

MEDIUM TERM FINANCIAL STRATEGY – UPDATE ON KEY ISSUES

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WHY HAS THIS REPORT COME TO RESOURCE PLANNING WORKING GROUP?

To inform Members of key issues relating to the Medium Term Financial Strategy (MTFS) and any issues impacting on future budget planning projections. These will be considered further as part of the ongoing budget process for 2013/14.

SUMMARY:

The report gives an update on key issues impacting on the MTFS and the 2013/14 budget process and outlines progress on future planning assumptions.

RECOMMENDATIONS:

Members are requested to comment on the issues raised in this report and note that the timetable for the 2013/14 budget process and the detailed programme of work for the RPWG for 2012/13 will be brought to the next meeting.

1. INTRODUCTION

1.1 This report identifies the key current issues for members in considering its future budget and financial strategy including:

- Proposed timetable for consideration of the 2013/14 budget. (Para 2)
- Proposed work plan for the RPWG for 2012/13 (Para 3)
- Medium Term Financial Strategy – update on issues affecting the planning assumptions (Para 4)
- Update on Governments' Local Government Finance Bill (Para 5)
- Consultation proposals (Para 6)

2. BUDGET PROCESS AND PROPOSED TIMETABLE 2013/14

- 2.1 The budget for 2012/13 was approved by Council on 23rd February 2012. Following this a review of the budget process has been undertaken to identify any future improvements.
- 2.2 A number of improvements to internal processes have already been introduced which will allow for more efficient working and improved accuracy in future years. As an example there was a full review of the salary information held both in terms of accuracy and format, and the budget model on the finance system has been developed so it can be utilised in future years to reduce reliance on various spreadsheets.
- 2.3 The review for the 2013/14 budget process will concentrate on the following key areas:
- Internal data management, version control, accuracy and quality control – these issues are principally a matter for the Finance Team and work will continue to progress to improve these areas.
 - MTFS forward year projections – further development of the budget model to improve the accuracy of the medium term projections (as far as we are able in the light of the new finance system about to be introduced by the Government).
 - Review of Reserves – this had commenced and a separate report will be considered by RPWG.
 - Timetabling issues such as final Budget and Council Tax setting.
- 2.3 Members of RPWG may wish to make further suggestions for improvements or changes to the budget process.
- 2.4 Following consideration of these issues and the setting of the Committee dates for 2012/13, a proposed budget timetable for the 2013/14 budget process will be developed for approval by RPWG.

3 RESOURCE PLANNING WORKING GROUP – WORK PLAN 2013/14

- 3.1 An outline draft work plan for 2013/14 will need to be developed. It is anticipated that the work plan will consider the following items as standard at each of its meetings:
- Medium Term Financial Strategy (MTFS) – Update on key issues including Business Rates and C Tax Benefit
 - Savings proposals to meet the deficit projection for 2013/14 onwards

- Progress against agreed Budget Timetable and Work Programme
- Service Review Savings 2012/13 - progress

3.2 In addition specific items will be considered:

- Reserves Review (to be concluded by July)
- Income Review (to be concluded by August)
- Draft Consultation proposals (to be concluded by June)

3.3 Members are asked to comment on and agree this as appropriate. The final work plan will then be drawn up (once the committee dates for 2013/14 have been set) for member approval.

4 MEDIUM TERM FINANCIAL STRATEGY 2012/13 to 2015/16

4.1 As previously stated, the budget for 2012/13 was approved by Council on 23rd February 2012. That budget will now be enacted and thereafter monitored carefully throughout the year via the normal budget monitoring process, particularly in relation to the achievement of the £1.817m savings, achievement of which will be monitored carefully throughout the year.

4.2 The MTFs for the four year period to 2015/16 was also approved by Council on 23rd February March 2012. The Table below summarises the current shortfall projections:

Financial Year	Projected shortfall £000	Note
2012/13	1,817	Target £2,038k. Balance of £221k met from Reserves
2013/14	1,045	
2014/15	608	
2015/16	410	
Total Projected Shortfall	3,880	

4.3 It should be noted that the shortfall projections for 2013/14 onwards have a greater degree of uncertainty than in previous years in terms of some key issues surrounding the future funding of Local Government from Central Government in relation to Council Tax Benefit localisation and Business Rates retention. The latest information available on this is set out in paragraph 5.

There are also some key risks surrounding other areas such as the withdrawal of recycling credits from the County Council.

4.4 The forward year projections will be monitored and revised throughout the year both as part of the ongoing budget monitoring process and also as new information comes to light from Central Government.

4.5 As part of the ongoing monitoring, scenario planning against the forecasts is carried out to assess the current forecasts against a variety of known and possible outcomes. This gives an indication of best / mid / worst case scenarios so that options can be considered as we move further into the 2013/14 budget process.

