

Revenue Budget Proposals 2013/14 and Medium Term Financial Projections to 2016/17

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WHY HAS THIS REPORT COME TO THE EXECUTIVE?

(E.g. Key Decision, Policy Recommendation for Full Council, at request of Council etc.)

The report provides details of the Revenue Budget proposals for 2013/14 incorporating the final grant settlement figures received from Government on 4th February. Separate reports have also been prepared setting out proposals for 2013/14 on the Capital Programme proposals and the Treasury Management Policy Statement and these are considered elsewhere on the agenda.

The report also provides updated financial projections for 2013/14 to 2016/17. These projections will be updated again in the Medium Term Financial Strategy which will be updated in preparation for the 2014/15 budget process, and presented to Council following any updates available from the results of the Government's spending review for 2015/16 which is anticipated in April / May 2013.

The proposals in this report have been subject to the statutory budget consultation which ended on 7th February 2013.

Following the consultation these final proposals are presented to the Executive for further consideration and recommendation to Council for approval of the budget on 21 February 2013.

RECOMMENDATION:

It is recommended that Executive considers the issues in this report for the purpose of recommending the following budget proposals to Council on 21st February 2013:

1. The Executive note:

- (i) That the final settlement figures received from Government on 4th February are set out in Section 2.
- (ii) That there is still potential for a Special Council meeting being required for the setting of the Council Tax should Parish Councils be unable to meet the deadlines for setting their own precepts.
- (iii) The MTFs assumptions set out in the report and that an update to the MTFs will be provided once the Government have concluded their 2015/16 Spending Review.

2. The Executive approve and recommend to Council on 21st February:

- (i) The proposals for increases in Fees and Charges set out in **Appendix D** (to follow)
- (ii) The changes to the 2013/14 budget as set out in Table 3 and notes at 4.2.
- (iii) The savings proposals for 2013/14 of £1.76m set out in **Appendix E**, which seeks to balance the Council's budget and address the 2013/14 projected budget shortfall.
- (iv) The use of Earmarked Reserves, as detailed in Section 5 (ii), **Appendix G**, including the request for an additional Earmarked Reserve of £50,000 to address Land Management issues.
- (vi) The impact of the proposals on General Reserves of an increase in the Unallocated Reserve of £30,000 as set out in 5 (i) **Appendix F**
- (vii) The increase in Council Tax of 1.9% for 2013/14 set out in paragraph 3.5 (v), with the implication that the Council will not accept the Council Tax freeze grant of 1% from Government.
- (vii) That the decisions on the National Non Domestic Rate return, the calculation of the Collection Fund surplus and the calculation of the Council Tax Base as set out in Appendices A to C remain delegated to the s151 officer.

3. Taking account of the above the Executive to approve a budget to recommend to Council of £10,362,310 for 2013/14 as set out in Para 4.3 Table 4.

1. INTRODUCTION

1.1. The draft budget proposals were considered by the Executive on 9th January 2013 and were approved at that meeting for the purpose of the statutory consultation period which ended on 7th February. This report details the final budget proposals following the consultation. Following consideration of this report the Executive will recommend the final budget proposals to Council on 21st February 2013.

1.2. The budget proposals have been prepared in accordance with the Council's Medium Term Financial Strategy 2012/13 to 2015/16, and the priorities set out in the Council Plan 2011/14, as approved by Council in February 2012. This report contains updated financial projections to 2016/17 and these will be updated again as part of the update of the Medium Term Financial Strategy for the next four year period. This will be presented to Council following indications on the 2015/16 spending review from the Government which is anticipated in April / May 2013.

1.3. The Revenue Budget Proposals contained in this report must be considered alongside the Capital, Reserves and Treasury Management proposals and separate reports on these areas are considered elsewhere on this agenda. Together these reports make up the suite of 2013/14 budget proposals that will be made to Council on 21st February.

1.4. Since the Council re-set its timetable for the budget process to take into account slippages caused by delays in Government announcements, a further Government announcement was made affecting Parish Councils in that they will be affected by the impact of the Council Tax Support scheme in their Parish area. This involved a significant amount of work and because of this uncertainty Parish Councils indicated they might not be in a position to provide CBC with their precept demands until February which in turn would affect CBC's ability to set the Council Tax on 21st February (Note: This does not affect the Council's ability to set its own budget on 21st February, just the setting of the Council Tax). This is because we have a statutory duty to include the Parish precepts in the Council's Council Tax report albeit we have no responsibility with regards to the actual precepts set by Parishes. We have worked closely with the Parishes to assist them in providing the information as soon as possible, and at the time of writing there are two parish precepts awaited. Indications from one are that their figures will be confirmed immediately after their meeting on 12th February, and Members are alerted to the fact that given these timescales it will be difficult to turn the information around in time for the report deadlines for the Council meeting on 21st February. We have had no word yet from the other but are continuing to try to contact them. The risk remains that a separate Council meeting might be required to set the Council Tax. It should be noted that the final date for setting the Council Tax is 11th March each year.

2. GOVERNMENT GRANT SETTLEMENT 2013/14 AND 2014/15

2.1. As Members have previously been informed, the Government has enacted changes to the system of Local Government Finance which are the biggest changes that have been seen for many years. The changes are set out in the Local Government Finance Act 2012 (LGFA) which received Royal Assent on 31st October 2012. The legislation in particular includes significant changes to the existing Business Rates and Council Tax Benefit Schemes. Both of these Schemes form part of a wider Government agenda aimed at giving Local Government 'increased financial autonomy and a greater stake in the economic future of their area'. As both of these Schemes have become 'localised' under the new arrangements, the risk attached to any downturn in growth has been significantly transferred from Central Government to Local Government.

2.2 The 2013/14 and 2014/15 provisional finance settlement figures were 'announced' late on 19th December albeit much of the detailed information was received at a later date. The provisional headline figures for Copeland were included in the previous report considered by the Executive on 9th January. It was noted that Copeland's total grant settlement was £5,515k for 13/14, however as there had been a fundamental change to the settlement allocations, and amounts were in different categories, it was not easy to make like-for-like comparisons with previous years.

2.3 Following the provisional settlement announcement there was a period allowed for consultation on the figures with written responses required by 15th January 2013. The final settlement figures for 2013/14 together with the provisional figures for 2014/15 were received on 4th February 2013. There has been very little change between the

provisional and final settlement figures. This report incorporates the final figures received on 4th February.

