

**CHILTERN DISTRICT COUNCIL
CABINET 11th FEBRUARY 2014**

Background Papers, if any, are specified at the end of the Report

CHILTERN BUDGET 2014/15

Contact Officer: Jim Burness 01494 732095

RECOMMENDATIONS

Cabinet are asked to:

- 1. Agree a proposed revenue budget for 2014/15.**
- 2. Determine the level of council tax for recommendation to Council.**
- 3. Note the advice of the Director of Resources.**
- 4. Agree that this report be made available to all Members of the Council in advance of the Council Tax setting meeting on 26th February, and a final report is produced for the Council meeting incorporating the information from preceptors, and the final decisions of the Cabinet on the budget.**

Relationship to Council Objectives

(i) The Council's code of corporate governance highlights the importance of having in place clearly documented processes for policy development, review and implementation, decision making, and monitoring and control. Following from this is the requirement for sound financial management, being able to demonstrate resources are aligned to the corporate priorities of the Council, and that any material risks are assessed. Value for money is one of the authority's main objectives and having a medium term financial strategy is a key element in demonstrating and achieving this.

(ii) The budget is essential to enabling the Council to deliver its objectives.

Implications

- (i) This matter is a key decision within the forward plan*
- (ii) This matter is within the Policy and Budgetary Framework*

Financial Implications

The report proposes a revenue budget for 2014/15.

Risk Implications

The report highlights the short and medium term key financial risks for the authority.

Equalities Implications

Any specific service changes contained within the budget will have been subject to equalities impact assessments.

Sustainability Implications

None.

Report

1. This report is divided into a number of sections, that as a whole, cover the various elements that need to be considered when setting the Council's budget for the coming year and the council tax for the District. Based on consideration of the information in the report the Cabinet needs to make recommendations to the Council meeting in February where the council tax, including the element relating to preceptors, will be decided.

Contents of Report

Section A	- Financial Context and Base Budget position
Section B	- New Homes Bonus and Grants
Section C	- Budget Requirement and Council Tax Issues
Section D	- Medium Term Financial Strategy Update
Section E	- Advice of Director of Resources

Section A Financial Context and Base Budget position

2. In December the Cabinet considered the draft service budgets and information available at stage on the overall position related to Government funding. Subsequently on 18th December the Government announced the provisional local authorities financial settlement for 2014/15, which also included indicative funding figures for 2015/16.
3. For Chiltern the following table shows the key figures for 2014/15.

	2013/14	2014/15	2015/16
	£k	£k	£k
Business Rate Baseline	7,908	8,062	8,285
Business Rate Tariff	-6,603	-6,732	-6,918
Baseline Need	1,304	1,330	1,367
Revenue Support Grant	1,961	1,506	1,044
Settlement Funding Assessment	3,265	2,836	2,411
Year on Year Change (£k)		-429	-425
Year on Year Change (%)		-13%	-15%

The table illustrates the continuing material reduction in funding to the Council that had been anticipated and is expected to continue until at least 2017/18.

- The Business Rate Baseline represents the Government's estimate of the amount of business rates it anticipates the Council will collect. As part of the Autumn Statement the Government announced a package of measures to support businesses which included extending small business rate relief and limiting the increase in business rates to 2%. As these measures will reduce the income to local authorities the Government will compensate authorities on an individual basis for the loss by the payment of a grant.

Section B New Homes Bonus & Grants

- An increasingly important source of funding for local authorities is the New Homes Bonus grant. For 2014/15 Chiltern will receive £723k as its cumulative payment since the scheme commenced in 2011/12, this is an increase of £354k compared to 2013/14, and represents an increase in residential properties equivalent to 242 Band D properties over 2013/14.
- If the Council decides to freeze its council tax for 2014/15 it will receive a grant for two years equivalent to broadly a 1% increase in council tax, £70k.

