

## **Agenda Item 5**

### **Budget Scrutiny Committee Monday 14<sup>th</sup> January 2014**

Medium Term Financial Plan 2014/15 to 2016/17 (*Outline of report to be presented to Executive on 3 February 2014*)

Committee:	Executive	Agenda Item No.:	
Date:	3 <sup>rd</sup> February 2014	Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	<b>Medium Term Financial Plan 2014/15 to 2016/17</b>		
Report by:	Assistant Director Accountancy and IT / Chief Accountant / Director of Corporate Resources		
Other Officers Involved			
Director	Director Of Corporate Resources		
Relevant Portfolio Holder	Councillor E. Watts, Leader of the Council		

#### **RELEVANT CORPORATE AIMS**

STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources.

#### **TARGETS**

The operation of policy led budgeting will help to inform future spending plans and ensure that resources are efficiently utilised in the promotion of Council priorities.

#### **VALUE FOR MONEY**

The budget process enables existing expenditure patterns to be challenged and where necessary redirected to ensure that resources are used effectively and directed towards the delivery of the Corporate Aims.

### **Summary Report**

#### **Introduction**

1. This report presents the following budgets and financial plans for Executive to consider:
  - General Fund Revenue account which is attached as Appendix 1 to this report.
  - Housing Revenue Account (HRA) account which is attached as Appendix 2 to this report.
  - Capital Programme which is attached as Appendix 3 to this report.

Once Executive has considered the position as set out within this report and the associated appendices then any recommendations made by Executive will be referred to the Council meeting of 12<sup>th</sup> February 2014 in order to secure agreement to the Council's budget in respect of the 2014/15 financial year.

2. While all of the above accounts are detailed separately within the report it is important that Executive gives appropriate consideration to the Council's overall financial position which encompasses all the three separate accounts as outlined within this report and to the range of services that it is planned to deliver to local residents.
3. Within the reports which follow in respect of each of the Council's main accounts there are a number of common features. In particular financial projections are provided with regard to the following:
  - 2013/14 Estimated Outturn Position  
This is the current year budget revised to reflect changes which have taken place or which it is anticipated will take place during the remainder of this financial year. It will therefore provide a more accurate indication of the likely outturn position than the original budget.
  - 2014/15 Original Budget  
This is the proposed budget for the next financial year commencing 1<sup>st</sup> April 2014 which Council will need to consider for approval at its meeting on 12<sup>th</sup> February 2014.
  - 2015/16 and 2016/17 Financial Plan  
In accordance with good practice the Council agrees its annual budgets within the context of a Medium Term Financial Plan (MTFP) which includes financial projections in respect of the next three financial years. This approach provides the Council with a longer planning horizon over which to develop service plans and to ensure that its underlying level of expenditure remains in line with its underlying level of resources. Effective multi-year planning is particularly important in the current climate given that the Comprehensive Spending Review and other Central Government announcements are based upon plans which incorporate significant year on year expenditure reductions for local government.

#### **Robustness of the Estimates**

- 4 Under the provisions of the Local Government Act 2003 the Council's Section 151 Officer is required to comment on the robustness of the estimates made and also on the adequacy of the proposed financial reserves. The Council's S151 Officer (the Director of Corporate Resources) is satisfied that the methodology adopted to calculate the estimates is robust, and provides Members with reliable information on which to base their decisions. Likewise, the S151 Officer is satisfied that the proposed level of reserves, which although at a relatively low level, are adequate to cover the issues and potential risks which face the Council. The adequacy of the current level of reserves is considered in Appendix 1 in relation to the General Fund, in Appendix 2 in relation to the HRA, and in Appendix 3 in relation to the Capital Programme.

