

## **Cabinet**

**18 December 2013**



### **2014/15 Budget, Medium Term Financial Plan(4) 2014/15 – 2016/17 and Service Plans**

**Key Decision No. CORP/R/13/02**

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#### **Report of Corporate Management Team**

**Joint Report of Don McLure, Corporate Director Resources and Lorraine O'Donnell, Assistant Chief Executive**

**Councillor Alan Napier, Cabinet Portfolio Holder for Finance**

**Councillor Simon Henig, Leader of the Council**

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#### **Purpose of the Report**

- 1 To provide an update on the 2014/15 Budget, the Medium Term Financial Plan up to 2016/17, the Council Plan and Service Planning process.

#### **Executive Summary**

- 2 The MTFP(4) update report to Cabinet on 9 October 2013 identified the council faced £222m of savings across the period 2011 to 2017. Although the council will have delivered £113m of the required savings by the end of 2013/14 there was estimated savings of £63.1m still to be delivered in 2014/15 and 2015/16.
- 3 Since the last MTFP(4) update report to Cabinet the Government has published its Autumn Statement on 5 December 2013, whilst the review of the council's budget has continued. The Autumn Statement did not announce any further Revenue Support Grant cuts for the council in addition to the 11.5% and 16.1% already announced for 2014/15 and 2015/16 respectively. The council will await the Government's Local Government Finance Settlement on 18 December 2013 to determine whether additional funding reductions could be made to specific grants.
- 4 The Government have reacted to the strong response from local authorities to the draft Local Government Finance Settlement consultation in July 2013 in relation to New Homes Bonus which will now be retained by local authorities in 2015/16 rather than being transferred to Local Enterprise Partnerships (LEPs).
- 5 A major concern for local authorities however is the Institute for Fiscal Studies report that additional public expenditure cuts/tax rises of £20bn are still required nationally to balance the national budget deficit by 2018/19.

- 6 The review of Durham County Council budgets has enabled a balanced budget position to be achieved at this stage for 2014/15. The report identifies that savings of £223m are required in total over the 2011-2017 period with a £63.6m savings shortfall in 2015/16 and 2016/17.
- 7 Previous reports to Cabinet have identified the need to replenish the MTFP Redundancy and Early Retirement Reserve which is forecast to have a £2.5m balance at the end of 2013/14. It is recommended that a transfer of £15m is made from Cash Limit Reserves (£10m) and the General Reserve (£5m) to replenish the MTFP Redundancy and Early Retirement Reserve.

### Autumn Statement Impact

- 8 The Autumn Statement was published on 5 December 2013. The Chancellor of the Exchequer announced a slight improvement in the public finances for 2013/14 with borrowing expected to reduce from the forecast £120bn to £111bn. Economic growth is also improving with Gross Domestic Product (GDP) expected to be 1.4% this year against the forecast of 0.8%. The Government's aim is achieve a balanced budget by 2018/19. Analysis by the Institute of Fiscal Studies (IFS) has identified however that to achieve financial balance by 2018/19 would require additional public sector budgets cuts or tax increases of £20bn per annum.
- 9 The forecast grant reductions for the council in the next two years are as follows:

	<b>% Funding Reductions</b>
2014/15	11.5%
2015/16	16.1%

- 10 The Autumn Statement announced that the Department for Communities and Local Government (DCLG) would not face additional cuts in 2014/15 and 2015/16. The council may face additional cuts however, via cuts to funding streams received from other Government departments such as the Department for Education. Clarity in this regard should be received via the Local Government Finance Settlement on 18 December 2013 which should cover both 2014/15 and 2015/16.
- 11 The Government announced a range of policy changes in relation to business rates. Any such policy change has an impact upon the council due to the retention of 50% of all business rates collected under the Business Rate Retention (BRR) Scheme. The policy changes are as follows:
- (i) The doubling of Small Business Rate Relief will continue in 2014/15.
  - (ii) The 3.2% RPI increase for business rates in 2014/15 will be limited to 2%.
  - (iii) There will be a £1,000 discount for all retail, pubs, and cafes with rateable values below £50,000 for two years.
- 12 Each of these policies will result in reduced income for the council. The Government has confirmed however that there will be a cost neutral impact

upon local authorities. It is not clear in practice how this will be actioned. On that basis, the MTFP(4) model has been left unchanged.

