



WARDS AFFECTED: ALL WARDS

1. **PURPOSE OF REPORT**

- 1.1 To review the draft 2014/2015 General Fund budget ahead of submission to Council on 20th February 2014.
- 1.2 The General Fund revenue budget has been prepared taking into account the capital and HRA budgets. The capital and HRA budgets are presented separately but should be read in conjunction with this report.
- 1.3 Members should note that this report has been prepared on the basis of the budget version as at 31st December and may be subject to changes (e.g. following finalisation of the Local Government Finance Settlement and budget adjustments) before final submission to Council.

2. **RECOMMENDATION**

2.1 That the following be noted:

- The General Fund service expenditure shown in Table 1
- The Special Expenses area expenditure shown in Table 2
- The total General Fund service expenditure for the Council shown in Table 3
- The proposed movement of General Fund Reserves and balances show in sections 3.16-20

3. **BACKGROUND TO THE REPORT**

- 3.1 The General Fund revenue budget for 2014/15 has been drawn up in accordance with the principles set out in the approved Budget Strategy and in accordance with the Medium Term Financial Strategy (MTFS). The key objectives of the budget can be summarised as follows:-
- i) To align expenditure on services to the Council's Corporate Plan.
 - ii) To provide for reductions in grant funding for 2014/15 and future years
 - iii) To encourage identification of savings and income generation opportunities across the Council.
 - iv) To maintain acceptable and viable levels of General Fund balances and reserves to make provisions for known future funding and expenditure pressures.
 - v) To maintain an acceptable and viable level of balances in the Special Expenses Area.
 - vi) To keep the overall increase in average Band D Council Tax (including Special Expense Areas) to 0%.

Budget Summary

- 3.2 The original budget for 2013/2014 , revised budget for 2013/2014 (based on November outturn) and the proposed budget for 2014/2015 are set out in Table 1 below.

Table 1 - General Fund Revenue Budget (excluding Special Expenses Area)

	Original Estimate	Revised	Original
	2013/14	Estimate	Estimate
	£	£	£
Central Services	3,150,770	2,506,293	2,950,251
Leisure and Environment	6,649,840	6,585,537	6,578,531
Housing (General Fund)	1,326,246	1,852,051	986,276
Planning	1,438,555	1,859,014	1,825,230
Direct Service Organisations	-10,300	2,899	-115,500
Further Savings in Year	0	-439,263	0
Total service expenditure	12,555,111	12,366,531	12,224,788
<i>Less:</i>			
<i>Special Expenses Area</i>	<i>-614,430</i>	<i>-624,723</i>	<i>-602,050</i>
<i>Capital Accounting Adjustment</i>	<i>-1,996,100</i>	<i>-1,996,100</i>	<i>-1,473,822</i>
<i>Net external interest (received)/paid</i>	<i>134,240</i>	<i>127,240</i>	<i>2,490</i>
<i>IAS19 Adjustment</i>	<i>-141,350</i>	<i>-141,350</i>	<i>-131,880</i>
<i>Revenue Contributions to Capital</i>	<i>0</i>	<i>118,800</i>	<i>0</i>
<i>Carry forwards</i>	<i>0</i>	<i>-139,439</i>	
<i>Transfer to reserves</i>	<i>396,840</i>	<i>2,474,056</i>	<i>280,500</i>
<i>Transfer from reserves</i>	<i>-267,362</i>	<i>-1,300,178</i>	<i>-452,730</i>
<i>Transfer from unapplied grants</i>	<i>0</i>	<i>-620,568</i>	<i>0</i>
<i>Transfer to/(from) pensions reserves</i>	<i>115,510</i>	<i>115,510</i>	<i>25,260</i>
<i>Transfer to/(from) balances</i>	<i>-166,209</i>	<i>-363,529</i>	<i>-227,821</i>
HBBC Budget Requirement	10,016,250	10,016,250	9,644,735

Special Expense Area

- 3.3 This represents the cost of parks, cemeteries and poop scoop schemes in the non-parished area of Hinckley. Whilst the cost will only fall on the residents of this area, the net expenditure is built into the service totals of Table 1 and must be included in the Council's overall budget requirement for Council Tax purposes.
- 3.4 The proposed budgets for the Special Expenses area have been compiled in accordance with the approved Budget Strategy and the overall objective of freezing Council Tax. A separate report will be presented to the Hinckley Area Committee on 22nd January 2014 detailing the recommendations contained in this report.