Section C Budget Requirement and Council Tax Issues

- The draft budget considered in December highlighted a number of issues that would need to be resolved at this stage when finalising budget proposals. Primarily these were:
 - The implications of the Pension Funds triennial revaluation which will impact on the level of contributions for three years from 2014/15. A report on this issue is elsewhere on this agenda.
 - The level of financial support to parishes. This was delegated to the Chief Executive in consultation with the Director of Resources, Leader of the Cabinet and Cabinet Member for Support Services to determine, and the decision made was to

reduce the financial support in line with the reduction in the Council's RSG, to £112,000.

- 8 Since the December report the surplus on the Collection Fund surplus has been finalised. The effect of having reduced the discounts and exemptions from April 2013 has contributed to a significant increase in the surplus to £252k, as these changes were agreed after the council tax base had been set for 2013/14. For future years tax bases these changes are built in.
9. Appendix A summarises the revenue budget position and is based on a zero council tax increase. It also builds in the fees and charges as set out in Appendix 11 to the December Cabinet report.
10. The Appendix shows that for 2014/15 the Council is in the position to set funding aside for a number of specific items referred to in previous reports, principally:
 - HS2
 - Economic Development
 - Capital Projects /Affordable Housing Schemes
11. Appendix A shows the areas to which allocations could be made, combined with allocations arising from existing Council decisions in respect of R&R Fund, Elections Reserve and the draw down from the LDF Reserve. One factor that will impact on how much can be added to these earmarked reserves is the decision in respect of the Pension Fund contributions referred to earlier in this report.

Section D Medium Term Financial Strategy Update

12. This is shown in the following table with notes about the assumptions made.

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
RSG	-56	-1961	-1506	-1044	-630	-230
NNDR	-2708	-1304	-1330	-1366	-1370	-1370
CT Freeze	-354		-70	-70		
CTS Grant	-71					
Transitional CTS Grant		-15				
NHB	-208	-369	-723	-723	-723	-723
Total Grant	-3397	-3649	-3629	-3203	-2723	-2323
Investment Income	-150	-183	-110	-80	-60	-60
Collection surplus	-5	-69	-252			
Parish c/tax re CTS		148	112	78	47	17

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
One off support to Parishes		59				
Total income	-3552	-3625	-3879	-3205	-2736	-2366
Service Expenditure	10623	9856	9702	9945	10193	10448
Capital Contribution/ Affordable Housing Fund Business Development Fund		150	1135			
Pension Fund						
Total Expenditure	10623	10006	10837	9945	10193	10448
Precept required	7071	6381	6958	6739	7457	8082
Precept						
CT Base	44473	41647	42809	42909	43009	43109
Band D	159.51	162.53	162.53	165.79	169.11	172.49
Precept on Collection Fund	7094	6769	6958	7114	7273	7436
Total Collected	7094	6769	6958	7114	7273	7436
Surplus/Shortfall	23	388	0	375	-184	-646

Assumptions

- Service expenditure assumed to increase for planning purposes by broadly 2.5% per annum approximately as a result of cost pressures.
- No assumption has been made regarding additional Pension Fund contributions
- Government funding assumed to reduce in future years in line with the general trend of recent years. No growth is assumed in retained business rates.
- No growth is assumed in New Homes Bonus funding
- Council tax assumed to be frozen in 2014/15. For future years limited growth assumed in council tax base, and council tax increases by 2% per annum from 2015/16.
- No surplus from the Collection Fund assumed in future years

- CTS grant related to parishes is assumed to be gradually reduced as revenue support grant reduces.
13. The forecast table shows the potential future funding gap for the authority that starts to develop from 2016/17 onwards. Whilst the forecast figures are sensitive to assumptions made around cost increases, assumptions about council tax increases, or New Homes Bonus funding the picture is clearly one that shows of a continuing need to identify means of reducing net costs in the years from 2016/17 onwards. What the authority has achieved to date has put it in the position where it can plan towards savings over more than one year.
- 14 In the medium term the key financial risks facing the authority are:
- The continuing significant reduction in Government funding, and the Council's ability to adjust its expenditure base to cope with the reductions.
 - The cost of waste services in the context of the waste disposal arrangements for Bucks.
 - The cost of public inquiries or responding to major infrastructure proposals affecting the District
 - Impact of changes associated with the Government's Welfare Reform programme.