5 In arriving at the assessment that the methodology adopted is robust the Chief Financial Officer is satisfied that the policies upon which the estimates are based are reasonable, and that these policies have been applied consistently across the Council's activities. The approach that has been adopted has taken account of the following:

- The Council's actual expenditure and income both in the previous financial year (2012/13) and to date in the current financial year as at the end of September 2013. The views of cost centre managers concerning the level of expenditure which will be incurred during the remainder of the 2013/14 financial year have also been taken into account. Where necessary these figures have been validated by considering the incidence of income and expenditure up to the end of December 2013. This process has enabled a robust Estimated Outturn to be prepared in respect of the current financial year (2013/14), which has formed the basis for the 2014/15 Budget and the financial forecasts in respect of 2015/16 and 2016/17.
- With regard to estimates included within this report these have been developed with and agreed by the responsible cost centre managers who will have the primary responsibility for managing them during the course of the financial year. This process has helped to ensure that agreed service developments, potential cost increases and changes in the level of demand for services, etc. have been taken into account. While the Chief Financial Officer is satisfied that the budgets which have been agreed are robust it does need to be recognised that non-employee related expenditure heads have been minimised and will need to be carefully managed if the Council is to operate within its approved budgets. This approach reflects the fact that a policy decision has been taken to minimise all non employee budgets. This increases the risk of an overspend developing during the year as there is now little room to manage unforeseen items of expenditure. This increased level of financial risk is taken into account in the Financial Risk Register which has been developed in respect of each of the three main accounts of the Council.
- The Accountancy Section have co-ordinated the preparation of the budget, and have ensured that all estimates are reasonable and have been developed in a consistent fashion. While the budgets that have been agreed are challenging and will need to be reviewed in the light of changing circumstances and priorities over the three year period of the Medium Term Financial Plan the Chief Financial Officer is satisfied that they constitute a firm foundation on which to base the Council's financial management.

## 6 **Financial Implications**

These may be summarised as follows:

### **General Fund**

#### **Estimated Outturn 2013/14**

With respect to the General Fund the Council is currently anticipating that an in year surplus will be achieved which will mean no call on general fund

balances in respect of 2013/14. The forecast surplus will be dependent upon the use of the £1.064m of Efficiency Grant provided by Central Government in order to fund the costs of rationalisation, restructuring and Invest to Save measures. In order to deliver a surplus the Council has secured the majority of the planned £0.884m of financial savings during 2013/14 and identified other savings/increased income during the revised budget process which generates the forecast surplus position. This is a significant achievement for the Council and puts the Council in a sound financial position with which to address the 2014/15 budget.

### **Original Budget 2014/15**

The total savings required for 2014/15 are £0.636m. A range of savings proposals totalling £0.570m have been determined which will mean that the unidentified savings target for 2014/15 is £0.066m. While the Council has continued to drive its savings agenda it will still be necessary to achieve the financial savings targets of £0.570m during the 2014/15 financial year together with the £0.066m which remains to be identified. While this total target of £0.636m is relatively low against previous targets (£1.259m 2011/12, £0.975m 2012/13 £0.884m 2013/14) it needs to be recognised that the easier options for achieving savings have already been taken. With respect to the 2014/15 position a number of measures have already been implemented which have reduced the impact of the formula grant reduction of some £0.862m to a budget shortfall of only £0.636m.

### **Budgets 2015/16 and 2016/17**

On the basis that the full £0.636m is achieved in respect of 2014/15 there will be a further £0.953m to be achieved in respect of 2015/16 and an estimated figure of £0.767m for 2016/17. Given the Government's spending plans it is expected that further reductions will be required in future financial years and it is therefore important that the Council maintains its momentum in achieving ongoing financial savings. While clearly these ongoing expenditure reductions will continue to have an impact on services it should be noted that the Council's current approach if continued will enable changes to budgets and service plans to be appropriately considered, planned and managed. This gradual ongoing planned approach is considered to be the most appropriate method for minimising the impact upon local residents.

### **Housing Revenue Account (HRA)**

#### **Estimated Outturn 2013/14**

The Estimated Outturn figures shown within the appendix are the same as those reported to the Executive in December 2013. It is therefore not proposed to repeat all the detail behind the estimated outturn figures again in this report. However, to summarise the overall position for the HRA in 2013/14 is that there is a forecast surplus of £0.086m in the current year which if realised will increase the HRA balances to £1.861m.