Table 2 - Special Expenses Budget

	Original Estimate	Revised	Original
		Estimate	Estimate
	2013/14	2013/14	2014/15

	£	£	£
Expenditure	614,430	624,723	602,050
<i>Transfer to/(from) balances</i>	9,000	-136,000	9,000
<i>Transfer to/(from) reserves</i>	31,804	157,511	78,944
Net Expenditure	655,234	646,234	689,994
<i>New Homes Bonus</i>	-92,223	-92,223	-127,343
Budget Requirement	563,011	554,011	562,651

- 3.5 Balances in the Special Expenses Area (SEA) at 31st March 2015 are estimated as follows:

	£
Balance at 1 st April 2013	183,000
Transfer from Balances 2013/14	<u>-136,000</u>
Estimated Balance at 31 st March 2014	<u>47,000</u>
Transfer to Balances 2014/15	<u>9,000</u>
Estimated Balance at 31 March 2015	<u><u>56,000</u></u>

- 3.6 It should be noted that the transfer from balances in 2013/14 was due to a transfer to reserves approved by Council in September 2013. This has therefore not reduced the net resources available to the SEA.

Total Council Budget for 2014/15

- 3.7 The total overall draft budget for 2014/15 in the direct control of the Council is therefore:

Table 3 - Total Council Budget 2014/15

	Original Estimate 2013/14	Revised Estimate 2013/14	Original Estimate 2014/15
	£	£	£
HBBC Budget Requirement (Table 1)	10,016,250	10,016,250	9,644,735
Special Expenses Budget Requirement (Table 2)	563,011	554,011	562,651
Total Council Controlled Budget Requirement	10,579,261	10,570,261	10,207,386

Revised Original Budget 2013/14

- 3.8 As part of setting the budget for 2014/15, a formal revised budget for 2013/14 has not been prepared. The original budget for 2013/14 has, in accordance with the Council's Financial Procedures, been revised during the year to take account of approved supplementary budgets and virements. Table 1 however identifies that additional saving of £439,263 (net) have been identified to November 2013. The key movements have been detailed below:

	Saving (Over Spend) £
Additional legal costs forecast to be recovered in (Revenues and Benefits and corporately) following changes in recovery methodology	74,000
Reduced levels of income forecast in Grounds Maintenance due to staff sickness and agency costs	-26,000
Reduction in benefit subsidy income forecast based on in year processing. (NOTE this amount fluctuates in year)	-39,000
Recycling savings forecast following a detailed service review. These include fuel savings of £25,000, £15,000 reduction in agency spend, £16,000 savings in disposal and collection fees and £15,000 savings on recycling improvements due to cancellation of new service initiatives.	87,500
Refuse fuel savings	16,000
Street cleansing - £30,000 increase in income from work performed on void properties and £18,000 savings on fuel and vehicle costs	48,000
Additional income from waste business improvements	12,000
Additional building control income	16,000
Surplus car parking income from pay and display and season tickets	40,000
Reduced levels of development control income	-13,000
Increased levels of rental payments	11,000
Reductions in asset management charges on the Leisure centre	22,000
Loss in rental income from Florence House following closure	-22,000
Additional costs for Middlefield Lane depot due to delays in demolition	-14,000
Additional shared services income for ICT provision	22,000
Savings in postage costs following move to the Hub	10,000
Salary Savings	164,000
Other minor savings (cumulative)	30,500
	439,000

It should be noted that the salary savings arise from managing vacancies and not from any reductions in the year in the Council's establishment.