Section E Advice of the Director of Resources

15. The detailed advice of the Director of Resources as the authority's statutory financial officer is set out in Appendix B. In summary the key points of the advice are as follows.
- The estimates for 2014/15 have been prepared in a thorough and professional manner.
 - The key budget risks have been identified.
 - The main financial risks to the Council for the coming year have been assessed as follows.
 - Shortfall on income targets.
 - The cost of major planning inquiries, enforcement actions or responding to national infrastructure proposals that impact on the area. Specific earmarked reserves exist to cover these matters.
 - Impact of Welfare Reform changes

16. The suggested prudent level of general reserves for 2014/15 is £850k. The Appendix also sets out the estimated level of reserves at the end of 2013/14.
17. In the medium term the authority will continue to face the risks in delivering its corporate plan objectives in the context of the continuing limitation of external funding resources.

Background Papers: None

CHIEF FINANCIAL OFFICER REPORT

- .1 I am making this report in compliance with the personal responsibilities placed upon me by s25 to s28 of the Local Government Act 2003. The legislation requires me to report to the authority on two matters.
- The robustness of the estimates it makes when calculating its budget requirement.
 - The adequacy of the authority's reserves, taking into account the experience of the previous financial year.

Robustness of Estimates

- .2 The process for preparing the budgets started in the autumn of 2013. From the outset the budget development was influenced by a number of key factors.
- The need to keep expenditure and likely resources in balance given the limitations on increases in council tax and the continuing significant reductions in government grant.
 - The national economic picture that affects many of the Council's main income streams and levels of housing and benefits expenditure..
 - The need to resource the implications of the corporate plan to enable the Council to make progress on its corporate aims,
- .3 During 2013 the authority has continued its working with South Bucks DC and is progressing a programme of service reviews to explore opportunities for joint working. The savings from the first of these service reviews are reflected in the 2014/15 budgets. As in recent years the 2014/15 budget is integrated with the authority's service planning process, and therefore plans reflect the resources available.
- .4 The budget process has rigorously limited new expenditure to only the unavoidable minimum.
- .5 The financial position of the Council clearly indicated the need to continue to make savings for future years, and work is in progress to identify further savings options for 2015/16 and future years, and this is expected to principally arise from continuing joint work with South Bucks DC and the programme of service reviews. The continued focus on delivering savings is important, and part of this will be having in place mechanisms to monitor and report on agreed savings.
- .6 The detailed budget preparation was overseen by an experienced qualified accountant, supported by other finance staff familiar with the requirements of the budget preparation process. The basis of the estimates included the following elements which are in my view crucial to setting realistic budgets.
- ❖ Staffing budgets are prepared on a zero base approach, and are built up based on the actual staffing establishment and its current costs. The final

budgets also include a vacancy factor of 2% consistent with that used in past years which has proved to be realistic.

- ❖ The budgets reflect as far as can be determined costs of major contracts including known or likely cost increases.
- ❖ The budget identified the on going cost of Council decisions taken since March 2013.

.7 The detailed budget have been scrutinised by:

- Officers
- Cabinet Members
- Performance & Review Overview Committee

.8 In particular the draft budgets were very thoroughly examined by Cabinet members in an exercise led by the Portfolio Holder for Support Services. The budget does not contain any unspecified or unrealistic savings proposals or contingencies.

.9 Investment income expectations reflect a realistic view on the level of interest rates over the next few years, and this is will be reflected within the treasury management strategy.

.10 Finally the budgets have been assessed as part of the authority's approach to risk management and the major financial risks identified. These will be referred to in the following section dealing with the adequacy of reserves.

.11 Taking all these factors into account I am satisfied that the estimates have been prepared on a robust basis.

