

STRATEGIC BUDGET & MAJOR PROJECTS PROGRAMME

Cabinet Member: Councillor Mel Foster

Wards Affected: All

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PROPOSED RECOMMENDATION TO COUNCIL

That the updated Major Projects Programme and funding bids (2014/15 – 2018/19) set out at appendix 5A and exempt appendix 5B of the report be approved and that a Policy for the use and operation of the Regeneration Fund be brought back to Cabinet / Council for approval prior to the use of any funds.

PROPOSED DECISION

That:

- (i) the updated financial projection for the Councils General Fund Revenue Account set out in Appendix C until 2020/21, key assumptions and forward budgetary planning implications be noted;
- (ii) the final decision on whether to join a business rates pooling arrangement from 2015/16 with all other Buckinghamshire Districts, Bucks Fire and Rescue and Bucks County Council be delegated to the Head of Finance and Commercial, the Monitoring Officer, the Leader and Cabinet Member for Finance; and
- (iii) the release of £25,000 from the Business Rates Equalisation Fund to enable financial due diligence to be carried out on Business Rates pooling and support the assessment of the appeals provision for 2014/15 be approved.

Reason for Decision

Under the Council's Constitution and Budget Strategy, the Council reviews and sets a balanced budget each year in line with corporate priorities.

Corporate Implications

1. The detailed financial implications are set out within this report.

Executive Summary

2. A review of the Council's Major Projects Programme (MPP) has identified potential new schemes totalling £8.426m which support the Council's Corporate Priorities and provide further opportunity to develop income generation to help deliver a balanced revenue budget within the timeframe of the Medium Term Financial Plan (MTFP).
3. This report provides an update on the financial projection for the Council's General Fund Revenue Account to 2020/21, together with the key assumptions for Cabinet to approve.

4. The context for the current budget round and our medium to longer term budget prospects remain very uncertain. This report sets out the key issues that are expected to impact on our future budget position, updates the medium term financial plan and outlines the key risks and opportunities. Cabinet is asked to note the key issues raised in the report.

Sustainable Community Strategy/Council Priorities - Implications

5. The Council's budget forms a core part of the Council's ability to deliver its priorities and contribute towards the Community Strategy.

Background and Issues

6. The Council approved its current Medium Term Financial Plan (MTFP) in April 2014. This plan identified that in the short term the Council would be able to deliver a balanced budget (subject to delivery of its Transformation Programme), but substantial savings would be needed from 2017/18. The MTFP also identified potential opportunities for future savings and income growth which could address a significant part of the projected shortfall to 2019/20.
7. In the last Local Government Finance Settlement, provisional figures for 2015/16 were provided for each authority. Beyond 2015/16 the funding position for local government remains uncertain and subject to significant risk. It is anticipated that the December Local Finance Settlement will only confirm grant figures for 2015/16. Any future announcements beyond this are not expected until after the next General Election in May 2015, when the government will publish its Comprehensive Spending Review. Individual authority announcements are unlikely to be available until December 2015
8. Recent announcements by the main political parties have indicated that there will be future spending reductions, in the order of £25bn, which is the current estimated structural deficit. It would also seem likely that spending for the NHS and Pensions (largest part of the Welfare budget) will continue to be protected. Local Government is therefore anticipating further sharp reductions in 2016/17 and 2017/18

Business Rates Retention

9. In April 2013 the funding arrangements for Business Rates were localised, resulting in a risk sharing arrangement with Central Government on a 50:50 basis. For both 2013/14 and 2014/15 consideration was given to the creation of a Business Rates pool for Buckinghamshire Authorities to try and retain potential revenue locally which could be shared by the Bucks Authorities. Further analysis identified that the financial risks outweighed any likelihood of revenue retention, largely due to the issue of outstanding rating appeals and the lack of any clear accounting rules (e.g. appeals provisions).
10. Work is commencing again to consider the viability of a Business Rates Pool for some of the Buckinghamshire Authorities. An initial expression of interest was made in October to the CLG by (BCC, AVDC and WDC) the Bucks Authorities to create a single business rates pool from 2015/16. If the modelling work does not support the financial viability of a pooling arrangement the application will be withdrawn. It should also be noted that if any individual authority does not wish to proceed the proposed pool would not proceed.