- 13 The Government had previously announced that £400m of New Homes Bonus was to be top sliced from local authorities in 2015/16 and transferred to the Local Enterprise Partnerships (LEPs) as part of the Single Local Growth Fund (SLGF). The Government has indicated however that local authorities will now be allowed to retain the New Homes Bonus in 2015/16.

## **Background**

- 14 The 9 October 2013 MTFP Cabinet report provided an update on the 2014/15 Budget and MTFP(4) after taking into account the impact of the 2015/16 Spending Round and the Local Government Settlement Finance Consultation. At that stage a £0.786m shortfall was reported for 2014/15 with an overall savings shortfall over MTFP(4) of £63m. The total savings needing to be delivered over the 2011-2017 period to bring the MTFP into balance was £222m.
- 15 The impact of the 5 December 2013 Autumn Statement has been analysed and included in this report. The Final Local Government Finance Settlement for 2014/15 is expected to be received on 18 December 2013.
- 16 A full analysis of the Local Government Finance Settlement will be reported to 22 January 2014 Cabinet. The report will also include a full analysis of the MTFP(4) consultation process which ended on 7 December and provide a full list of 2014/15 savings.

## **Update on 2014/15 Budget**

- 17 Since the 9 October 2013 MTFP(4) report to Cabinet, further adjustments have been made to the 2014/15 budget model resulting from budget reviews and updated information. The major changes are identified below.

### **(a) New Homes Bonus**

The payment of New Homes Bonus (NHB) is based upon the total number of domestic properties liable for council tax in the county and included in the 'Council Tax Base' (CTB1) return that all local authorities submit to government in October of each year, detailing the tax base as at 30 September. The return has been analysed to enable an assessment to be made of the additional NHB that we estimate to receive in 2014/15. The government will confirm the amount to be paid in the Local Government Finance Settlement but at this stage a sum of **£1.85m** is estimated.

### **(b) Council Tax Base**

The 2014/15 Council Tax Base is based upon the total number of domestic properties, including those occupied by students which are exempt and those occupied by single persons who qualify for 25% discounts, as at 30 September 2013. A report on the tax base is separately reported on this Cabinet agenda and will generate an estimated additional **£1.08m** of council tax income in 2014/15.

(c) **Employer Pension Contributions**

The Pension Fund actuary has recently completed the triennial review of the Pension Fund. Previously it was forecast that this would result in an increase in the contribution the Council would need to make to the Pension Fund both in terms of Employer Contribution and the sum paid to reduce the forecast deficit on the Pension Fund. It was estimated in the previous MTFP (4) model that an additional annual cost from 2014/15 would be £1m. Initial indications are that the 2014/15 position will be better than forecast. The position for 2014/15 will be finalised in the coming weeks but at this stage there is confidence in reducing the pressure from the £1m included in the previous model to £0.3m.

(d) **Energy Price Increases**

Energy price increases for 2014/15 are expected to be slightly higher than previously forecast. The expected increases for 2014/15 are detailed below

Electricity	+5.75%
Gas	+1.6%

Although the Council continues to strive to reduce energy usage, particularly via Invest to Save projects, the price increases detailed above will result in estimated additional costs of **£0.2m** over and above the 1% price inflation allowance to be built into base budgets.

(e) **Insurance Claims**

The Council has a combined public and employer's liability insurance policy. The policy has the following levels of excess for each individual claim i.e. the maximum sum the Council will pay before the external insurance policy will provide financial cover.