2.4 As previously identified, this is a fundamentally different system in many respects which makes comparisons with previous years more difficult. Some of the key features of the new system are explained in the paragraphs below:

- (i) One of the fundamental changes to the new finance system is that the settlement figures no longer provide guaranteed funding levels which have been the case with the finance grant system up to 2012/13. Rather the figures represent a starting point for authorities and ultimately the level of Business Rates actually collected by authorities will determine the total funding received. Under the proposed system, a start-up funding assessment is determined for each authority. This is determined in the same way as Formula Grant was previously determined i.e. using the four block model to determine a level of need and then taking into account specific grant changes. The start-up funding assessment is then split between Revenue Support Grant (RSG) and Business Rates Retention (BRR), the latter expressed as Baseline Need. The RSG is a guaranteed payment for the year whilst the Baseline Need is not. The relevant figures are as shown in the Table 1 below:

Table 1: Calculation of Formula Grant / Start-up Funding Assessment:

	Adjusted *Start-up funding assessment 2012/13 £m	Final Start-up funding assessment 2013/14 £m	Provisional Start-up funding assessment 2014/15 £m
Relative Needs Amount		2.254	
Relative Resources Amount		(0.811)	
Central Allocation		3.117	
Floor Damping		0.171	
Grants rolled in:			
Council Tax Freeze compensation		0.100	
Council Tax Support Funding		0.634	
Homelessness prevention funding		0.050	
Start-up funding assessment	5.786	5.515	4.802
Year on Year change		-4.7%	-12.9%
Split:			
Revenue Support Grant (Amount Guaranteed)		3.312	2.531
Baseline Need (Amount Not Guaranteed)		2.203	2.271
Total		5.515	4.802

Notes:

*To make the comparison with earlier years' figures easier, the Government have provided an adjusted figure for 2012/13.

It should be noted that the Government's announcement of the provisional settlement figures made comparisons of an authority's 'spending power'. This is a measurement that the Government favour and brings into account such things as Council Tax income generated by an authority, New Homes Bonus, impact of transitional grants and other special grants. This is the reason that different percentages have been quoted (i.e. depending on which measure is being used).

- (ii) Details of the Business Rates Retention (BRR) Scheme are detailed in **Appendix A** including information on how the Business Rates Baseline has been set for 2013/14 and the estimate of Business Rate income submitted to the Government for 2013/14. It should be noted that final regulations are still awaited for some aspects of the Scheme. In particular as set out in the Appendix, Members are asked to confirm that the completion of the NNDR1 (National Non-Domestic Rate) return will continue to be delegated to the Section 151 officer and recommend to Council that this practice continues under the new system. Members will also note that the indication from the completion of the NNDR1 return is that Copeland may well hit the safety net for the new Business Rate Retention Scheme. The maximum loss of income to the Authority from this eventuality is £165k and provision for this is built into Reserves.

A further anticipated change to the Council's funding is that the Chancellor has announced that:

- The Government will extend the temporary doubling of the Small Business Rate Relief for a further 12 months from April 2013
- The Government is also proposing to exempt all newly built commercial property completed between October 2013 to September 2016 from Empty Property Rates for the first 18 months

Both of these initiatives will be funded outside the new Rates Retention Scheme and a (S31) grant announcement is awaited. For Copeland the amount anticipated would be in the region of £245k, however there is some uncertainty as to whether this grant will interact with the safety net payment. For this reason the potential grant has not been built into the budget figures at this time until the grant announcement is made and the Government clarify the position on the safety net payments.

- (iii) Details of the Council Tax Support (CTS) Scheme (previously referred to as the Localised Support for Council Tax scheme - LSCT), were approved by Council on 22nd January 2013, and are now being implemented. Briefly, claimants will see little change to the system and will continue to be supported at their current level. The main change for the Council is that whereby in the past the full cost of the benefits granted to claimants were met by the Government, under the new localised discount scheme the Council meets the cost which is c. 90% funded by a

Government Grant. The grant allocated to CBC totals £634k of which an amount of £66k will be allocated to the Parish Councils to compensate them for the impact on their tax base for the claimants in their area. The Council is also entitled to claim a transitional grant of £17,076 for 2013/14 for meeting certain criteria in setting its CTS scheme.

The grant allocated to the Council is now fixed and in future years this grant will not be identifiable within the Baseline Needs amount. Because the grant is now fixed, the full risk of any increase in claimants or collection issues will be met by the Council and the other precepting authorities including the County, Police and Parishes in proportion to their Council Tax precepts.

An additional grant has also been allocated to CBC for 2013/14 and 2014/15 of £52,750 and £73,280 respectively, for Council Tax Support New Burdens Funding in recognition of the additional costs falling on Councils from the new localised scheme. An award was also made in 2012/13 of £84,000 and this was utilised to bring in additional resources to ensure the new scheme was implemented smoothly and also to fund the changes required to the software systems. It is intended that the grants for 2013/14 and 2014/15 will be utilised to ensure the new scheme is monitored carefully for financial and claimant impact and also to undertake the review of the scheme and recommend any changes for 2014/15.

- (iv) New Homes Bonus – This grant is a key part of the Governments housing growth strategy and is based on the Council Tax of additional homes and empty homes brought back in to use, together with a premium for affordable homes. It is currently paid for 6 years; although there is no indication what changes might come out of the next spending review. It is anticipated that the changes that the Council approved on 22nd January 2013 to reduce discounts on empty homes will see the number of empty homes in the area decrease and thereby increase the element of New Homes Bonus the Council will receive for future years. It should be noted however that we are still awaiting Government ‘guidance’ on when we can apply the Empty Homes Premium and we will need to receive this shortly to ensure we have time to do the assessments and send the correct Council Tax demands out.

The final allocation of New Homes Bonus for 2013/14 was received on 1st February and Copeland will receive £217,381; this includes instalments from years 1, 2, and 3 of £14,968, £18,478 and £183,936 respectively. In addition to this an amount of £500m was retained by Central Government from overall local authority funding to cover the remainder of the New Homes Bonus allocations. As the amount required was not as much as originally thought the unused portion will be returned to local government pro-rata to their start-up funding assessment. The amount for Copeland is £18,673 for 2013/14.