5. LOCAL GOVERNMENT FINANCE BILL

5.1 As discussed in previous meetings, and highlighted as a risk in the MTFs, one of the most significant items impacting on the financial planning forecasts is in relation to the Governments proposals for re-localisation of Business Rates and Council Tax Benefits which will impact from 2013/14 onwards.

5.2 Both of these issues are contained within the Local Government Finance Bill which was published in January 2012. The key issues contained within the Bill are:

- (i) **Business Rates** – The Bill sets out the general principles on how the localisation of business rates will operate from April 2013.

Under the proposals, Councils will directly retain a portion of their business rate growth. Most of the precise detail of how the scheme will work in practice will be set out in secondary legislation in due course after the Bill receives Royal Assent, and so it is not at this time possible to predict what the new system might mean in actual income to the Council. Some of the key issues are:

- In two tier areas, districts will retain the greatest share, around 80% of business rate growth on the local share in the area. The Government's intention on this is to ensure that the incentive to grow business rates is placed on the right councils. Whilst this benefits Districts in growth areas, in low growth areas, the financial risk will be higher.
- In effect this means that the majority of upper tier authorities become top-up authorities (i.e. a Council has a smaller business rate base than their current spending and so requires to be 'topped up' from Government), and the majority of Districts will be 'tariff' authorities (i.e. a Council has a larger business rate base than their current spending and so an amount will be taken away by Government). Tariffs and Top-ups will be paid each year and will remain fixed for a period (yet to be determined) but will increase in line with the Retail Price Index.

- A Council's spending level in year one (i.e. at the start of 2013/14) is the baseline funding level.
 - There is increasing concern that Councils with weaker business rates potential will not be able to benefit from these proposals, and that inequalities will be exacerbated. In particular information is awaited on the 'safety net' limits which will be operated to protect those Councils' that can only raise relatively low levels of business rates.
- (ii) **Council Tax Benefit** – The Government will cut 10% from the funding of Council Tax Benefit in April 2013 whilst granting limited local discretion for a new local scheme. This in effect means that Councils will either have to cut support to those on benefits who are not classified as the 'most vulnerable' by the Government (such as Pensioners) or alternatively find the saving elsewhere or put Council Tax up to compensate (notwithstanding the new Council Tax referenda rules).

Currently the understanding is that DCLG intend to pay grant in future directly to the major precepting bodies in proportion to precepts on the collections fund. This means that the County Council and the Police Authority will share in the risk of the share of the 10% cut in proportion to their precept. The impact (if any) on Parishes is still under discussion. The billing authority is required to consult with the other tiers over the design of the new scheme but ultimately (as currently set out) have the final say on the scheme.

A 'design tool' has recently been published by the Department for Communities and Local Government and this will be reviewed shortly. Work is also continuing to identify the various benefit 'groups'. There is still significant concern in the sector, now being voiced by suppliers, in being able to design a new scheme by January 2013 in time for implementation by April 2013 without the legislation and detail being in place.

- (iii) The Bill also makes more minor technical changes to elements of the Council Tax system which includes:
- (i) Replacing the empty dwelling exemption with a discount, the level of which can be set at the local level.
 - (ii) Setting an 'empty homes premium' which can be charged on properties which have been empty for more than two years
 - (iii) Making the mortgagee (the lender) responsible for paying the council tax when a property is repossessed, and

- (iv) Enabling local authorities to publish council tax information on their website rather than in paper format.

5.3 Further information will be brought back to Members on the above issues as various points are clarified through the legislative process.

6. CONSULTATION

6.1 The consultation process will need to be determined for the 2013/14 budget process and members are asked for their views on how and when the consultation should take place. Following this, a further report will be brought back to the next meeting of the RPWG

7. CONCLUSIONS

7.1 Members are asked to note the issues raised in the report and respond as appropriate.

8. STATUTORY OFFICER COMMENTS

8.1 The Monitoring Officer's comments are: Not included at this stage

8.2 The Section 151 Officer's comments are: Included in the report

8.3 EIA Comments: Comments will be made once the full impact of the new legislative proposals is known.

8.4 Other consultee comments, if any: None at this stage

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

9.1 The issues surrounding the MTFS will be project and risk managed as part of the overall budget process for 2013/14.

9.2 With regard to the Local Government Finance Bill, particularly regarding Business Rates and Council Tax Benefit, these issues will both have the potential to bring considerable financial volatility and risk to the authority and proposals for managing and controlling those risks will be considered going forward.

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

10.1 This report will be followed up by other reports throughout the budget process

List of Background Documents:

- Local Government Resource Review: Proposals for Business Rate Retention. Detailed Consultation Document July 2011
- Localising Support for council tax in England - Consultation July 2011
- Local Government Resource Review – Eight Technical papers August 2011
- LG Futures full analysis of the eight technical working papers
- Various Council budget papers February 2012