Original Budget 2014/15 – assumptions and process

- 3.9 The 2014/15 General Fund revenue budget has been prepared following a robust budget process outlined in the 2014/15 Budget Strategy (the Strategy).
- 3.10 The budget has been created with clear links to the Councils strategic and service objectives. Clarity of priorities has enabled cross-party members through the Scrutiny and Executive functions to prioritise the projects included in the Capital Programme. Although the Capital Programme is the subject of a separate report, it is important to note that there are links between capital and revenue (e.g. interest from capital receipts, interest on borrowing, staffing costs etc).
- 3.11 In order to drive efficiency savings within the cost of supplies and services, a rate of 0% has been applied to non-contract related expenditure. As the Retail Price Index (RPI) has stood around 3% in year, the application of 0% represents an effective saving on running costs. For contracts, an inflation rate of 3.2% has been used, unless otherwise specified within the terms of the specific contract.

- 3.12 The salaries and wages budget is the most significant element of the revenue budget. For pay costs, the 2014/15 estimates include a 1% increase for all employees to reflect anticipated pay awards. The Council operates a disciplined process of challenging recruitment and filling of posts and therefore a salary saving rate of 5% (£451,687 – General Fund and HRA) has been applied to posts to reflect the savings which will result from this challenge. This rate has been increased from 4% used in 2013/2014.
- 3.13 Service Growths totaling £288,396 endorsed by the Strategic Leadership Board have been included in the draft budget. Of this amount:
- £25,100 relate to changes required to support welfare reform
 - £57,400 have been included to reflect the cost of new Government requirements including the revised Local Plan
 - £76,016 reflect reductions in grant funding
- 3.14 In comparison, service managers and the Corporate Operations Board (COB) have identified £324,400 savings through review of income streams and expenditure levels. A further £96,000 has been identified through rationalisation and removal of “corporate” budgets such as subsistence, travel and printing. The base budget has therefore been reduced by this value for all future years.
- 3.15 The Leicestershire Pension Fund was re-valued as at 31 March 2013 in accordance with statutory requirements and was found to be in actuarial deficit i.e the assets of the fund were less than those required to meet the long term liabilities in terms of benefits due to members. Whilst action is needed to remedy this position the timescales involved mean that there is sufficient time to recover the position in a phased manner over a number of years and valuations. An employers contribution rate of 19.5% (an increase of 1% from previous year) has been included for 2014/15 with an additional 1.6% being included for ill health retirement insurance. These rates have been confirmed with the Pension Scheme provider.

Original Budget 2014/15 – key issues and considerations

- 3.16 In addition to service priorities, there are a number of wider issues, identified in the Budget Strategy and previously in the Medium Term Financial Strategy. A summary of these items and how they have been address in the budget is provided below

Current Financial Position including Working Balances/Level of Reserves

- 3.17 The Council has the following policies relating to levels of balances and reserves:
- Maintain general balances (non earmarked) at a minimum of 10% of Hinckley & Bosworth Borough Council’s budget requirement. Based on the forecast position for 2013/14 this would determine a need for £1,001,626 of General Fund balances and £964,474 based on the 2014/15 budget. The same discipline is also applied to the Special Expense Area.
 - Where possible, all actual service under-spends and excess balances should be transferred to earmarked reserves to plan for specific future costs or financial risks.
 - There should be no direct contribution from revenue to capital except for specific identified projects.
 - Any notional profit earned by the Direct Service Organisations will be transferred to General Fund balances.
- 3.18 The projected movement of the General Fund Balances is detailed below and indicates that sufficient balances are forecast as at 31st March 2015. It should be noted that the transfer from balances for 2013/14 includes £704,000 of excess

balances that were moved to reserves (General Fund and Special Expenses) and does not represent over spends.