	<b>Excess</b>
	£
Employers Liability	250,000
Public Liability	100,000

After local government reorganisation in 2009, an assessment was made of the likely value of insurance claims below the excess levels detailed above. Based upon known information, the budget provision made in this regard was £2.1m per annum.

A review has recently been carried out on the level of claims actually being made and settled against this policy. It is evident that the claims which will be settled (it can take many years for all claims to be settled) are likely to significantly exceed the £2.1m budget provision. A more realistic and prudent budget for insurance claims below the excess is £3.1m. On that basis it is recommended that the insurance budget is increased by **£1m** per annum.

(f) **Housing Benefit Administration Grant**

The Council receives a grant from the Department of Works and Pensions (DWP) annually for administering Housing Benefit on behalf of the Government. In recent years the DWP have been reducing this grant by 5% per annum. The DWP has announced indicative allocations for 2014/15 and the Council's allocation is £4.1m, a reduction of **£0.5m (11%)**. Having recently completed a major restructure of the Revenues and Benefits Service, where the numbers of employees has reduced, and because it is very important that benefit claims continue to be processed in a timely manner for claimants, this is considered to be a budget reduction which could not be absorbed by the Benefits Service at this stage and should therefore be included as a corporate pressure as part of the 2014/15 budget setting process.

(g) **Discretionary Rate Relief**

The Council presently has an annual Discretionary Rate Relief budget of £0.33m. Prior to the implementation of the Government's new Business Rate Retention (BRR) scheme in 2013/14, this budget was required to provide relief to qualifying applicants. The Discretionary Rate Relief process however is now subsumed into the BRR scheme with the budget for retained business rates of £52.9m covering the incidence of discretionary rate relief. On this basis the **£0.33m** budget is not required and can be utilised as an MTFP saving.

- 18 To achieve budget balance for 2014/15 having taken into account the variations in paragraph 5, service groupings are required to identify savings of £23.012m in addition to the £0.33m saving in relation to discretionary rate relief detailed above.
- 19 In addition to these savings, Neighbourhood Services have been required to identify £0.616m of additional savings to mitigate for the delay in achieving the MTFP saving in relation to the option of delivering the Leisure and Cultural Services in 2013/14 through a Leisure and Cultural Trust. This saving has been delayed due to several factors including the introduction of Business Rate Retention (BRR) which impacted upon the planned approach to realising this saving. It is expected that the original savings will now be achieved in 2016/17.

**Medium Term Financial Plan Update**

- 20 The Cabinet MTFP(4) report of 9 October 2013 detailed that total savings over the period 2011-2017 would need to be £222m in order to balance each budget within the medium term financial plan over this period. In addition the report identified the following level of savings shortfalls at that time:

<b>Year</b>	<b>Savings Shortfall £m</b>
2014/15	0.786
2015/16	14.567
2016/17	47.715
<b>TOTAL</b>	<b>63.068</b>

21 MTFP(4) continues to be reviewed and the position for the model has been updated. The main issues of note are as follows:

(a) **Housing Stock Transfer**

Cabinet approved the submission of an application to the Department for Communities and Local Government for the transfer of the Council's housing stock at its meeting on 9 October 2013. This report identified that the transfer, if approved by Government, would result in the Council losing income and incurring additional costs. The estimate of the cost to the Council in this regard is **£3.550m** and this sum has been therefore been included in the MTFP(4) model for 2015/16.

(b) **Employer's Pension Contributions**

The triennial review of the Pension Fund detailed previously in paragraph 5(c) also impacts upon 2015/16 and 2016/17. The MTFP(4) model included in the 9 October 2013 MTFP(4) Cabinet report assumed increased costs in relation to Pension Fund contributions of £1m per annum. It is now estimated however that the required sum in 2015/16 and 2016/17 will be lower at £0.7m.