Adequacy of Reserves

.12 The Council has a policy on its reserves, and this policy accords with the guidance issued by the Chartered Institute of Finance and Accountancy (CIPFA) on local authority reserves and balances. The Policy (Appendix C) , which has been reviewed as part of this budget cycle, sets out the factors to be taken into account in determining for the year in question, and what a reasonable minimum level of general revenue reserves should be. In essence the Policy states that the minimum level should be based on 7½% of the net cost of services, plus any material financial risks identified for the coming financial year.

.13 The Code of practice on local authority accounting requires the purpose, usage and basis of transactions of earmarked reserves to be identified clearly. The Council has a number of earmarked reserves where it has full control over their deployment. These have been reviewed in the light of guidance to authorities on reserves, and taking into account the current financial issues facing the Council. The following table shows the Council's reserves position estimated for 31st March 2014 taking into account the review referred to.

Description	31/3/14 £k	Comment
General Fund Balance	3,486	
Business Rates Equalisation Reserve	250	To offset any in year loss in retained business rates to the District not covered by the business rates safety net arrangements.
Rent Deposit/Private Leasing and Homelessness prevention reserve	266	To provide funding to assist households in accessing affordable housing and reducing temporary accommodation and avoiding homelessness
Neighbourhood Planning Reserve	17	To hold Neighbourhood Planning Grant until expenditure incurred
Housing Benefits Reserve	266	DWP funding provided in previous years for implementation of welfare reform changes. To be used in future years for service transformation to improve capacity and resilience to cope with forthcoming change.
Election Fund	76	To meet the cost of local elections as and when required
Community Safety Initiatives	107	Funding secured in previous years to be used to support community safety projects.
Waste Initiatives Reserve	294	Reserve established to provide support for delivery of waste and recycling projects across the District
Planning Reserve	634	To meet the costs of major planning appeals and enforcement actions.
Local Development Framework Reserve	293	To meet costs of the Local Development Document process, including studies and surveys.
HS2 Reserve	225	To cover potential costs involved in challenging the HS2 proposal and seeking mitigation through legal and parliamentary processes.
Transformation Reserve	92	To enable the Council to progress organisational and service delivery change including joint working
Workforce Strategy Reserve	125	To help meet costs associated with organisational change
Capital Projects Reserves	3,816	This reserve is held to provide further resources for capital expenditure.
Repairs & Renewals Fund	526	For the replacement of vehicles, plant, machinery and equipment as required and as a contingency for major repairs to buildings as part of the capital programme
Total Ear Marked Reserves	6, 987	

- .14 In considering the level of general reserves in addition to the cash flow requirements the following factors are considered: -

Budget assumptions	Financial standing and management	Comment on CDC position
The treatment of inflation and interest rates	The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates)	The budgets are based on known price increases as far as is possible. External advice has been taken on interest rate forecasts and these have been used with prudent assessments of the level of cash available for investment. This will be set out in the Treasury Management Strategy.
Estimates of the level and timing of capital receipts	The authority's track record in budget and financial management	The forecast of future capital receipts reviewed over the course of the budget process to ensure it is realistic. At present no major receipts are anticipated in the coming years.
The treatment of demand led pressures	The authority's capacity to manage in-year budget pressures	The authority has in place regular budget monitoring procedures to identify any in year pressures, and to consider what actions can be taken. Reports are produced monthly for Management Team and Cabinet members. The budget process has also picked up any demand led pressures that need to be built into the 2014/15 budget.
The treatment of savings/efficiency gains	The strength of financial information and reporting arrangements	The effort put into financial monitoring needs to be maintained and the authority needs to ensure adequate resources are directed to this activity. Progress on savings and efficiency gains are reported regularly to senior officers and members. The key strategic risk for the authority is the limitation on resources will limit speed and scale of progress on Corporate Plan, and impact on statutory performance and compliance issues.
The financial risks inherent in any significant new funding partnerships or major capital developments	The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level	The Council undertakes a risk assessment of the budget risks it faces. The major risks for 2014/15 are highlighted below.
The availability of other funds to deal with major contingencies	The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	The authority has sufficient reserves to cover insurance liabilities. It has also the resources in general or earmarked reserves to make reasonable contingencies against matters such as HS2, major enforcement actions etc.