Table 4

	Total	General Fund	Special Expenses
	£'000	£'000	£'000
Balances at 1 April 2013	1,767	1,584	183
Amount Taken to /(from) Balances 2013/14	-500	-364	-136
Balances at 31 March 2014	1,267	1,220	47
Amount Taken to/(from)Balances 2014/15	-219	-228	9
Balances at 31 March 2015	1,049	993	56
Net Budget Requirement	10,207	9,645	563
Minimum Balance requirement	1,021	964	56
Balance surplus /(requirement)	28	28	0

- 3.19 Appendix A provides a summary of earmarked General Fund reserves together with estimated movements during 2013/14 and 2014/15. Based on these calculations, it is estimated that the Council will hold £6,132,627 in earmarked reserves as at 31st March 2014 and £3,267,397 at 31st March 2014. A full review of the earmarked reserves position will be performed in April 2013 as part of the outturn reporting process Significant **revenue** uses of reserves are detailed below. Use of reserves for capital purposes are detailed in the Capital Programme:

Reserve	Transfer £'000	Use
<i>2013/14</i>		
Planning and Delivery Grant	45	Legal fees for Barwell SUE
Land Charges	45	Planning costs associated with Sketchely Brook and Good Friday
Local Plan	221	Cost of documents required for the Local Plan (including carry forwards)
Communication and Feasibility	41	Release to offset additional interest and MRP costs
Hub Future Rental	85	To offset any loss in rental income incurred as a result of delays in tenancies commencing at the Hinckley Hub
Troubled Families	30	Annual contribution towards the Leicestershire Troubled Families scheme
<i>2014/15</i>		
Local Plan	376	Cost of documents required for the Local Plan
Troubled Families	30	Annual contribution towards the Leicestershire Troubled Families scheme

- 3.20 In addition to this the following transfers have been proposed to reserves in 2014/15:

Reserve	Transfer £'000	Use
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Waste management	26	This reserve is used to ensure that sufficient funding is available to fund a new waste round once the SUE schemes are developed. This transfer relates to the re-investment of savings identified in this service area in 2013/14
Enforcement	34	Currently enforcement budgets are held for small amounts within individual cost centres. These are frequently under spent though occasionally large calls are made to carry out significant enforcement work. It is therefore proposed to remove individual enforcement budgets and create a corporate reserve that can be called upon should significant cases arise.
Local Plan	152	Following the changes announced by Government in relation to the Council's Local Plan requirements, further funding will be required to fund production of the required documents in the medium term. The Council's current Local Plan Reserve will be depleted by the 2014/2015 and therefore it is recommended that further contributions are made to fund these requirements going forward
Elections	25	Ongoing contribution to fund the cost of the forthcoming local election
Pensions	28	Following the deferral of pensions "opt in" for the Council to 2017, the cost of the additional pension contributions under this scheme have been placed in a reserve to plan for when the costs arise. This is in addition to the required transfer under accounting standards which is presented separately on the face of the budget.
City Deals	17	The cost associated with participation in the Coventry and Warwickshire City Deal

Local Government Finance Settlement

3.21 The Council's budgets are highly sensitive to changes in the finance settlement and the ongoing impact of the 2010 Spending Review. The funding for this Council announced in the draft 2014/2015 settlement, along with additional elements of financing is as follows:

	2013/2014	2014/2015	Mvt	Mvt
	£	£	£	%
Revenue Support Grant	2,992,354	1,948,620	-1,043,734	-29.51%
Council Tax Support Grant	544,764	544,764		
NNDR Baseline	1,990,732	2,251,383	260,651	13.09%
2.0% Rates Cap Grant	0	2,457	2,457	n/a
Council Tax Freeze Grant 2011/12	104,914	104,445	-469	-0.45%
Council Tax Freeze Grant 2013/2014	42,597	42,281	-316	-0.74%
Core funding	5,675,361	4,893,950	-781,411	-13.77%
New Homes Bonus (inc adjust)	1,042,501	1,402,075	359,574	34.49%
Collection Fund Surplus	2,066	16,807	14,741	713.50%

Council Tax	3,296,332	3,331,904	35,572	1.08%
Total Financing	10,016,260	9,644,735	-371,525	-3.71%