### **Original Budget 2014/15**

The key issues for 2014/15 are that the average rent increase required to comply with Government rent convergence requirements is one of 6.24%

which results in the average rent for a Council house increasing to £83.61 per week (on a 48 week basis).

Executive will be aware that the Government's reform of the operation of all local authority Housing Revenue Accounts has now been in place since April 2012. This reform places considerably greater emphasis upon local management of the HRA based upon a framework established by the HRA Business Plan. While HRA reform has given local authorities significant financial freedoms - including the ability to undertake additional borrowing - it needs to be recognised that these financial freedoms need to be exercised within the context of the requirement to maintain the Council's properties at a decent standard. The outcome of the full stock condition survey is not yet known so the proposed budgets may need to be revisited again as the full implications of the survey are understood. One development within the 2014/15 HRA budget is the requirement to increase the debt repayment sum in line with the long term business plan to repay the settlement debt over a 30 year period. The principal repayment figure will increase by £1.5m to £3.5m for 2014/15.

#### **Budgets 2015/16 and 2016/17**

The Governments new proposals for rent increases are not yet finalised but have been included within our budget forecasts from 2015/16. The full debt repayment level is also included for the 30 year business plan. The position shows that the HRA remains in a stable position over the period of the MTFP. It also demonstrates that the plans and financial projections set out within the HRA Business Plan which underpins the MTFP in respect of the HRA secure financial sustainability and enables the provision of a high quality housing service to our tenants to remain the key focus.

#### **Capital Programme**

Finally, with respect to the capital programme the majority of expenditure will continue to be in respect of the HRA Programme which is funded by capital resources ring fenced to the Council's HRA. The financial provision to fund the ongoing programme of housing refurbishment work is planned to continue at a level between £3m and £4m per annum. That level of spend will be reviewed in the light of the HRA stock condition survey which it is anticipated will be available in early 2014. Once that information has been considered then it is anticipated that a further report will be brought back to Council seeking approval for a revised Capital Programme in respect of the HRA. During 2013/14 capital expenditure of some £2m will be incurred in respect of HRA new build properties at New Houghton with a further sum of £0.680m expenditure being paid in 2014/15. With regard to the General Fund a stock condition survey is again nearing completion and the Council is working to secure Lottery Funding for the Mill complex at Pleasley Vale. Once the work in respect of stock condition and Pleasley Vale has been completed and the Council has secured its outstanding Capital Receipts then again it is anticipated that a further report will be brought back to Council concerning expenditure priorities on the Capital Programme. While the Council has already secured one of the two major outstanding capital receipts the majority of the funding secured from these receipts is required to repay prudential

borrowing taken out in previous financial years to cover costs such as those incurred in the purchase and refurbishment of the Arc at Clowne. While these two sales will generate capital receipts of £10.5m (£3.3m and £7.2m) these need to be offset by the £7.865m of capital costs incurred in anticipation of these receipts being received.

7. **Other Considerations (eg Environmental, Crime and Disorder, Design and Community Safety)**

These are covered in the Service Plans which are based upon the resources allocated by the budgets recommended for approval within the Medium Term Financial Plan.

8. **Equalities Issues**

These are covered in the Service Plans which are based upon the resources allocated by the budgets recommended for approval within the Medium Term Financial Plan.

9 **Risk Management and Policy and Performance Issues**

A Financial Risk Register has been developed in respect of each of the main accounts and is provided at **Appendix 1 Table 2, Appendix 2 Table 3, and Appendix 3 Table 2.**

Policy and Performance Issues are covered in the Service Plans which are based upon the resources allocated by the Budgets recommended for approval within this Medium Term Financial Plan.

**ISSUES FOR CONSIDERATION**

Executive is requested to consider the report together with the draft recommendations before considering whether to endorse these recommendations to full Council at the budget setting meeting of 12<sup>th</sup> February 2014.