11. It is proposed that the final decision on whether to proceed is delegated to the Leader, Cabinet Member for Finance and Head of Finance and Commercial, Monitoring Officer once all of the modelling work has been completed. It should be noted that due to the manner in which the business rates system operates, there is an inherent risk and volatility within the system, e.g. appeals which will require modelling to demonstrate a realistic margin of error in the forecasted future yield for the Council to be confident to proceed as part of a Bucks pool. As part of the Councils management of the budget, a separate Equalisation Fund was created to help manage the potential volatility that might arise within any financial year, should actual net business rates yield fall below the government baseline. In order to carry out both due diligence on the business rates base and make an assessment of the appeals provision for completing the NNDR1 2015/16 and the 2014/15 appeals provision a sum of £25,000 is needed to appoint external specialists to carry out valuation modelling of the NNDR base.

Detailed Report

Major Projects Programme – Appendices 5B – 5C

12. The MPP was last formally reviewed and updated in November 2013. This has now been updated to reflect investment and funding decisions since this time together with a more up to date cash flow profile. The overall funding implications are set out within the detailed report and summarised at Appendix 5A.
13. A summary of the new proposed scheme bids is set out at exempt Appendix 5B, together with further scheme details. Cabinet is asked to review these bids. If these new schemes were approved the total MPP would increase by £8.426m. The additional funding for these schemes can be met from within existing and projected future resources. The Council's current funding for the Major Projects Programme will be largely committed until 2018/19, pending generation of new funding streams.

Major Projects Programme Funding Assumptions and Issues

Borrowing

14. The Council holds a variable rate loan with the PWLB for £5m which is being scheduled to be repaid in December 2014.

Capital Receipts

15. The Council has a number of planned disposals in the pipeline which will deliver substantial capital receipts. Where the planned disposals have reached an advanced stage these have been built into the available funding for the programme (£17.6m). Other planned disposals which are less certain have been excluded.
16. The Council received £1.1m in April 2014 as part of its share of Preserved Right to Buy receipts under the terms of the transfer agreement with Red Kite Community Housing. Based on current activity levels, it is anticipated that a further £3.0m will be generated in 2014/15 (due to be paid in April 2015). No further receipts have been anticipated beyond this period.

17. The Council also has the potential to access a further £22m through the Housing Stock Transfer via a VAT Indemnity. This funding will only be released once the Qualifying Works have been substantially completed and will become available gradually as the risk of repayment to HMRC expires. It is currently anticipated that the earliest that funding may start to become available will be 2020.

Disabled Facilities Grant

18. Currently the Council receives a directly allocated grant from CLG to help fund the cost of providing Disabled Facility Grants. In recent years this has averaged circa £450k per annum. From April 2015 this grant will no longer be paid directly to District Councils, although they will continue to be responsible for the provision of this mandatory service. The funding will now be paid to BCC as part of the Better Care Fund grant. Discussion are still taking place with BCC about this grant (together with the other districts) to try and secure the transfer of this funding. The MPP assumes that this funding stream will continue to be available.

General Fund – Medium Term Financial Plan – Appendices 5A

19. The Council's current Medium Term Financial Plan indicates that a balanced budget could be achieved until 2016/17, subject to delivery of the Council's Transformation Programme and government grant assumptions being confirmed through the local government finance settlement. This projection also assumed part use of New Homes Bonus funding, with £600k in 2013/14, increasing by £200k pa until 2016/17 when it reaches £1.2m and remaining at that level thereafter. Table 1.1 below compares at headline level the updated forecast with the previous forecast in April 2014. The updated forecast takes account of the latest information available and also reflects some of the key investment programmes that the Council has approved in the current year.