(v) PFI Credit Grant – There have been no changes to the level of grant for 2013/14 and the assumption for the period of the MTFS projections is that this grant will continue at a level of £836,828 p.a.

(vi) In addition to the main settlement figures, and the grants identified above, details of specific grants for 2013/14 only have been received and these grants are as follows:

- | | |
|--------------------------------------|-------------------------------------|
| • Community Right to Bid Grant | £7,855 |
| • Community Right to Challenge Grant | £8,547 |
| • Efficiency Support in Rural Areas | £5,208 |
| Total | £21,610 |
| • Welfare Reform Grant | £10,925 (matched by additional exp) |

2.5 The impact of the settlement figures on our budget for 2013/14 and projections to 2016/17 are set out in Section 4. It should be noted that no information is yet available on the settlement figures from 2015/16 onwards but the Government has announced a spending review for 2015/16 which it intends to conclude by the end of March 2013. Whilst Ministers have stressed the review will only cover 2015/16 there are indications that the implications of the review will be felt into the future. The implications from this review will be fed into the update of the Medium Term Financial Strategy for the next four year period and which will be presented to Council during the first half of 2013.

3. MEDIUM TERM FINANCIAL STRATEGY - PROJECTIONS TO 2015/16

3.1 The proposals for the Budget for 2013/14 have been prepared in accordance with the Council's existing Medium Term Financial Strategy (MTFS) agreed by Council in February 2012 with the financial projections updated in a report to the Executive in October 2012.

3.2 The Council has been aware of the need to significantly reduce its costs since the 2010/11 budget report was approved by Council on 2 March 2010. The 2010 Comprehensive Spending Review announced later that year proved to be the toughest on record with the grant settlement for Local Government as a whole being particularly severe and resulting in savings being required from the Council's on-going base budgets estimated at c. £4.5m over a four year period. This equated to a reduction of over 30% of the Council's base budget and presents a significant challenge to the Authority in maintaining services in the light of the unprecedented cuts in funding.

3.3 The recent announcement from the Government in the December 2012 Autumn Statement, and the settlement figure for 2013/14 and 2014/15 shows that the level of cuts are set to continue for the period of the next MTFS and beyond.

3.4 A considerable amount of work has been carried out each year on a continuing basis to enable the Council to continue to set a balanced budget as required by legislation whilst meeting its statutory duties.

3.5 The MTFs projections were based on broad assumptions and Members confirmed or amended these assumptions at their meeting on 9th January 2013 for the purpose of setting the budget for 2013/14 as follows:

(i) Inflation:

- 1% increase proposal for 2013/14 – in each of the previous 2 years this was included at zero. The cost of the 1% provision is estimated as £65,000. Members should note that with RPI at 2.6% at September 2012 (and at 5.6% at September 2011), and with CPI at 2.7% in December 2012 that current supplies and services budgets will continue to sustain a real terms cut.
- 1% increase on general inflation for 2014/15
- 2% increase on general inflation for 2015/16 onwards
(NB. Each 1% addition on general inflation equates to c. £65,000)
- 5% average on Contracts (as set out in individual contracts)

(ii) Salaries:

- 1% proposal for 2013/14. To meet the expected national pay award.
- 1% for 2014/15 to 2016/17. To meet the expected national pay award
(N.B. Each 1% addition on salaries equates to c. £80,000)

(iii) Pensions Contributions:

- Current contribution rate 20.1%
- The next revaluation is effective from 2014/15. **No increase** has currently been assumed pending the Government's pension proposals being finalised. Members approved an increase in the Risk Based Reserve to £160k for pensions following the Review of Reserves report received from Head of Corporate Resources in December 2012.

(iv) Treasury Management:

- 1.25% assumed for 2013/14 financial year and for period of current MTFs. Currently investment returns are falling due in part to the amount of Government funding given to the banks for loans, who no longer therefore need Local Authority cash deposits. It is unlikely that this rate will be achieved unless there is a significant turnaround in the UK economy, and so provision for a further drop has been provided at £25,000 and an increased provision is also included in Reserves.

(v) Council Tax Projections:

- Recommended at 1.9% for 2013/14
- Assumed at 1.9% for 2014/15 onwards for forward planning purposes only.

- Originally the MTFS projections contained projected increases of 2.5% over the period of the MTFS but this has been amended as the 'capping' limit for excessive Council Tax rises has recently been set by the Government at 2%. Anything above 2% will trigger a referendum. Members should note that whilst CBC are not proposing an increase that would trigger a referendum, it would be responsible for making arrangement for holding a referendum if any of the Precepting Authorities (i.e. the County or Police authorities) exceeded their limits. The cost of the referendum would fall to the authority triggering the referendum. This currently does not include the Parish Councils who are not subject to council tax referendums in 2013/14, but this decision will be reviewed by the Government for 2014/15.
- The reduction in Council Tax levels from 2.5% to 1.9% results in an additional pressure of c. £20k in 2013/14 for CBC. This reduction is on-going and has a cumulative impact for future years.
- The Government have offered a Council Tax Freeze Grant for 2013/14 funded at the level of a 1% for a two year period. As in previous years this offer does not equate to an on-going offer of funding and after the two year period the funding will potentially drop out, leaving the Council to find the balance from other sources. Should Council opt to accept the Council Tax Freeze Grant at 1% this would result in a further pressure of approximately £40k in 2013/14.
For information each 1% increase in Council Tax equates to c. £40,000.
- The impact of a 1.9% increase on Band D and Band B (highest number of properties in borough) are detailed below:

Band D – currently £180.27 p.a.	£183.70
Annual Increase in Council Tax	£3.43
Cost per week	£0.07
Cost per instalment	£0.34
Band B – currently £140.21 p.a.	£142.87
Annual Increase in Council Tax	£2.66
Cost per week	£0.05
Cost per instalment	£0.27

- The calculation of the Collection Fund Surplus and also the setting of the Council Tax Base for 2013 are set out in **Appendices B and C**. Both of these decisions are delegated to the Section 151 officer to determine and Members are asked to confirm this decision under the new financial arrangements and recommend this to Council. The impact of the Collection Fund surplus is that there is a surplus available of £44k additional income for 2013/13. The impact of the Tax Base calculation is that the estimated Council Tax income taking account of a 1.9% increase in the tax is £3.590m. Both of these figures have been fed into the projections.