3.22 The following points should be noted:

- The reduction in core funding for the Council is 13.77%. The Councils Medium Term Financial Strategy included projects of £4,898,329 for the forthcoming year and therefore this outcome has been adequately planned for.
- The settlement for 2014/2015 does not separately identify the Council Tax Support Grant. However, the consultation on the document advised Authorities to assume that a similar level had been included for this purpose. Of the £544,764 allocated through Council Tax Support Grant, £143,000 will be allocated to parish councils as in 2013/2014. This is not a mandatory requirement and many Councils have passported any element of the grant in either years.
- The Council Tax Freeze Grants will be confirmed following approval of the Council Tax for 2014/2015
- Following the draft settlement, the Council has been awarded £7,969 in “New Homes Bonus Adjustment” funding. This represents the element of funding that has been removed from the Business Rates retention process and therefore has been “refunded” through New Homes Bonus. This allocation is for one year only
- At an overall financing level, the Council’s funding is moderately comparable to prior year. This position has been achieved in part by the level of New Homes Bonus allocated in year. 25% of this core funding will be transferred to parish councils

Outcomes of decisions on pooling of Business Rate

3.23 The Local Government Finance Bill allows local authorities to form pools for the purposes of business rate retention. Practically, pooling means that any levy payments on growth are made into a local pool rather than paid to Central Government. Correspondingly, losses will be funded from the pool. Under pooling, these net thresholds are set at a pool level (i.e. the total of all individual thresholds)

3.24 In 2013/2104, ten Leicestershire local authorities including all the District and Borough Councils, the City and County and Fire Authority participated in a Leicester and Leicestershire business rates pool. Based on current forecasts for business rates and uncertainties around appeal results, it is expected that the pool will be disbanded in 2014/2015. Any levy payments due will therefore be paid directly to Central Government. The forecast business rates for 2014/2015 will be approved by Executive in January 2014 based on the completed NNDR1 form. At the time of writing this report this form had not been issued by Government. A verbal update on forecasts will be given at this meeting.

Implementation of a Local Council Tax Scheme (LCTS)

3.25 From 2013/14, Council Tax Benefit for non pensioners was removed and instead, all individuals were required to pay an element of council tax based on an agreed local scheme. From a budget perspective this resulted in the removal of council tax subsidy and also Council Tax Benefit payments from the Collection Fund.

3.26 From a financing point of view, the introduction of the LCTS had the result of reducing the council tax base for the Council as income is only received for a proportion of those properties previously in receipt of Council Tax Benefit. The council tax base for this Council for 2013/14 was impacted by -3,532.7 and Council Tax of £318,617 as a result of the introduction of a 8.5% capped scheme. For 2014/2015, this Council has agreed to increase this cap to 12%, meaning that individuals will be required to pay 3.5% more then in previous year. The impact of this (along with other changes relating to new homes) has meant that the proposed

council tax base for this Council has increased by 1,367 Band D equivalents which in turn will generate £35,572 of council tax income.

New Homes Bonus

- 3.27 New Homes Bonus was introduced in February 2011 and was designed to encourage housing growth by providing financial incentive for Councils and local people to accept new housing. The first awards were made in April 2011. For each additional new home built local authorities will receive six years of grant based on the council tax. This will increase in amount each year as more new housing comes on stream. The scheme applies to new housing and empty properties brought back into use.
- 3.28 Based on the number of new properties brought into council tax from October 2012 to October 2013 this Council has been allocated £1,394,105 in New Homes Bonus for 2014/2015. This includes the element of funding from previous allocations. As agreed in December 2011, 25% of this funding (£348,526) will be pass ported to parishes and have been reflected in service expenditure in the 2014/2015 budget. An additional amount of New Homes Bonus adjustment has also been received as discussed in 3.22.
- 3.29 It should be noted that there continues to be considerable uncertainty over New Homes Bonus. Whilst the government has withdrawn proposals to “top slice” elements of the funding from 2015/2016, alternative methods of allocation have not been ruled out. Withdrawal of any element of New Homes Bonus is a considerable risk to this Council and will be planned for in the next iteration of the MTFS.