(c) **New Homes Bonus**

The Autumn Statement announcement that local authorities will retain any New Homes Bonus income in 2015/16 has enabled an adjustment to be made to the MTFP(4) model. The previous assumed loss of income in 2015/16 of £1m has been removed from the model.

22 Having taken into account the adjustments detailed above and the balanced position for 2014/15, the revised savings shortfall at this stage is detailed overleaf:

Year	Savings Shortfall £m
2014/15	0
2015/16	16.817
2016/17	46.799
<b>TOTAL</b>	<b>63.616</b>

- 23 Overall, the savings shortfall has increased from £63m to £63.6m with the total savings required for the 2011-2017 period increasing to £223.4m.
- 24 A revised MTFP(4) model is attached at Appendix 2.

#### **MTFP Redundancy and ER/VR Reserve**

- 25 The Cabinet MTFP(4) report of 9 October 2013 provided an update upon the utilisation of the MTFP Redundancy and ER/VR Reserve. The reserve was created in 2010 to ensure that sufficient funding was available to finance the then forecasted cost of redundancies up to 31 March 2015.
- 26 The original balance in the reserve was £26.9m. The Quarter 2 Forecast of Outturn report to Cabinet on 20 November 2013 estimated that the balance on the reserve will have reduced to £2.558m by 31 March 2015. It is apparent therefore that the reserve will need to be replenished for 2014/15. At this stage possible redundancy numbers for 2014/15 and 2015/16 are still to be finalised and will always be estimates due to the lengthy consultation and redeployment processes which need to be followed. In addition there are still significant savings shortfalls in 2015/16 and 2016/17 which render the estimates on redundancy numbers difficult to forecast with any accuracy at this stage.
- 27 It is recommended therefore that the MTFP Redundancy Reserve is replenished by £15m by transferring the following sums from the reserves identified.

	<b>£m</b>
Service Grouping Cash Limit Reserves	10.000
General Reserve	5.000
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<b>Total Transfer</b>	<b>15.000</b>
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- 28 This reserve may need to be replenished further in the future but at this stage the transfer of £15m is felt to be prudent.

## Budget Consultation Update

- 29 As in previous years, we are currently undertaking a consultation exercise with the public on how the Council should manage its Medium Term Financial Plan (MTFP) savings. The last detailed consultation took place in 2010, and our current activity is designed to build upon these results to assist us in the 2014/15 MTFP process.
- 30 The consultation closes on 11 December 2013, and a detailed analysis of the results will be presented to Cabinet on 22 January 2014.
- 31 The 2013 consultation builds on our experience and feedback from previous years, and our aim is to ensure that the widest range of people can be involved, that we improve the quality of the data we gather and that the public develop a better understanding of the scale of the challenge that is faced by the authority and the difficult decisions which will need to be made.
- 32 To this end, there are two key questions which we have been asking the public:
- How should the Council achieve its savings target of at least £100m over the next three years?
  - Should the Council consider increasing Council Tax to help offset the size of the savings targets?
- 33 In previous years, we are using a variety of methods to enable the widest range and the greatest numbers of individuals take part. We have developed an online questionnaire, as well as issuing hard copies of questionnaires and holding detailed focus group activities. Analysis will glean as much intelligence as possible from any difference in results between the different methodologies.
- 34 The 2013 focus group activity typically takes 30-40 minutes, and the participants are challenged to remove £100m of spend to achieve a balanced budget. The participants are provided with budget and service information as well as new information on the potential impacts of removing funding from a service. As the activity progresses the group are informed of their movement towards making the £100m reduction, and are also offered the choice of increasing Council Tax to meet any deficit in their budget.
- 35 The consultation process is still underway at the time of writing with 1 AAP event still pending. The focus group activity has been undertaken at all of the AAP Participatory Budgeting (PB) events as well as with specific groups such as young people and people with physical and learning disabilities. At the 13 AAP PB events 10,161 people attended and received information on the Council MTFP process. Of these 1,207 people participated in the focus group activity.
- 36 To date, 239 individuals have completed the online questionnaire. At the AAP PB events, hard copies of the questionnaire have been issued, and over 1,765 have been returned.