(vi) Income:

- Increases in Fees and Charges are being proposed on a service-by-service basis and were included in the information that went out for public consultation. The proposals are set out in **Appendix D**.

(vii) Members' expenses:

- These have currently been cash limited and there has been no inflation provision included within the budget for a fourth year.

(viii) Government Settlement:

- The final settlement for 2013/14 has now been received together with the provisional settlement for 2014/15 and these figures as set out in Section 2 of this report have been built into the budget proposals in this report. The Government has announced a spending review for the 2015/16 settlement and this is anticipated to conclude shortly. Pending any further details, a reduction in the Revenue Support Grant as **currently** indicated by the Government's Control Totals, released as part of the 2010 Autumn Statement, with a projected increase in New Homes Bonus in line with current indications on growth.

3.6 The **original** budget deficit projections set out in the MTFS approved in February 2012 were as set out below in the Table below along with the currently anticipated deficit, **before the consideration of savings proposals**, as set out in the report and taking into account information known to date and the assumptions set out above:

Table 2 – Revised Budget Deficit Projections 2012/13-2016/17

Year	Projection as per MTFS February 2012 £000	Current Projections February 2013 £000
2012/13	1,817	
2013/14	1,045	1,730
2014/15	608	827
2015/16	410	510
2016/17		441
Total Projected Deficit	3,880	3,508

4. DETAILED BUDGET PROPOSALS 2013/14

4.1 Table 3 below details the original 2013/14 budget as projected in February 2012 in the MTFS and the latest revision incorporating the government grant settlement figures:

Table 3 – Detailed Budget Projections 2013/14

	2013/14 original Projections per MTFS	2013/14 Current budget projections	Note at Para
	£	£	
Base budget	10,614,861	10,614,860	
Add on 'gap' from 12/13		48,500	4.2(i)
<u>Budget Reductions</u>			
Savings not on-going into later years	42,000	297,000	4.2(ii)
<u>Budget Increases</u>			
Salary Movements	177,000	185,900	4.2(iii)
Identified Spending Pressures	11,500	674,500	4.2(iv)
Increases for inflation	206,372	118,500	4.2(v)
Impact of Settlement:			
Homelessness grant removed from baseline as included in settlement figure below		36,050	
Original New Homes bonus projection removed from baseline as included in settlement figure below		15,000	
	11,051,733	11,990,310	
Funding from Reserves			
Earmarked Reserves	84,000	132,000	
Total Spending	11,135,733	12,122,310	
Rounded Total Spending (£'000)	11,135	12,122	
	£'000	£'000	
FUNDING			
RSG/NNDR (2012/13 system)	4,955		2.4(i)
New System - RSG		3,312	2.4(i)
New System - Baseline Need		2,203	2.4(ii)
New Homes Bonus		236	2.4(iv)
Other Specific Grants		21	2.4 (vi)
PFI Grant	837	837	2.4(v)
Council Tax	4,114	3,590	3.5(v)
Additional grant 1 year only c tax scheme adoption		17	2.4(iii)
Council Tax "Freeze" Grant (in settlement fig 13/14)	100		
Council Tax Collection Fund Surplus		44	3.5(v)
Earmarked Reserves	84	132	
Total Funding	10,090	10,392	
Shortfall	1,045	1,730	4.2(viii)

4.2 The main reasons for the movement between the original February 2012 projections and the current projections as at January 2013 were set out in detail in the report to the Executive on January 9th, being: -

(i) Increase in Gap

£000	
330	Saving review saving to be made
100	Vacancy management saving to be made
8.5	Management Review (residual)
438.5	
	Less:
-80	1% pay award allocated but not required
-86	Waste and open Spaces Restructure FYE
-120	Round Restructure FYE
-64	Housing Restructure FYE
-40	Net Director Saving
48.5	'Increased Gap'

(ii) Savings options proposed in 2012/13 which are not on-going into later years

£000	
42	In original MTFs
75	Permanent Saving on PFI contract (whilst one off windfall saving was made on insurance this is applicable to 2013/14 only)
25	Saving on vehicles contract not made – the increase in inflation
25	Saving on contracts (general) not made
50	Saving on NCL estimated not made (saved £50k of £100K target)
40	Loss of contract income from CCC (grass cutting)
15	Additional income car parks not realised
25	Treasury Management reduced investment income
297	Savings not on-going

(iii) Salary Movements

Further work has been carried out on the salaries and the figure has increased slightly over that originally projected. The figures incorporate a 1% pay award provision and take account of increments. The figures do not at this stage take any account of any additional superannuation payments that the Council may need to meet if more people 'opt in' to the superannuation scheme following the recent changes to the rules on pensions (i.e. employees will be automatically

opted into the scheme and then will need to opt back out). Currently there are a large number of employees not in the Superannuation Scheme, and the cost to the Council if they were all to 'opt in' would be in the region of £230,000. Currently this risk is held in reserves.

(iv) Identified Spending Pressures

This increase is primarily due to pressures that have been reported during the year through budget monitoring or where government and legislative changes have resulted in cost pressures:

£000	
11.5	In original MTFS
340	Loss of recycling credits from Cumbria County Council
40	Estimate of net deficit on implementation of Council Tax Support Scheme and Empty / Second Homes discounts.
50	Contribution to Reserve and payment of 50% of Mercury Abatement to Government
60	Requirement in base budget for IT services due in part to Microsoft charges increasing by 36%.
10	Adoption of living wage (CBC staff only)
52	Loss of Housing Benefit Admin subsidy
30	Additional cost for 'sweepings' disposal
35	Increase in property maintenance
10	Contribution to District Council Elections Reserve
7	Contribution to PFI Reserve
29	Contractual increase on RB Shared Service
674.5	Total identified spending pressures

(v) Increases for inflation

The budget proposals include the increases for inflation in accordance with the principles set out in paragraph 3.5 (i).

(vi) Council Tax

The budget proposals include an increase of 1.9% for 2013/14 as set out in paragraph 3.5 (v).

(vii) Government Settlement

The Government settlement for 2013/14 has now been received as set out in detail in Section 2 of the report.

