

# Taunton Deane Borough Council

## Executive – 11 July 2012

### Medium Term Financial Plan Update

#### Report of the Financial Services Manager (Southwest One)

(This matter is the responsibility of Executive Councillor Williams, Leader of the Council)

#### 1 Executive Summary

This report provides Members with an update on the Medium Term Financial Plans for the General Fund and Housing Revenue Account. The purpose of the update is to enable Members to consider the latest estimates and information related to the Council's financial position when considering the development and review of corporate priorities and business plans.

#### 2 Background

- 2.1 The Council's current Budget Strategy was approved by Full Council in October 2010. This was written in recognition of the unprecedented levels of uncertainty on the future funding of local authorities, and tightening economic conditions.
- 2.2 Under the Strategy, which sets out the proposed approach to dealing with the financial challenge over the medium term, a traditional "savings plan" approach was undertaken in 2011/12, and following an extensive Budget Review in 2011 a number of additional savings options were prioritised by Members leading to a balanced budget for 2012/13.
- 2.3 The need for a more radical and strategic approach still stands, with the Medium Term Financial Plan (MTFP) continuing to show funding pressures over the next five years. In April 2012, the Strategy Manager reported to Corporate Scrutiny with a proposal to develop a new Corporate Business Plan during the Spring and Summer this year, to replace the current Corporate Strategy. The Business Plan will need to bring together ambitions, future plans, capacity and affordability. This MTFP Update is provided now to enable Members to support the development of the Business Plan with the most currently available financial position for the Council.
- 2.4 The medium term financial plan positions have been updated recently to reflect our latest understanding of the financial challenges ahead.
- 2.5 There is a significant amount of uncertainty at this stage, as highlighted in the report below. In terms of the "big picture" we are still planning on the basis of a further 20% reduction in funding from central government over the next two

years, in addition to the cumulative 25% cut in formula grant already experienced in 2011/12 and 2012/13. The remainder of this report sets out the latest financial forecasts, and an outline timetable / process for how we will progress the budget setting, and development of a 4 year plan over the coming months.

### 3 General Fund Revenue Budget Position – Medium Term Financial Plan

3.1 The current forecast position is shown below (excluding parish precepts and special expenses). The gap at the end of the five years has reduced significantly compared to the previous MTFP provided to Members. This reduction is largely due to updated assumptions regarding the Council Tax Reduction Scheme and inflationary increases on income that have not previously been included (see below):

	2013/14 £k	2014/15 £k	2015/16 £k	2016/17 £k	2017/18 £k
TDBC Forecast Net Expenditure	11,674	12,969	13,649	14,112	14,526
Forecast Retained Business Rates*	4,779	4,301	4,301	4,301	4,301
Forecast Council Tax Freeze Grant	138	138	0	0	0
Forecast Council Tax	5,740	5,913	6,091	6,275	6,464
Forecast Resources Available	10,657	10,352	10,392	10,576	10,765
Predicted Budget Gap	1,017	2,617	3,257	3,536	3,761

\* *Formula grant*

3.2 The general assumptions used to build this forecast include:

- Basic Council Tax rate will increase by 2.5% annually;
- Tax Council Tax Base, currently 41,216.39 (Band D Equivalent) in 2012/13, will increase by 0.5% annually (before impact of Council Tax Reduction Scheme – see para 3.4 below);
- Staff pay award will be 1% in 2013/14 and 2014/15, and then 2% annually. A vacancy factor of £60k based on 0.75% vacancy rate remains within the base budget;
- Employers' pension contributions will rise from the current 17.3% in 2012/13 to 21.9% in 2016/17 as per the latest advice from the Pension Fund technical advisor ("Actuary");
- Income from Fees & Charges will increase by an inflationary uplift, which is currently estimated in line with an assumed RPI rate of 3% in 2013/14 and 2% annually in subsequent years. Previously, no inflationary uplift has been included in the MTFP pending decisions on Fees & Charges. During the detailed estimates process budget holders will be required to assess demand fluctuation that may affect overall income levels;
- Retained Business Rates, which is expected to replace Formula Grant, reflects previous estimates of a 10% per annum reduction in 2013/14 and 2014/15. This is our best estimate at this stage, pending further information on the impact of the implementation of the Business Rates Retention funding arrangement;

- New Homes Bonus Grant of £392k per year is included as part of 'mainstream funding' for local services, with any balance above this being set aside in an earmarked reserve;
- The Council Tax Freeze Grant of £138k per year (related to tax freeze in 2011/12) will cease after 2014/15.