- .15 From the preceding table it can be seen that the authority takes action to reduce budget risk and therefore influence the level of reserves it needs to hold. There will always be areas of risk or uncertainty and which need to be assessed as part of the budget process.
- .16 The main financial risks to the Council for the coming year have been assessed as follows.
- Shortfall on income targets.
 - The cost of major planning inquiries, enforcement actions or responding to national infrastructure proposals that impact on the area primarily HS2. Specific earmarked reserves exist to cover these matters.
 - The effects of welfare reform on housing services related to the supply of affordable housing in the District.
- .17 Based on the budget experience of the current year it would be prudent to allow for the possibility of some income shortfalls, and for costs planning enforcement or inquiries.
- .18 In the longer term there will be the risks of:
- Managing the gap between cost increases the Council will face year on year, and the continued significant reductions in government funding, and the limitation of council tax increases. Key to managing this risk will be identifying further savings for the years from 2015/16 onwards.
 - The costs of reaching and enforcing the Council's planning decisions, or responding to major infrastructure proposals. This would include major issues such as HS2 and airports expansion.
 - The development of the authority's waste collection and recycling services in the context of Bucks CC's disposal arrangements.
 - The implications of changes to housing and benefits services, as the welfare reform changes progress. This will include potential changes to the role of local authorities as the main point of contact for claimants etc.
- .19 As a small authority the Council is always faced with the risk to achieving its objectives from capacity and reliance on a number of key staff. Therefore staffing issues will need to be kept carefully under review going forward.
- .20 Taking all these factors into account it would be advisable to plan for a level of general reserves of at least around £850k for the forthcoming financial year, exclusive of any specific contingencies for which earmarked reserves have been established (see table above). This figure is made up as follows.

	£k
7½% Net Cost of Services	750
Potential Income shortfalls	100
	850

Legal Considerations

- 21 In coming to decisions on the revenue budget and Council Tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the budget requirement and the setting of the overall budget and Council Tax. The amount of the budget requirement must be sufficient to meet the Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.
- 22 The setting of the budget and the council tax by Members involves their consideration of choices and alternatives and Members have considered these in various earlier reports. No genuine and reasonable options should be dismissed out of hand and Members must bear in mind their fiduciary duty to the council taxpayers of Chiltern District Council. Should Members wish to make additions or reductions to the budget, on which no information is given in the report before Members, they should present sufficient information on the justification for and consequences of their proposals to enable the Cabinet (or the Council) to arrive at a reasonable decision on them.
- 23 The report sets out relevant considerations for Members to consider during their deliberations, including the statement above from the Chief Financial Officer. Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision that no reasonable authority could come to, balancing the nature; quality and level of services that they consider should be provided, against the costs of providing such services.
- 24 Members should be aware of the provisions in section 106 of the Local Government Finance Act 1992, which applies where-
- (a) they are present at a meeting of the Council, Cabinet or Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least 2 months, and
 - (b) any budget or council tax calculation, or recommendation or decision which might affect the making of any such calculation, is being considered at the meeting.
- In these circumstances any such members must disclose that s106 applies to them as soon as practicable after the start of the meeting. Members may speak but must not vote on any matter referred to in (b) above. Members should note that failure to comply with these requirements constitutes a criminal offence unless they can prove they did not know section 106 applied to them at the time of the meeting or that the matter in question was subject to consideration at the meeting.

Jim Burness
Director of Resources
February 2014

CHILTERN DC FINANCIAL RESERVES POLICY

This is a policy statement defining the Authority's approach to:

- Determining specific reserves, separate from its General Fund balance
- Determining the appropriate level of reserves, specific and general.

Determining Reserves

The accumulated year on year surplus of revenue income over expenditure will be identified as the Council's General Fund balance. In the absence of any decisions to identify within this total, specific sums for defined purposes, the General Fund reserve can be applied for any lawful purpose of the Council, subject to advice from the s151 officer regarding the minimum level of the General Fund.