Table 1.1 Updated Medium Term Financial Projection (Indicative)

Forecast	2015/16 £'000s	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s
April 2014	(14)	312	806	1,413	2,054	2,490
October 2014	(93)	(509)	(16)	748	844	1,442

* The current projection should be treated with caution, as the basis of the forecast is only based on 1 years provisional settlement figures. The Finance Settlement which is expected to be announced on the 17th December is expected to only provide a settlement in respect of 2015/16.

Key Changes and Assumptions since April 2014

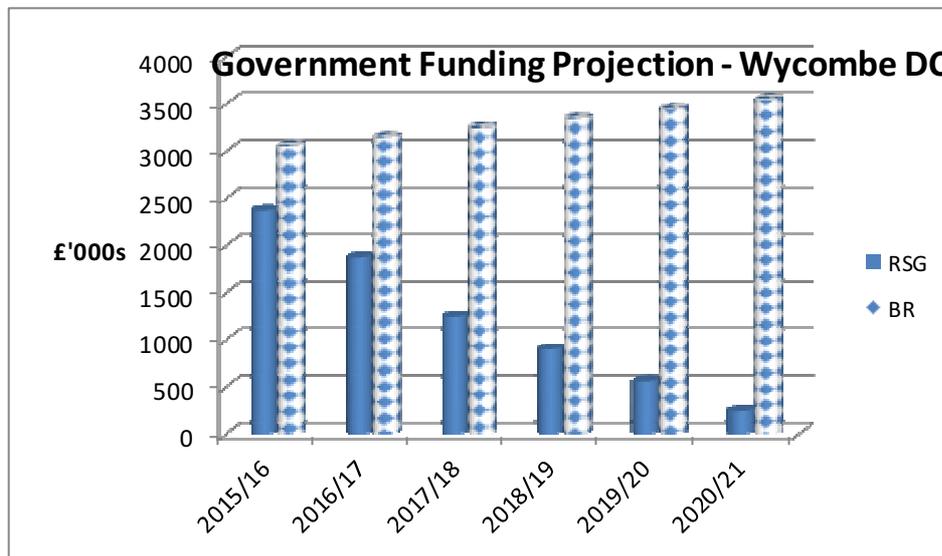
20. The medium term position has improved since the April 2014 forecast, reflecting additional revenue, new transformation savings and procurement savings together with reduced inflation proofing. These savings have been partly offset by the loss of the Avoided Financial Pressures funding from BCC for Waste Collection, following notice by BCC that they will terminate the shared funding agreement after 3 years (originally 30 years), resulting in a loss of income of (£238k per annum) from 2016/17.

21. The forecast does not take account of any of the potential new revenue streams that would be generated by the proposed schemes being proposed as part of the MPP (see exempt Appendix 5B). The projected government grant (RSG and Business Rates) has not been updated since April 2014. The plan continues to be reliant on an element of the New Homes Bonus Funding, reaching a peak of £1.2m per annum by 2016/17.

Government Funding Projections

Sentiment in Local Government circles continues to anticipate deeper cuts beyond 2015/16, with some suggesting that by 2020 Revenue Support Grant may even have disappeared for many authorities. The planning horizon of central government continues to be short term with the uncertainty of a General Election in 2015.

The graph below shows the current MTFP forecast on future grant settlement for Wycombe. This forecast has not been revised since April 2014.



By 2021/22 it has been assumed that Revenue Support Grant will no longer be paid to the Council. No changes have been made within the forecast to take account of any gains or losses on business rates which might arise under Business Rates Retention. It is currently the policy that if the Council makes a loss that this would be funded from the Business Rates Equalisation Fund. In the event of a surplus, proposals would be made to Cabinet at the time of the final budget setting decision (February).