### 3.3 Other assumptions include:

- The implementation of a local Council Tax Reduction Scheme (to replace Council Tax Benefit) is assumed to be cost neutral at this stage. At Corporate Scrutiny in March 2012 Members resolved to support the Portfolio Holder for Corporate Resources giving approval for TDBC officers to work collaboratively with the other Somerset Districts with the aim of:
  1. designing a Somerset-wide Council Tax Reduction scheme;
  2. designing a scheme which has the aim of keeping expenditure within the grant which the major precepting authorities will receive from central government.

Whilst no decisions have been taken at this stage regarding a local scheme, the MTFP has been updated to reflect the anticipated reduction in expenditure in line with the Government's 10% cut in funding. This is the most significant change to MTFP since the budget was set in February, where at that stage the cut in funding was included but it was assumed that spend would remain at previous levels. It is also assumed that the related Administration Grant will reduce by 10% in 2013/14 (see also 3.4 below).

- The model assumes an annual revenue contribution to capital sufficient to fund the existing agreed recurring capital schemes continues. This includes schemes such as leisure grants, desktop hardware replacement, replacement car parking equipment and the Taunton to Bridgwater canal grant.
- The loss of car parking income due to Project Taunton schemes will take place in 2014/15. This is still relevant and key to delivering the regeneration of the town centre.

### ***Risk and Uncertainty***

#### 3.4 There is currently a significant amount of uncertainty around the financial position for the Council, which makes accurate financial modelling more difficult. The major areas of risk and uncertainty include:

- ***Business Rates Retention:*** Under the Government's Local Government Resource Review, the funding of local authority services from central government is changing. The traditional formula grant – which was based on a complex formula based on assessed local needs – is being replaced by a scheme of Business Rates Retention. It is anticipated that the Revenue Support Grant (RSG) element of the formula grant (£103,600 in 2012/13) will be removed as part of the forecast cut in 2013/14 per 2.5 above). The Council will work with the finance team over the coming months to interpret guidance from government and develop a new method

for forecasting likely funding, but it is feasible that the Council will not have a firm idea of likely funding for 2013/14 until the Provisional Settlement which is likely to be announced in December this year.

- **Council Tax Reduction Scheme:** The Council has committed to developing a new local scheme that is affordable reflecting the 10% cut in funding from Government. However the scheme will be designed during the summer/autumn this year and the financial impact will not be known with certainty for budget setting purposes until December 2012/January 2013. We do know that the new arrangements will impact on the calculation of the tax base, with local council tax discounts being incorporated as part of tax base setting. The share of council tax reduction grant TDBC receives from government should, in theory, offset the reduced council tax income received by TDBC as a result of the lower tax base. We do not yet know the Government's proposals for funding the related Admin Grant (which totals £782k in 2012/13) but we have assumed a 10% cut in 2013/14 at this stage.
- **Wider economic factors:** The ongoing state of the national economy brings risk and uncertainty for local services. Together with welfare reform and potential reductions in benefits received by individuals and families, the Council could see changes in demand for local services, e.g.
  - Risk of increased demand/eligibility for discretionary benefits
  - Ongoing impact on treasury performance of low interest rates and instability of banks and other financial institutions
  - Risk of reduced demand for chargeable services leading to reduction in income
  - Risk of individuals' and business' ability to pay, placing increased risk to collection levels for Council Tax, Business Rates, and other rents, fees and charges for local services
  - Risk of homelessness increasing
- **Local Projects:** When the budget was set in February, a number of projects were highlighted as uncertain in terms of potential costs, such as maintenance of Orchard Car Park and Deane House maintenance and remodelling works.
- **Local Priorities:** The development of a new Corporate Business Plan will provide Members with the opportunity to review local priorities, the impact of which will need to be factored into the MTFP.
- **DLO Transformation:** The ongoing DLO Transformation programme is expected to deliver further savings. The financial implications need to be fully assessed, including the analysis between the General Fund and Housing Revenue Account (HRA). This work will be undertaken in the coming months to determine the impact for the MTFP. In addition, costs associated with the transformation – e.g. the potential depot relocation as reported to Corporate Scrutiny on 24 May 2012 – are uncertain at this stage.

- **Community Infrastructure Levy (CIL):** The Council is in the process of developing proposals related to the introduction of the CIL in Taunton Deane, as reported to Community Scrutiny on 12 June 2012. This may have one off set up costs, and then ongoing income and expenditure implications, but at this stage no estimates have been included within the MTFP. This will be done as and when proposals are approved and resource implications can be reliably estimated.

3.5 The table below attempts to show the “sensitivity” of some of the assumptions we have used and the potential shift in General Fund budget gap should these assumptions change.