The Council may decide to identify part of its General Fund to be used for specific purposes. Such actions must be made explicit in budget decisions of the Cabinet. The earmarking of specific reserves must not reduce the remaining General Fund balance below the minimum level advised by the s151 officer.

Specific reserves can be established for the following purposes:

- To provide funding for a known future project or activity,
- To provide funding against a future likely material financial risk for the authority that has been identified as part its service and financial planning process.
- To accumulate the effect of any material underspend on specific budgets where calls on those budgets may vary in an unpredictable manner from year to year (e.g. planning inquiries and appeals). The underspends accumulated would be deployed in years of above average activity and cost.

Once a specific reserve is identified it can only be applied in the context of the delegation assigned to the reserve.

The current earmarked reserves and the officers delegated to authorise their use, with the agreement of the appropriate Cabinet member, are detailed at the end of this document.

Determining the appropriate level of reserves

The level of specific reserves will be reviewed annually as part of the final accounts process.

The minimum level of the Council's general reserve will be specifically set each year as part of the budget process and will be contained in the formal advice to members from the s151 officer.

This advice will be influenced by the budget risk assessment for the coming financial year, and the need to maintain a working balance of at least 7½% of net cost of services, which would be approximately £0.75m. Therefore the general fund reserve, in total, should never be planned to be less than 7½% of net cost of services.

Chiltern DC Earmarked Revenue Reserves

Earmarked Reserve	Purpose	Delegated Officer Cabinet Member
Business Rates Equalisation Reserve	To offset any in year loss in retained business rates to the District not covered by the business rates safety net arrangements.	Director of Resources The Leader
Rent Deposit/Private Leasing and Homelessness prevention reserve	To provide funding to assist households in accessing affordable housing and reducing temporary accommodation and avoiding homelessness	Head of Health & Housing Health & Housing PH
Neighbourhood Planning Reserve	To hold Neighbourhood Planning Grant until expenditure incurred	Head of Sustainable Development Sustainable Development PH
Housing Benefits Reserve	DWP funding provided in previous years for implementation of welfare reform changes. To be used in future years for service transformation to improve capacity and resilience to cope with forthcoming change.	Head of Customer Services Waste & Customer Services PH
Election Fund	To meet the cost of local elections as and when required	Chief Executive The Leader
Community Safety Initiatives	Funding secured in previous years to be used to support community safety projects.	Head of Health & Housing Health & Housing PH
Waste Initiatives Reserve	Reserve established to provide support for delivery of waste and recycling projects across the District	Head of Environment Waste & Customer Services PH
Planning Reserve	To meet the costs of major planning appeals and enforcement actions.	Head of Sustainable Development

Earmarked Reserve	Purpose	Delegated Officer Cabinet Member
		Sustainable Development PH
Local Development Framework Reserve	To meet costs of the Local Development Document process, including studies and surveys.	Head of Sustainable Development Sustainable Development PH
HS2 Reserve	To cover potential costs involved in challenging the HS2 proposal and seeking mitigation through legal and parliamentary processes.	Chief Executive The Leader
Transformation Reserve	To enable the Council to progress organisational and service delivery change including joint working	Director of Resources Support Services PH
Workforce Strategy Reserve	To help meet costs associated with organisational change	Chief Executive Support Services PH
Capital Projects Reserves	This reserve is held to provide further resources for capital expenditure.	Cabinet/Council
Repairs & Renewals Fund	For the replacement of vehicles, plant, machinery and equipment as required and as a contingency for major repairs to buildings as part of the capital programme	Cabinet/Council

Capital Receipts Reserve

Separate from its revenue reserves the authority has a Capital Receipts Reserve representing the unapplied capital receipts from its sale of assets. The Council's policy is that any receipts achieved from the disposal of assets are applied as part of the funding of the Capital Programme. Decision on use is therefore taken by the Cabinet/Council.