Income Reductions and Increases

- 3.30 A significant proportion of the Council's overall income comes from fees and charges levied on particular services provided by the Council. In the current climate, levels of income are extremely volatile and a number of movements have been taken into account in the 2014/2015 budget. These include:
- Development control income has been forecast at similar levels as previous year. The actual income for 2013/2014 has increased due to a number of large applications, however no such activity is currently forecast for 2014/2015 and therefore income has been prudently budgeted for.
 - An increased in overpayments income within Revenues and Benefits of £44,000 to reflect improved recovery seen in 2013/2014
 - £13,750 additional ICT income from extension of the contract to additional partners
 - £31,500 additional income for Street Cleansing for work that will be performed for housing colleagues
 - Recycling sales and credits have been budgeted at a comparable level pending the outcomes of decisions from the County Council on funding arrangements
 - The 2014/2015 Car Parking budgets take income account the loss of income from Brunel Road car park
 - Market income has been adversely affected in 2013/2014 due to a decrease in street sellers and adverse weather conditions. The 2014/2015 budget reflects a reduction in expenditure to manage this downturn
- 3.31 The 2014/2015 budget should be read in conjunction with the Council's Fees and Charges book for 2014/2015 which is be presented to Executive in January 2014. This document reflects the annual review of all Council income streams and any variations in charging regimes.

Economic Outlook

- 3.32 In recent years the country has faced unprecedented levels of public sector borrowing which had reached a peak of 11.0% of Gross Domestic Product (GDP) in 2009/10. The Government continues to emphasise a need to reduce borrowing which consequently impacts the level of resources available to the sector.
- 3.33 The Base Rate is currently 0.5% and has been at this historically lower level since March 2009. This level has been assumed in the 2014/2015 budget to ensure that a prudent level of investment income is assumed. Net interest costs for the Council have been estimated at £2,490 and are based on a detailed cash flow and borrowing forecast which includes income that will be received for the loan to Tin Hat Partnership in year.

Major Projects

- 3.34 Appropriate provision has been made in the budget for the revenue consequences of the Council's major projects including:
- The Hinckley Bus Station Redevelopment - "The Crescent"
 - Build of the new Hinckley Leisure Centre
 - Capital works associated with the Regional Growth Fund

The full impact of these schemes is detailed in the Capital Programme.

COUNCIL TAX

- 3.35 One of the directions of the Comprehensive Spending Review (CSR10) published in October 2010 was that Councils should seek to set a zero increase in council tax where possible for the years of the spending review. In 2013/2014, the Government announced a 1% Council Tax Freeze Grant for those Councils who achieve this objective. This is in addition to the previous 2.5% grants offered in previous years. No grant has currently been announced for 2014/2015.
- 3.36 In order to curb excessive increases in council tax, the Secretary of State for Communities and Local Government has announced that for 2014/2015 Councils setting council tax increases of over 2% would need to carry out a referendum. The estimated cost of carrying out a referendum for this Borough would be between £110,000 and £120,000. As this Council is in the lowest quartile of council tax in the Country it is permitted to introduce an increase of up to £5.00 to reflect the erosion of income in real terms that has been created by ongoing freezes.
- 3.37 The 2014/2015 budget has been based on a 0% increase in Council Tax. Anecdotally it has been communicated that a number of other District Councils and precepting bodies in Leicestershire will be increasing council tax for the forthcoming year.

4. FINANCIAL IMPLICATIONS [KP]

As contained in the report

5. LEGAL IMPLICATIONS [AB]

Section 25 of the Local Government Act (2003) requires the Section 151 officer to report on the robustness of the estimates made within the budget and the adequacy of the financial reserves. This report meets that obligation.

6. CORPORATE PLAN IMPLICATIONS

The budget will have an indirect impact on all other Corporate Plan targets.

7. **CONSULTATION**

The Council consulted on all budget priorities in the Budget Setting Survey conducted in August/September 2013.

All budget holders, Corporate Operations Board and the Strategic Leadership Board have been consulted throughout the budget setting process.

8. **RISK IMPLICATIONS**

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
That the Council has insufficient resources to meet its aspirations and cannot set a balanced budget	A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation. The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance. Sufficient levels of reserves and balances are maintained to ensure financial resilience	S. Kohli

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

The Budget sets out the Council's expenditure plans and takes into account rural and equality issues

10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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