Cost area	Better/Higher Risk	Forecast 2013/14	Worst/Lower Risk
Pay %		0%	1%
Pay value change		-	+£86k
Utilities %	4%	7%	13%
Utilities value change	-£8k	-	+£16k
Government Grant %	-7%	-10%	-12%
Government Grant value change	-£159k	-	+£106k
Council Tax Increase %	3.5%	2.5%	0%
CTax Income Change	-£56k	-	+£139k
Tax Base growth %	0.5%	0%	0%
Tax Base growth value change	-£29k	-	-

#### 4 2013/14 Budget Gap

- 4.1 When the 2012/13 Budget was approved by Full Council in February 2012, the projected MTFP included a projected budget gap in 2013/14 of £1.9m.
- 4.2 An initial review of the MTFP since February has seen a marked reduction in this gap, largely due to the Council’s decision to commit to developing a Council Tax Reduction Scheme that reduces costs in line with 10% reduction in funding from Government for the scheme. When the MTFP was projected in February this included the reduction in income but did not assume that TDBC would reduce costs by the same amount.
- 4.3 The latest estimate of the Budget Gap for 2013/14 is approximately £1m, as reflected in the MTFP Summary table in 3.1 above. The changes to budget requirement that produce this gap can be summarised as follows:

		Changes to Base Requirement £'000	Budget Gap £'000
	Budget Gap – 2012/13 Approved Budget		0
A	Removal of one-off items in the 2012/13 Budget	+538	538
B	Estimated net inflation costs and income	+296	834
C	Projected 10% reduction in government funding	+531	1,365
D	Estimated 10% reduction in Council Tax Admin Grant	+80	1,445
E	Estimated council tax with 2.5% rate increase and 0.5% tax base increase	-168	1,277
F	Planned use of earmarked reserves for Growth & Regeneration team costs	-275	1,002
G	End of repayment of Invest to Save schemes	-40	962
H	Other changes	+55	1,017
	<b>Current Projected 2013/14 Budget Gap</b>		<b>1,017</b>

## 5 General Fund Reserves

- 5.1 Based on the current forecast for the General Fund Revenue Budget MTFP above, and the current provisional outturn position (see Financial Outturn report on this agenda) the current General Fund Unearmarked Reserves position is forecast as shown in the following table.

	2013/14 £k	2014/15 £k	2015/16 £k	2016/17 £k	2017/18 £k
Estimated Balance B/F	3,291	2,274	-343	-3,600	-7,136
Predicted Budget Gap (above)	-1,017	-2,617	-3,257	-3,536	-3,761
<b>Estimated Balance C/F</b>	<b>2,274</b>	<b>-343</b>	<b>-3,600</b>	<b>-7,136</b>	<b>-10,897</b>

- 5.2 Although the current level of reserves appears “healthy” in the early part of the MTFP in comparison with recent years in view the ongoing financial pressures faced by the Council and the likely increases in financial risk arising through Localism, Local Government Finance Review, Welfare Reform, and the continuing effects of the wider economy – this “headroom” will provide some protection from financial risks in the short term. This balance also provides some flexibility to one off revenue or capital schemes.
- 5.3 Members are advised that the above figures in 5.1 do not include the impact of the recommended budget increase for the Cremator Replacement capital project – see separate report in this agenda. If that is approved as recommended, this will reduce the Estimated Balance B/F in 2013/14 by £113k, to £3,178k.

## 6 Housing Revenue Account (HRA) – Medium Term Financial Plan

- 6.1 The new HRA 30 Year Business Plan was approved in February 2012, following extensive work undertaken to prepare for the move to Self Financing from April 2012. Through the approval of the Business Plan in February, Members approved the following:

- Four new strategic objectives for Housing including
  - Securing a long term future for our housing service
  - Tackling deprivation and sustainable community development
  - Investing in our housing stock, regeneration and affordable housing
  - Climate change;
- Continuation of the rent policy assuming rent convergence in 2015/16 and of RPI+0.5% increases thereafter;
- The Council will explore the use of new “Affordable Rents” in developing its plans for affordable housing;
- That the Council will review the potential use of probationary or introductory tenancies in the next 12 months;
- That the Council will explore the use of fixed term tenancies in the next 12 months;
- The principle of allocating affordable funds to a social housing development fund;
- An increase in minimum HRA reserves balance to £1.8m;
- To take on borrowing from the Public Works Loans Board (PWLB) for the self financing debt (£85.2m), and agree that any surpluses generated by the HRA be used to pay off debt early, providing the HRA with flexibility and headroom to pursue new priorities.