**IMPLICATIONS**

- Financial: These are covered throughout the body of the main report.
- Legal: The Council is legally obliged to approve a budget prior to the commencement of the new financial year in April 2014. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.
- Human Resources: These are covered in the main report where appropriate.

**RECOMMENDATIONS**

11. That all recommendations below are referred to the meeting of full Council on the 12<sup>th</sup> February 2014.

The following recommendations to Council are made:

- a) That the view of the Chief Financial Officer that the estimates included in the Medium Term Financial Plan 2013/14 to 2016/17 are robust and that the level of financial reserves whilst at minimum levels are adequate, be accepted.
- b) That officers be required to report back to Executive and to the Audit Committee on at least a quarterly basis regarding the overall position in respect of the Council's budgets, these reports to include updates on progress in achieving the range of identified efficiencies necessary to achieve a balanced budget by the end of the 2014/15 financial year.

In addition to the above the following recommendations are made in respect of each of the main accounts of the Council.

## 12 **GENERAL FUND**

- a1) No Council Tax increase is levied for the financial year 2014/15 and the Council accept the proposed Government grant compensation arrangements and this recommendation is submitted for approval by the Council at its meeting on 5th March 2014.

or

- a2) An increase in Council Tax of 1.90% is levied for the financial year 2014/15 and this recommendation is submitted for approval by the Council at its meeting on 5th March 2014.
- b) The Executive recommends to Council (at its meeting on 12 February 2014) the Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report and agrees the Estimated Outturn Budget 2013/14 with a spending requirement of £12,389,845 together with the original budget for 2014/15 with a spending requirement of £11,793,067 as detailed in **Appendix 1 Table 1**.
- c) Officers continue to progress the implementation of measures designed to secure a balanced budget in respect of 2013/14 and 2014/15 with progress to be reported back to both Executive and Audit Committee on a quarterly basis.
- d) That Executive agrees to recommend the proposed Fees and Charges as set out in Appendix 1 Table 3 to Council for adoption with effect from 1<sup>st</sup> April 2014.
- e) That Executive agrees to recommend an increase in the minimum level of General Fund balances to be held by the Council to one of £1.5m.
- f) That Executive agrees to recommend that any surplus generated in the financial year 2013/14 is used to increase General Fund balances.
- g) That officers continue with the programme of work to secure the agreed savings required of £0.636m at the earliest opportunity.



- h) That delegated power is granted to Executive to approve that the budget be amended to reflect the identification and agreement of financial savings during the course of the year.

### **13 HOUSING REVENUE ACCOUNT**

- a) That Council agrees to introduce rent increases in line with the Government's convergence policy with effect from 1 April 2014. The recommended increase will bring about an average increase in rents of 6.24%. However, the actual percentages will vary depending on the type of property.
- b) That the increases in respect of other charges as outlined in Appendix 2 Table 2 be implemented with effect from 1 April 2014.
- c) That the Housing Revenue Account as set out in **Appendix 2 Table 1** be approved as the Estimated Outturn Budget in respect of 2013/14 and as the Original Budget in respect of 2014/15.
- d) That Executive recommends to Council that the HRA target level of balances remains at a level of £2m.

### **14 CAPITAL PROGRAMME**

- (a) That the Capital Programme for 2013/14 to 2016/17 as set out in **Appendix 3 Table 1** be approved.
- (b) That Executive notes the requirement to repay some £7.865m of prudential borrowing at the end of the 2013/14 financial year which was incurred in order to fund expenditure incurred during 2012/13 and 2013/14, and that this expenditure is funded by capital receipts which it is currently anticipated will be received before the end of the current financial year. The utilisation of these receipts to repay borrowing has been previously agreed by Council and will be approved both within this report and as part of the Treasury Management Strategy.
- (c) That further reports concerning the Capital Programme be brought back to Council once expenditure programmes based upon priorities as identified by the stock condition survey of both General Fund and HRA have been developed.

ATTACHMENTS:           **Y**  
FILE REFERENCE:       None  
SOURCE DOCUMENT:   Background papers held in Financial Service