(viii) Budget shortfall

The identified budget gap is proposed to be met as set out below:

Funding of Budget Shortfall 2013/14

	£000's
Shortfall	1,730
Funded by:	
Savings proposals (Appendix D)	-1,760
Unallocated General Fund Balance	0
Surplus 2013/14	-30

A full consultation exercise on the Service Review options was undertaken during 2012 and a report on the outcome considered by Members. These savings proposals as summarised in Appendix D, total £1.760m in 2013/14 will be used to reduce the £1.730m gap to a small surplus of £30k which will contribute to the savings required for 2014/15.

- 4.3 Impact of settlement and other changes on 4 year MTFs projections now stand as set out in the following Table:

Table 4 – Detailed Budget Proposal 2013/14 and Revised Projections 2013/14-2016/17

	2013/14 Budget Proposal	2014/15 revised	2015/16 revised	2016/17
	£	£	£	£
Base budget	10,614,860	10,230,310	10,002,310	10,387,310
Add on 'gap' from 12/13	48,500			
<u>Budget Reductions</u>				
Savings not on-going into later years	297,000	1,000		
Savings proposals (Appendix D)	-1,760,000	-549,000		
<u>Budget Increases</u>				
Salary and Contribution costs	185,900	200,000	200,000	200,000
Identified Spending Pressures	674,500	0		0
Increases for inflation	118,500	120,000	185,000	185,000
Settlement update				
Homelessness grant removed from baseline as included in settlement figure below	36,050			
Original New Homes bonus projection removed from baseline as included in settlement figure below	15,000			
	10,230,310	10,002,310	10,387,310	10,772,310
Funding from Reserves				
Earmarked Reserves	132,000	104,000	54,000	34,000
Total Spending	10,362,310	10,106,310	10,441,310	10,806,310
Rounded Total Spending (£'000)	10,362	10,106	10,441	10,806
FUNDING NOW SPLIT	£'000	£'000	£'000	£'000
RSG	3,312	2,531	2,115	2,404
Baseline need	2,203	2,271	2,332	1,732
New homes bonus	236	425	585	770
PFI Grant	837	837	837	837
Council Tax	3,590	3,660	3,730	3,800
Collection Fund Surplus	44			
Additional grant 1 year only CTS scheme	17			
Specific Grants	21			
Earmarked Reserves	132	104	54	34
General Reserves	(30)			
	10,362	9,828	9,653	9,577
Remaining Shortfall to Identify	0	278	788	1,229

5. FUNDING FROM RESERVES

- 5.1 Revenue Reserves play a key role in the management of the Council’s budget. They are used as a contingency against risk, to fund new policy initiatives and to support the Council’s Revenue and Capital budget when needed.
- 5.2 The general principles on the use of Reserves are set out in detail in the Medium Term Financial Strategy 2012 to 2015/16 as approved by Council in February 2012 and which will be updated shortly in preparation for the 2014/15 budget cycle. The overarching principle is that reserves will only be used to finance non-recurring spending or to cover transitional costs. If in exceptional circumstances the use of reserves is proposed to support recurring expenditure, it will be dependent on a strategy being in place to replace the use of reserves with mainstream base funding.
- 5.3 Reserves fall into two main categories:

- (i) **General Reserves** – The risk based element of this reserve is based on an annual risk assessment of the financial position of the Council. That assessment has taken place and the recommendations of the Head of Corporate Resources on the minimum level of risk based reserve has been set at £2.18m. This reflects the increased risk that the Council faces under the new system of Local Government finance set out in Section 2 of the report, together with other financial uncertainties such as pensions and superannuation charges as highlighted in the report.

Currently there is an element of Unallocated Reserve totalling £170k.

General Reserves are set out in Appendix F. The projected balances are set out in the Table below. Members should note that these projections do not take account of any potential requirement to take from Reserves from 2014/15 in respect of some of the financial risks set out in the report. They have also not been adjusted to take account of the request for an additional Earmarked Reserve set out in section (ii) below.

	Balance 31/3/13 £000	Balance 31/3/14 £000	Balance 31/3/15 £000	Balance 31/3/16 £000
General Reserves				
Risk Based Balance	2,180	2,180	2,180	2,180
Unallocated Balance	345	375	375	375
Total	2,525	2,555	2,555	2,555

- (ii) **Earmarked Reserves** – these are reserves set aside for specific purposes. A full review of these reserves has been carried out during 2012 and Members have approved the changes which are reflected in **Appendix G**. The projected Balances are set out in the Table below. Members should note that these will be amended to

take into account the request for a further Earmarked Reserve set out below, if approved.

	Balance 31/3/13 £000	Balance 31/3/14 £000	Balance 31/3/15 £000	Balance 31/3/16 £000
Earmarked Reserves				
Total Reserves	4,845	4,790	4,686	4,632

A further request for an Earmarked Reserve of £50,000 to be set up for Land Management issues is now made. The Reserve would provide funds on a contingency basis for the Council's liabilities on its own land where subsidence occurs. This was previously held in the capital programme; however the types of expenditure are for fencing, monitoring of movement and barrier shrub planting and are not eligible for capital financing and there is currently no provision in the Revenue budget.

If this Earmarked Reserve is approved, the General Fund Unallocated Balance will reduce correspondingly from £375k to £325k.

6 STATUTORY BUDGET CONSULTATION 2013/14

6.1 The statutory budget consultation ran from 10th January 2013 to 7th February 2013. There have been no issues raised during that consultation that have changed any of the proposals.

7. RISKS

7.1 There are always risks associated with setting a budget as many budget assumptions can change if forecasts used in the process prove to be inaccurate. This year the budget process has proved particularly challenging not only because of the scale of the cuts but also that key information from the Government was delayed.

7.2 The settlement from Government of £5.515m is made up of £3,312m (Revenue Support Grant) and £2.203m (Baseline Needs Grant). The Revenue Support Grant is a guaranteed cash receipt, but the receipt of Baseline Needs funding is dependent upon the collection of NNDR £15.891m (of which we retain £2.203m). Should we fail to collect at this level the level of cash receipt will differ from that included in the MTFS projections, subject to a national Safety Net. The potential maximum loss to the Council is limited to £165,000. In addition the risk to the other changes the Government has enacted; principally the Council Tax Support Scheme and the new technical changes to Empty Properties and Second Homes, sits with the Council.