Transformation Savings Profile

22. When the Strategic Budget was updated in March 2013, future savings were profiled based on the plans provided by services on the delivery of their programmes. Since this time there has been slippage on some of these programmes and some changes to other planned savings which are summarised in Table 1.2 overleaf:

Table 1.2 – Latest Transformation Savings October 2014

	2015/16 £000's	2016/17 £'000s	2017/18 £000's	Total Change £'000s
March MTFP Profile				
- Car Parking	201	0	0	201
- Museum	0	78	0	78
- CCTV	50	50	0	100
- Tourism	90	90	0	180
- Housing	0	50	0	50
- Housing Benefits	30	0	0	30
- Woodland Rangers	26	4	10	40
- Environmental Health	10	0	0	10
-				
Total Movements				
Profile October 2014	407	272	10	1,020

Other Key Assumptions

23. The latest financial projection takes account of the following key assumptions:

- Salary Inflation is assumed at 1.2% in 2015/16 and thereafter at 2%.
- Provision has also been made for additional employer national insurance contributions from 2016/17 reflecting the introduction of the Universal Pension scheme and ending of the contracted out arrangements for public bodies. The cost of this change has been estimated at £195k pa.
- Contract Inflation has been based on existing contract terms with CPI inflation assumed at 2.5% in 2014/15. Savings have now been fully built into the projection for the CSC/ICT contract following the award to Capita (previously used 'Affordability Limits'. The full transition costs of £348k have been included in 2015/16.
- New transformation savings of £180k have been included following approval of the changes to the Area Offices.
- A total of £188k recurring revenue savings from 2014/15 have been included within this projection, following an in year review of current budgets.
- Following approval of the planned Crematorium in Aylesbury, the forecast now allows for a projected new revenue stream (worst case) from 2017/18 of £239k per annum, which is this authorities projected share.
- No increase in Council Tax has been assumed for 2015/16. An increase of 1.99% has been assumed in 2016/17 onwards. **The current Referendum limit is 2% and should this remain at this level, then in effect this would mean**

that unless a public vote can be secured, then there is no scope to increase Council Tax income from 2016/17 onwards as this has already been allowed for within the forecast. The Council Tax base projection has been increased from 300 to 600 Band D equivalents in 2015/16 and by 400 in the following 3 years and then 600 in each of the final two years. An allowance of £180k has been made in 2015/16 for a Council Tax Adjustment figure on the basis of £2m surplus being re-distributed from the Collection Fund balance. This is a one-off distribution.

- Council Tax Freeze grant for 2015/16 at 1% has been built into the projection in line with the government announcement last December. The grant is then rolled into Revenue Support Grant baseline and has been taken into account in these future forecasts from 2016/17.

Budget Sensitivity: Understanding Budget Risks and Opportunities

24. The MTFP includes a series of assumptions, each carrying a degree of risk in terms of certainty and impact. There are also opportunities which may improve the financial position over this period. At exempt Appendix 5D the key risks and opportunities are set out, together with a projection of their probability and potential impact on the MTFP forecast.
25. The MTFP indicates that a balanced budget may be achievable in the short term 2015/16 to 2017/18, on the basis of current assumptions. The risks to this outweigh the current opportunities that are being explored. From 2017/18 the budget gap is projected to widen significantly and will continue to increase due to continued reductions in grant funding and cost inflation outstripping below inflation growth in all areas of income, including Council Tax (1.99% assumed growth from 2016/17).
26. The Council has continued to make good progress on reducing the size and time horizon of the budget deficit, with a reduction of £1.048m since April 2014 and potential additional revenue streams identified at exempt Appendix 5B.

Conclusions

27. The MPP attached at Appendix 5A reflects all recent changes and approvals made since April 2014 and the necessary funding that is projected to be available to meet this. Additional scheme bids are set out for consideration within the exempt Appendix 5B, together with projected revenue benefits.
28. This report sets out the key financial issues, risks and opportunities in the context of the Council Medium Term financial planning horizon (Appendix 5C & exempt Appendix 5D).

Next Steps

29. The revenue estimates will be presented to Cabinet on the 9th February 2015 and will include details of the final Finance Settlement. This will be accompanied with a report from the Budget Task and Finish Group.

Background Papers

Held in Finance and Commercial Services.