselves for 2014 and beyond. This we will do and together with my Cabinet colleagues we will set out our plans for Service Reviews before 2013/14 begins.

9. RECOMMENDATION

That Cabinet supports the approach to the Annual Budget for 2013/14 as set out.

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Background Papers:

Published documents

Medium Term Financial Plan Budget 2013/14 Forecasting - Baseline Income

Baseline Income	Budget 2012/13 £000's	Budget 2013/14 pre business rates £000's	Budget 2013/14 £000's	Budget 2014/15 £000's	Budget 2015/16 £000's
Council Tax					
In Year Council Tax Payers	- 10,356	- 10,545	- 10,545	- 10,647	- 10,667
Past Year Performance	- 117	- 132	- 132	-	-
	- 10,473	- 10,677	- 10,677	- 10,647	- 10,667
Council Tax Freeze Grant					
2011/12	- 285	- 285	-	-	-
2012/13	- 284	-	-	-	-
2013/14	-	- 115	- 115	- 115	-
	- 569	- 400	- 115	- 115	-
Council Tax Support Scheme Grant					
District Council Element	- 1,057	- 937	-	-	-
Town & Parish Council Element	-	- 392	-	-	-
	- 1,057	- 1,329	-	-	-
Council Tax Support Transitional Grant					
District Council Element	-	- 24	- 24	-	-
Town & Parish Council Element	-	- 11	- 11	-	-
	-	- 35	- 35	-	-
Grant to Town & Parish Councils	-	403	403	392	392
Council Tax Related Resources	- 12,099	- 12,038	- 10,424	- 10,370	- 10,275
Business Rates					
Total Collected	-	-	- 55,630	- 57,744	- 59,938
Government & Major Preceptors Share	-	-	33,378	34,646	35,963
District Share	-	-	- 22,252	- 23,098	- 23,975
Government Tariff	-	-	- 18,760	- 19,499	- 20,376
	-	-	- 3,492	- 3,599	- 3,599
Levy	-	-	-	-	-
Safety Net	-	-	-	-	-
Business Rates	-	-	- 3,492	- 3,599	- 3,599
TOTAL LOCAL RELATED RESOURCES	- 12,099	- 12,038	- 13,916	- 13,969	- 13,874
New Homes Bonus					
2011/12	- 408	- 408	- 408	- 408	- 408
2012/13	- 312	- 312	- 312	- 312	- 312
2013/14	-	- 269	- 269	- 269	- 269
2014/15	-	-	-	- 200	- 200
2015/16	-	-	-	-	- 150
	- 720	- 989	- 989	- 1,189	- 1,339
Formula Grant (RSG)					
RSG	- 8,049	- 6,765	- 5,249	- 4,028	- 4,028
Damping	- 268	- 284	-	-	-
	- 7,781	- 7,049	- 5,249	- 4,028	- 4,028
Homelessness Grant	- 78	- 78	-	-	-
TOTAL GOVERNMENT RELATED RESOURCES	- 8,579	- 8,116	- 6,238	- 5,217	- 5,367
Baseline Income	- 20,678	- 20,154	- 20,154	- 19,186	- 19,241
Year on Year Change	-	-2.5%		-4.8%	
Taxbase	73,274	67,703	67,703	68,355	68,485
Council Tax (Band D) £	155.76	155.76	155.76	155.76	155.76

Medium Term Financial Plan Budget 2013/14 Forecasting - Portfolio Expenditure Requirements

Portfolio Expenditure Requirements	Budget 2013/14 £000's	Budget 2014/15 £000's	Budget 2015/16 £000's
Net Portfolio Requirements 2012/13	17,659	18,538	19,095
Transfer of Maintenance from Capital to Revenue Portfolio	1,411		
	19,070	18,538	19,095
Savings			
Service Reviews			
Back Office			
ICT Third Party Suppliers/Staff reductions/New SLA's	- 60		
Democratic Services Admin	- 5		
Tax and Benefits	- 22		
Planning and Transportation staffing	- 99		
Recycling	- 107	107	
Staffing - Health Education	- 32		
Staffing Democratic Services	- 18		
Staffing - Internal Audit	- 18		
Staffing - Lifelines	- 51		
Bank Charges	- 20		
Senior Management Reductions	- 82		
Dibden Golf Centre (External Management)	- 49		
Corporate Costs (Expenditure Saving)	- 40		
Environment	- 60		
Employee Terms and Conditions	- 49		
New Telecommunications System (Expenditure Savings)	- 37		
Tree Service (NFNPA Shared Service)	- 25		
Total Service Reviews	- 774	107	-
Budget Monitoring			
Project Integra (Recycling Income)	- 70		
Environmental Health (Income)	- 20		
Licensing (Income)	- 50		
Health and Leisure Centres (Income)	- 150		
Car Parkin Parking (Income)	- 50		
External Audit Fees	- 37		
Total Budget Monitoring	- 337	-	-
Additional Expenditure			
Employee Related	355	450	675
Other Costs & Income			
Housing Benefits reduction in Admin Grant	92		
Council Tax Benefits current scheme surplus	74		
Net Cost of Rent Allowances	- 115		
Business Rates			
Lymington Town Hall	33		
Car Parks	60		
Health & Leisure Centres	20		
Business Rate Discretionary Relief	- 74		
Vehicle Fuel	17		
Health & Leisure Centres Utility Costs	30		
Leisure Income (Asset Programme Related)	- 52		
ICT Staffing	45		
ICT Programme Mtce	29		
CAB Grant	10		
Totton College Hall Hire Removal	- 14		
Removal of Healthy Horizons Grant	35		
Removal of Lifelines Supporting People Grant	17		
Increase in buildings maintenance	89		
Other	- 72		
	224	-	-
Net Portfolio Spending Requirements	18,538	19,095	19,770

Medium Term Financial Plan Budget 2013/14 Forecasting - Summary

Summary	Budget 2012/13 £000's	Budget 2013/14 £000's	Budget 2014/15 £000's	Budget 2015/16 £000's
Expenditure				
Net Portfolio Spending Requirements	19,070	18,538	19,095	19,770
Other Expenditure				
Minimum Revenue Provision	2,028	1,916	1,916	1,916
Interest Earnings	- 420	- 300	- 300	- 300
Baseline Net Expenditure	20,678	20,154	20,711	21,386
Baseline Income	- 20,678	- 20,154	- 19,186	- 19,241
Service Review Savings Target				
2013/14	-	-	-	-
2014/15	-	-	- 1,525	- 1,525
2015/16	-	-	-	- 620
	-	-	- 1,525	- 2,145
Balanced Budget	-	-	-	-
<u>Reserves as at 1st April</u>				
General	2,036	2,036	2,036	2,036