- 7.3 The settlement figures for 2014/15 onwards have been included as per the CLG website at £4,802k with future years assuming reductions in line with the announcements made in the Chancellors 2010 Autumn Statement pending further details which are hoped to be received in the first half of 2013. There is a risk that this is worse than currently projected.
- 7.4 Electricity North West has indicated to other district councils within Cumbria including Eden that current footpath lights are unusable and will need to be replaced. This council has in excess of 1200 such lighting structures and so any replacement / charges from NW Electricity for disconnection could be considerable. Further information is being sought but figures per light vary from £600 - £1000.
- 7.5 There is a risk relating to the financing of Discretionary Housing Payments (DHPs) which provide customers with further financial assistance when a local authority considers that help with housing costs is needed. The expectation is that requests for DHP's will increase next year due to the Welfare Reform changes. The Government has provided additional funding of up to £155m for 2013/14 and up to £125m for 2014/15 and the CBC share in 2013/14 would be in the region of £95k. The CBC Overall Limit for DHP's is set is £235k and so potentially there could be in the region of an additional £140k required in 2013/14. Further work is being undertaken to determine the Council's policy and position on offering support where appropriate and the position will be monitored carefully during the year.
- 7.6 As set out in a separate report, the Council holds a risk-based reserve of £2.18m, with an Unallocated General Fund balance of £345k.

8 REPORT OF THE HEAD OF CORPORATE RESOURCES

- 8.1 In setting the budget requirement in February 2013, the Council is required under Section 25 of the Local Government Act 2003 to consider the formal advice of the statutory s151 Responsible Officer, the Head of Corporate Resources, on the robustness of the estimates included in the budget and adequacy of reserves. In a report to Executive on 18 December 2012, the Head of Corporate Resources recommended a level of £2,180,000 be set as the minimum level deemed acceptable for Council purposes.
- 8.2 If the balance on the General Fund is projected to fall below the recommended risk-based level, then priority will be placed on restoring the balance in subsequent budget and out-turn recommendations. Temporary dips below the target may be acceptable provided that the minimum amount is not likely to be breached and there is a robust plan to restore balances to the target level.

9 CONCLUSIONS

9.1 The position of the budget and the MTFS projections as set out in this report outline the budget proposals for consideration for 2013/14 and once approved will form the basis of the recommendation to Council on 21st February. It also provides a forecast for a further 3 years to 2016/17.

10. STATUTORY OFFICER COMMENTS

10.1 The Monitoring Officers comments are: No additional comments.

10.2 The Section 151 Officers comments are: included in the report

10.3 EIA Comments: There are no EIA impacts at this stage

10.4 Policy Framework: The budget proposed is set within the budget and policy framework approved by the Council. The budget is led by the Policy Framework.

10.5 Other consultee comments: the consultation process is set out in the report.

11. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

11.1 The budget process is a high risk process which is project managed and monitored by the Corporate Leadership Team (CLT). The risks are contained in the Strategic Risk Register and are monitored as part of that process.

12. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

12.1 The key measurable outcome is a balanced budget proposal for the Council for 2013/14, which will determine the manpower, financial and other resources it will have available to provide services for the year.

List of Appendices

Appendix A – Business Rates Scheme and Calculation of NNDR1 2013/14

Appendix B – Collection Fund Surplus Calculation 2013/14

Appendix C – Council Tax Base Calculation 2013/14

Appendix D – Fees and Charges schedules

Appendix E – Savings Proposals

Appendix F – Unallocated and Risk Based Reserves

Appendix G – Earmarked Reserves

List of Background Documents:

Government Settlement announcement December 2012 and February 2013

Public consultation document on savings proposals.

Other reports that have been considered during the budget cycle.

BUSINESS RATES RETENTION (BRR) SCHEME

1. BACKGROUND:

- 1.1 The Local Government Finance Act 2012 (LGFA) introduces significant changes to the funding arrangements for Local Government, including the retention of a proportion of the Business Rates collected locally from April 2013.
- 1.2 Previously Business Rates were collected by local authorities and paid over to Central Government. The Government then used this income to fund the grant payments to local authorities, with no direct link between the business rates collected and the funding received for an area. The risk of appeals and reductions in collection rates were borne by the Government, and similarly the rewards for increases in yield.
- 1.3 The reforms introduced will see Local Government sharing in the risks and rewards of changes to the Business Rates collected.
- 1.4 The Government provide local authorities with a Non Domestic Rates Baseline (NDRB) which is a forecast of what they expect the authority to collect. Any growth above this baseline will be shared between the Government and the authority. Copeland's NDRB was announced as part of the settlement at £15.891m.
- 1.5 Based on the NDRB and a funding assessment undertaken by the Government, a Baseline Need is also determined. The Baseline Need is the amount of funding that will actually be retained, with the difference between that and the NDRB being paid to the Government as a Tariff. Copeland's Baseline Need has been assessed at £2.203m and therefore the tariff is £13.688m.
- 1.6 The retained element of Business Rates i.e. the Baseline Need of £2.203m will be subject to a safety net for any reductions in Business Rates collected and authorities will be protected at 92.5% of their Baseline Need. For Copeland the safety net is therefore £2.038m capping the potential risk at £165k.
- 1.7 Any income generated over the Baseline Need will be shared between the Government and the local authorities by way of a levy. For Copeland this levy is 50% of any additional income generated.
- 1.8 Levies will not be payable until after the end of 2013-14 on the basis of the out-turn figures. It is anticipated that safety net payments will be made on the basis of the NNDR1 Return made at the end of January.

- 1.9 Both the NDR Baseline and the Baseline Need will be increased in line with inflation each year. It is the Government's intention that they will not 'reset' the scheme until 2020

2. CALCULATION OF BUSINESS RATES TAXBASE:

2.1. The Business Rates Retention regulations require that the NNDR1 (National Non Domestic Rates Return) is completed by authorities by 31st January 2013. This form estimates the Business Rates income split between the amounts to be retained by Copeland Borough Council (40%), Central Government (50%) and Cumbria County Council (10%).