- 37 Data from the online and hard copy questionnaire as well as the focus group activity are still being analysed. However an initial analysis on the feedback from the focus group activity has found that the vast majority of the participants found the consultation process clear and easy to understand and they thought it was a good way to involve local people in decision making.

### **Sustainable Community Strategy, Council Plan and Service Plans**

- 38 The Sustainable Community Strategy (SCS) is the single strategic plan for the county that takes account of the needs, views and aspirations of people living and working in the county. The Council Plan sets out Durham County Council's contribution towards achieving the objectives set out in the SCS, together with its own improvement agenda. The Council Plan is underpinned by detailed service plans for each Service Grouping.
- 39 At its meeting on 20<sup>th</sup> November, Cabinet approved a high level objectives framework for the Sustainable Community Strategy, and draft objectives and outcomes for the Council Plan, as the basis for the development of a full SCS and Council Plan. This followed extensive review work carried out by the County Durham Partnership thematic partnerships, the County Durham Partnership Board, and consideration at a member seminar on 22<sup>nd</sup> October.
- 40 The development of the SCS and Council Plan is happening alongside work on the MTFP, with key budget proposals informing the development of the Council Plan in particular. The full plans are scheduled to be considered by Cabinet on the 19<sup>th</sup> March and Overview and Scrutiny on the 24<sup>th</sup> March prior to being submitted to full Council on the 2<sup>nd</sup> April 2014.

### **Equality Considerations and Equality Impact Assessment**

- 41 Equality considerations continue to be built into the development of MTFP savings proposals. The Council is subject to the legal responsibilities of the Equalities Act 2010 which, amongst other things, makes discrimination unlawful in relation to the protected characteristics of age, gender (including pregnancy/ maternity and transgender), disability, race, religion or belief and sexual orientation. The Equalities Act also requires us to make reasonable adjustments for disabled people. In addition, as a public authority, we are subject to legal equality duties in relation to the protected characteristics. The public sector equality duties require us to:
- Eliminate unlawful discrimination, harassment and victimisation
  - Advance equality of opportunity
  - Foster good relations between those who share a protected characteristic and those who do not.
- 42 The development of equality impact assessments are an essential part of our decision-making process, as building equalities considerations into the MTFP process supports decisions that are both fair and lawful. An equality impact assessment is being prepared as part of the development of each MTFP savings proposal, and a full set of impact assessments will be presented alongside the final MTFP report, to inform decision-making. Alongside this, the report will also include a summary of the ongoing cumulative equality impact of budget savings.

## Recommendations and reasons

43 Cabinet is asked to

- (a) Note the update in relation to the Autumn Statement announcement on 5 December 2013 and the Local Government Finance Settlement.
- (b) Agree the adjustments in relation to the 2014/15 budget.
- (c) Agree the amount of 2014/15 savings required to achieve a balanced budget.
- (d) Note the estimated £63.6m savings shortfall for the period 2015/16 to 2016/17.
- (e) Approve the transfer of £15m from General Reserve (£5m) and Cash Limits Reserves (£10m) to the MTFP Redundancy and ER/VR Reserve.
- (f) Note the update in relation to the MTFP(4) consultation process.
- (g) Note the update on the development of the Council Plan and Service Plans.

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## **Appendix 1: Implications**

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**Finance** – The report highlights a balanced budget position for 2014/15 and a £64.6m shortfall over the 2015/16 – 2016/17 period.

**Staffing** – The report recognises that further employee post reductions will be required over the medium term financial plan period 2014/15 to 2016/17.

**Risk** – Risk will continue to be assessed throughout the budget/MTFP process.

**Equality and Diversity/Public Sector Equality Duty** - Equalities considerations are built into the proposed approach to developing MTFP(4), Council Plans and Service Plans, as a key element of the process.