2.2. The basic methodology for calculating the tax base is as follows:

- The rateable value of properties are obtained from the Valuation Office valuation List and multiplied by the business rate multiplier announced by the Government (0.462p)
- Adjustments are made for mandatory and discretionary discounts
- Adjustments are made for bad debt provisions, based on historical and current collection rates
- Adjustments are made for estimated growth
- Adjustment is made for the estimated impact of appeals of rateable values

2.3 For Copeland Borough Council the estimated tax collectable for 2013/14 based on the above methodology is shown below:

NNDR 1 Return 2013/14:	£
Gross Yield calculated	44,666,468.15
Mandatory Relief	-2,086,766.80
Discretionary Relief	-108.80
Cost of Collection allowance	-113,007.77
Estimate for losses in collection	-220,000.00
Estimate for Growth	0
Estimate for appeals	-8,443,631.34
Rate Retention Adjustments	-38,124.44
Net Yield before transitional arrangements *	*33,764,829.00
Transitional arrangements adjustment	-86,014.76
Net Yield after transitional arrangements	33,678,814.00
* Split:	
Central Government (50%)	16,882,415.00
Copeland Borough Council (40%)	13,505,932.00
Cumbria County Council (10%)	3,376,483.00

2.4 Members will note that the estimated NDR Baseline above is forecast to be considerably below the Government's forecast of £15.891m. This is due to the impact of appeals

which the Government have recently issued further guidance on. Copeland has a number of large appeals pending with the Valuation Office; however when they will be dealt with is not known and this has had to be estimated. It should be noted however that if the forecasts set out above hold good and Copeland's income does fall below that forecast by the Government, then Copeland will hit the safety net. As detailed above the loss to be suffered will be capped at £165k. Currently provision for this eventuality is held in Reserves given the unknown of when appeals will be dealt with by the valuation office and their likelihood of success. If indeed Copeland does prove to be at the Safety Net then the impact of this may need to be budgeted for in the base in future years. The Government has also issued information that they will allow the cost of appeals to be spread over 5 years – under the current projections for CBC there would be no benefit in doing this i.e. on the assumption we will be at the Safety Net it will be better to take the impact of the full cost in one year. The actual accounting treatment will be determined at the year-end once we have the final out-turn figures for NNDR to determine the best approach to maximise Copeland's financial position.

3. NOTIFICATION OF TAXBASE

- 3.1. Copeland Borough Council must notify the Government of the Net Yield anticipated for 2013/14 by 31st January 2013, by return of the NNDR1 return, certified by the Section 151 Officer and this has been done.
- 3.2. For the avoidance of doubt, the completion of the NNDR1 return has in the past been delegated to the Section 151 officer and Members are asked to recommend to Council that this practice continues under the new system.
- 3.3. Following the receipt of the NNDR1 return the Government will prepare a schedule of payments detailing the central share, tariff and top up payments and Safety Net payments on account. Given that Copeland's return indicates that the Safety Net will be hit, then an 'on account payment in advance' may be received, but there is no confirmation of this as yet.

4 ACCOUNTING ISSUES

The NNDR income and expenditure is accounted for in the Collection Fund and currently this is a very straightforward exercise given the current simple system. Under the new arrangements the accounting will become much more complex and surpluses and deficits on the NNDR portion of the Collection Fund will occur similar to that of the current Council Tax system. More information is awaited from CIPFA on exactly how the new system will be accounted for. Information on the current Council Tax system is set out in **Appendix B** for information.

SETTING OF COLLECTION FUND SURPLUS / DEFICIT

1. COLLECTION FUND SURPLUS

1.1 How does a surplus or deficit occur?

The income from Council Tax less the precept payments to the County Council, Police Authority, Copeland Borough Council and Parishes are summarised in the Collection Fund. If the actual number of properties or the allowances for exemptions, discounts or appeals / collection rates vary from those used in the Council Tax Base (see Section 2 below) then a surplus or deficit will arise. In 2011/12 and 2012/13 a surplus has arisen and this is shared between the Major Preceptors, being Cumbria County Council, the Police Authority and Copeland Borough Council in proportion to the precepts for the respective year.

1.2 Calculation and Declaration of Surplus

In 2012/13 the Collection Fund is estimated to achieve a projected surplus of £345,700 which is calculated as follows:

Council Tax Surplus – Estimate at 15/1/13	£
Expenditure	35,187,271
Income	(35,233,154)
Net Surplus	(45,883)
Surplus B/F from 2011/12	(299,817)
Total Estimated Surplus	(345,700)

The relevant share of the total of £345,700 per Major Preceptors is:

Cumbria County Council	£256,836
Police Authority	£44,400
Copeland Borough Council	£44,464

This represents the amount that each preceptor will take into account when calculating the Council Tax for 2013/14.

The declaration of the Surplus is currently delegated to the s151 officer and members are asked to request Council to re-affirm this delegation.

SETTING OF COUNCIL TAX BASE 2013/14

1. On an annual basis all local authorities are required to calculate a Council Tax Base which is used to set the level of Council Tax. The process is governed by the Local Authorities (Calculation of Tax Base) Regulations 1992.
2. The Tax Base is set having regard to:
 - The Valuation List
 - Current exemption, reductions and discounts
 - Discretionary discounts
 - Expected collection rates
3. The basic methodology for calculating the Tax Base is:
 - Calculations are made of the relevant amount for the year in respect of the valuation bands shown in the Council's valuation list. For each band this represents the estimated full year equivalent number of chargeable dwellings listed in the band after taking into account the impact of disabled band reductions and discounts.
 - The relevant amounts for each band are then aggregated and expressed as an equivalent number of Band D dwellings.
 - The Council then multiplies this aggregate of relevant amounts by its estimate of its collection rate for the year (98%). The resulting figure is the Council Tax Base for the year.
 - The rules for calculating the tax base for parish councils are the same, and the same estimated collection rate must be used.
4. During 2012 the Government consulted on technical reforms to Council Tax and announced changes that local authorities could consider in relation to Second Homes and certain Empty Property categories. Copeland Borough Council considered and approved their proposals in relation to these reforms at their meeting on 22nd January 2013. The policy objective of the proposals was to bring empty properties back into use for housing purposes. These local discounts and exemptions are taken into account in setting the tax base calculation.
5. During 2012 the Government also implemented proposals for local Council Tax Support Schemes. Under the Government Regulations for the scheme, the previous 'benefit' granted to claimants has now become a 'discount' on the Council Tax. This in turn serves

to reduce the Council Tax Base. Copeland Borough Council considered and approved their local Council Tax Support Scheme at their meeting on 22nd January 2013.

6. One of the principles in approving the schemes under sections 2 and 3 above is that the reduced tax base resulting under the CTS scheme will be compensated for in part by reductions in discounts for empty and second homes. It is estimated that there will be a net cost of the two schemes taken together of in the region of £40,000 in 2013/14, but this is dependent on a number of factors including collection rates, number of claimants, number of empty properties etc and so will be monitored carefully throughout the year (see impact on Council Tax Para 8 below).
7. The estimate of the collection rate is at the Council's discretion and has been reviewed in the light of the potential negative impact of the new localised schemes set out above. Following the review the decision is that the collection rate be maintained at 98%, as previous years actual collection have been higher than this (98.2% 2011/12) and therefore this is still considered a prudent estimate, but will be monitored carefully.
8. The total Tax Base calculated in accordance with the Regulations for 2013/14 at 98% collection is 19,540.33. This compares to a total of 22,264.80 in 2012/13, a reduction of 12%. The impact of this on the projected Council Tax income is that based on a 1.9% increase in Council Tax (which increases the Band D Council Tax from £180.27 to £183.70) multiplied by the new Tax Base gives a total income of £3.590m. This together with the CTS grant of £634k gives a total of £4.224m against the previous estimate of £4.090m; an increase of £134k overall. It should be stressed that any actual increase or decrease in the Council Tax position will be reflected in the Collection Fund surplus or deficit calculation at the year-end as set out in Appendix B.
9. The notification of the tax base must be made to the major precepting bodies within the period 1st December to 31st January. The notification was made by the S151 Officer under current delegations.

APPENDIX E

Transformation Programme: Savings Realisation	Forecast	
	13/14	14/15
Project	By Mar 2013 £000	By Mar 2014 £000
REDUCE grass cuts & maintenance - Cut pitches and provide goal posts only	14	14
REDUCE grass cuts	68	79
STOP flower displays & maintenance	56	75
STOP shrub beds-Remove 75% of shrub beds and reseed areas	0	16
REDUCE seasonal collection of green waste	41	41
STOP cardboard & plastic recycling	59.5	59.5
REDUCE allotments budget	2	2
STOP subscriptions	10	10
STOP Copeland Matters	16	16
REDUCE Civic Hospitality	9	9
STOP funding JNFs	14	14
STOP CCTV	50	50
REDUCE Training budget	20	20
REDUCE Internal Audit budget	10	20
STOP Christmas lights	0	2
REDUCE Audit Commission fees	30	30
STOP contribution to Environmental Health post at CCC Resilience Unit	15	15
STOP contribution to Community Safety Coordinator post	15	15
Other Environmental Enforcement - delete post	27	27
REDUCE waste supervision costs	27	27
Building Control - increased income	10	10
STOP Development Strategy; remove post	22.6	22.6
REDUCE Mayoral budget	27	27
STOP concessionary travel	30	30
STOP health & sports development	113	113
STOP Sustainability	40	40
STOP Arts Development	18	18
INCREASE Crematorium fees	60	60
INCREASE Car parking fees	40	40
INCREASE Private Hire Licensing fees	5	5
INCREASE Cemeteries fees	30	30
INCREASE play area maintenance fees	4	4
<i>Restructure Economic Dev team with Localities team</i>	178	178
CHARGE for additional bins/bin replacements	0	0
CHARGE for collection of green waste	0	0
REDUCE council running costs (Business Basics)	80	164

REDUCE Grants	61.5	82
Reduce NCL costs	287	338
REDUCE Copeland Centre costs	60	150
<i>Change Beacon opening times and then partner – if not close</i>	109	325
<i>CLOSE TIC</i>	60	60
<i>CLOSE Public Toilets seek CAT</i>	11	41
<i>Planning Fees Increase</i>	30	30
Total	1,760	2,309

RESERVES - GENERAL FUND

Appendix F

	2011/12	2012/13				2013/14				2014/15			2015/16		
	Balance Carried forward	Additions in Year	Released from GF in Year	Released to GF in year	Balance Carried forward	Additions in Year	Released from GF in Year	Released to GF in year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward	Additions in Year	Released in Year	Balance Carried forward
	£	£	£		£	£			£	£	£	£	£	£	£
Base Budget Risks															
Sustainability of Base Budget	-111,870	-91,890			-203,760				-203,760			-203,760			-203,760
Medium Term Financial Plan	-123,230	-221,645			-344,875				-344,875			-344,875			-344,875
Grant Settlement	-590,500	-223,550			-814,050				-814,050			-814,050			-814,050
Vacancy Factor	-33,750	33,750			0				0			0			0
Reduced Fees and Charges	-60,586	-1,740			-62,326				-62,326			-62,326			-62,326
Actuarial Review	0	-166,729			-166,729				-166,729			-166,729			-166,729
Reduced Investment Income	-28,310	-29,190			-57,500				-57,500			-57,500			-57,500
Housing Benefits	-90,525	8,025			-82,500				-82,500			-82,500			-82,500
HGV Licence - Operators Fund	-74,200				-74,200				-74,200			-74,200			-74,200
Fuel Price	-28,850				-28,850				-28,850			-28,850			-28,850
Civil Emergencies	-58,449	-3,032			-61,481				-61,481			-61,481			-61,481
Insurance Excesses	-11,859	1,214			-10,645				-10,645			-10,645			-10,645
Assets and Property	-100,705	7,621			-93,084				-93,084			-93,084			-93,084
Bad Debts recovery		-180,000			-180,000				-180,000			-180,000			-180,000
	-1,312,834	-867,166	0		-2,180,000	0	0		-2,180,000	0	0	-2,180,000	0	0	-2,180,000
General Fund Unallocated	-2,199,314	867,166	1,324,706	-337,330	-344,772	0	-30,000		-374,772	0		-374,772	0		-374,772
Total General Fund	-3,512,148	0	1,324,706	-337,330	-2,524,772	0	-30,000	0	-2,554,772	0	0	-2,554,772	0	0	-2,554,772

Transferred to Earmarked Reserves:

Elections	10,000
NCL	122,000
HR Tribunals	30,000
PFI Reserve	7,000
Housing	10,000
car parking	5,150
crem sinking	9,340
Howbank	20,000
Compens con	20,000
IT reserve	200,000
MMI	440,000
weddica pla	210,000
(Jan) Building	19,811
	1,103,301
Gen Support	221,405
	1,324,706