**Accommodation** – None.

**Crime and Disorder** – None.

**Human Rights** – Any Human Rights issues will be considered for any detailed MTFP(4) and Council Plan proposals as they are developed and decisions made to take these forward. There are no Human Rights implications from the information within this report.

**Consultation** – The consultation process is an integral element of MTFP(4). The results of the consultation will be reported to Cabinet in January 2014.

**Procurement** – None.

**Disability Issues** – All requirements will be considered as part of the equalities considerations outlined within the main body of the report.

**Legal Implications** – None.

## Medium Term Financial Plan (MTFP4) 2014/15 - 2016/17 Model

	2014/15	2015/16	2016/17
		£'000	£'000
<b>Government Funding</b>			
Revenue Support Grant (RSG) Reduction	32,031	39,713	30,000
Town and Parish Council RSG Adjustment	-238	-305	0
Education Services Grant Reduction	0	1,900	0
Bus. Rates - RPI increase (14/15 Actual 3.2% - Then Est of 2.8%)	-1,700	-1,500	0
Top Up Grant - RPI increase (14/15 Actual 3.2% - Then Est of 2.8%)	-1,900	-1,700	0
New Homes Bonus	-1,850	0	0
New Homes Bonus - Re-imburement of Top Slice (Est)	-750	0	0
<b>Other Funding Sources</b>			
Council Tax Increase (2% each year from 2014/15)	-3,290	-3,355	-3,422
Council Tax Base - Additional Yield	-1,080	0	0
Business Rate Tax Base - Additional Yield	-2,226	0	0
NHS Social Care Funding	-2,800	-7,000	0
<b>Estimated Variance in Resource Base</b>	<b>16,197</b>	<b>27,753</b>	<b>26,578</b>
Pay inflation ( 1% - 1% - 1.5%)	1,950	1,900	2,850
Price Inflation (1% - 1.5% - 1.5%)	1,475	2,137	2,137
Corporate Risk Contingency Budget	0	-2,300	-1,000
<b>Base Budget Pressures</b>			
Carbon Reduction Commitment - 'Carbon Tax'	370	0	0
Expiry of four year Disturbance Allowances payments	-220	0	0
Employer National Ins. Increase due to State Pension changes	0	0	5,100
Single Status Implementation	0	0	3,800
Council Housing - If Large Scale Voluntary Transfer Goes Ahead	0	3,550	0
Additional Employer Pension Contributions	300	700	700
Concessionary Fares	0	400	400
Energy Price Increases	200	500	500
Insurance Claims	1,000	0	0
Housing Benefit Admin Grant Reduction	500		
Community Building running costs	-180	0	0
Delay in realising Leisure/Culture Saving	616	0	-616
CAS Demographic and Hyper Inflationary Pressures	1,000	1,000	1,000
Use of Earmarked/Cash Limit Reserve in CAS	-1,000	-200	3,350
Community Governance Reviews	0	-50	0
<b>Prudential Borrowing to fund new Capital Projects</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>
<b>Capital Financing for current programme</b>	<b>-250</b>	<b>1,500</b>	<b>0</b>
<b>TOTAL PRESSURES</b>	<b>7,761</b>	<b>11,137</b>	<b>20,221</b>
<b>SUM TO BE MET FROM SAVINGS</b>	<b>23,958</b>	<b>38,890</b>	<b>46,799</b>
<b>Savings</b>			
Provisional MTFP Savings (subject to approval)	-23,012	-7,073	0
Business Rate Retention - Discretionary Rate Relief Adjustment	-330	0	0
Mitigating Saving for Leisure/Culture Saving	-616	0	0
Additional Savings Target	0	-15,000	0
<b>TOTAL SAVINGS</b>	<b>-23,958</b>	<b>-22,073</b>	<b>0</b>
<b>DEFICIT</b>	<b>0</b>	<b>16,817</b>	<b>46,799</b>