### ***Risks and Uncertainty***

- 6.2 At the time of approving the Business Plan it was recognised that there were some risks and uncertainties, including:
- Stock condition information: the stock condition validation exercise highlighted a number of deficiencies in the quality of data held on stock condition, and the Council has undertaken to improve asset management data during 2012/13 to enable better capital expenditure profiling;
  - The Council will need time to ‘gear up’ to be able to deliver the significantly higher capital programme in future years;
  - The approach to, and level of funding for, the social housing development fund will be subject to annual review.
  - The Government announced its intention to raise Right to Buy discounts, and has subsequently issued guidance in this regard following consultation. The Community Services Manager and Financial Services Manager have submitted a joint report on this matter to Community Scrutiny on 12 June 2012.
- 6.3 At this stage there are no changes to the HRA MTFP as submitted to Members in February. Updates to the MTFP will be considered and reported during the summer, taking into account clarification related to the above risks and uncertainties, and any other emerging information related to HRA

priorities. As a reminder, the forecast budget for the HRA as shared at budget setting time (updated for budget code restructuring), is summarised as follows:

	Budget 2012/13 £k	Estimate 2013/14 £k	Estimate 2014/15 £k	Estimate 2015/16 £k	Estimate 2016/17 £k
<b>INCOME</b>					
Dwelling Rents	-22,735	-23,126	-23,904	-24,971	-25,685
Non Dwelling Rents	-553	-573	-593	-614	-635
Charges for services/facilities	-391	-405	-419	-433	-449
Contributions to GF towards shared expenditure	-266	-275	-285	-295	-305
Supporting People Income	-254	-216	0	0	0
<b>TOTAL INCOME</b>	<b>-24,199</b>	<b>-24,595</b>	<b>-25,201</b>	<b>-26,313</b>	<b>-27,074</b>
<b>EXPENDITURE</b>					
Management	3,328	3,445	3,565	3,690	3,819
Maintenance	6,168	6,382	6,606	6,837	7,077
Special Services	1,388	1,437	1,487	1,539	1,593
Increase in bad debt allowance	80	111	121	126	130
Capital Charges-Depreciation	6,270	6,385	6,536	6,690	6,849
Debt Management Expenses	8	8	8	9	9
<b>TOTAL EXPENDITURE</b>	<b>17,242</b>	<b>17,768</b>	<b>18,323</b>	<b>18,891</b>	<b>19,477</b>
<b>NET COST OF SERVICES</b>	<b>-6,957</b>	<b>-6,827</b>	<b>-6,878</b>	<b>-7,422</b>	<b>-7,597</b>
<b>OTHER COSTS</b>					
Interest Payments	3,873	3,873	3,706	3,617	3,527
Interest Receivable	-127	-45	-52	-42	-31
<b>NET OPERATING EXPENDITURE</b>	<b>-3,211</b>	<b>-2,999</b>	<b>-3,224</b>	<b>-3,847</b>	<b>-4,101</b>
<b>APPROPRIATIONS</b>					
Capital Funded from Revenue	0	765	1,143	1,464	1,509
Transfers to General Fund	200	200	200	200	200
Social Housing Dev Fund	300	500	500	1,000	1,000
Provision for Debt Repayment	2,224	1,534	1,381	1,183	1,392
<b>(SURPLUS)/DEFICIT</b>	<b>-487</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transfer to HRA Reserves</b>	<b>487</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 7 HRA Reserves

7.1 The financial strategy included within the HRA Business Plan includes the aim of maintaining HRA Unearmarked Reserves at an approximate minimum balance of £1.8m. The current projected reserves balance, including the provisional outturn for 2011/12, remains in line with this strategy:

	Budget 2012/13 £k	Estimate 2013/14 £k	Estimate 2014/15 £k	Estimate 2015/16 £k	Estimate 2016/17 £k
Balance b/f 1 April	1,355	1,842	1,842	1,842	1,842
Net Expenditure in Year	487	0	0	0	0
Balance c/f 31st March	1,842	1,842	1,842	1,842	1,842



## **8 Capital Programme**

- 8.1 The existing General Fund Capital Programme for 2012/13 is fully funded. Currently unallocated resources for capital are very limited, and projected capital resources assume the cuts to government funding for capital in the past couple of years will continue indefinitely.
- 8.2 New priority projects that Members are minded to support will have to be funded from new capital receipts, from new sources of funding (e.g. New Homes Bonus), from new borrowing, or from revenue (RCCO).
- 8.3 The Council is anticipating some capital receipts during 2012/13, including:
- Mount Street ex-nursery site
  - Old TYCC site at Tangier
  - Surplus site off Bindon road
  - Right To Buy sales
- 8.4 Members are requested to start thinking through what new schemes they may wish to support over the coming years to help us develop our financial planning. The following questions may help start the thinking:
- Do you wish to fund Private Sector Housing Grants, and if so, how? (Previous Government funding for this was removed in 2010).
  - Do you want to continue building up a fund to support the delivery of new affordable homes?
  - Do you want to continue to allocate receipts from Council House sales to the delivery of new affordable housing, or to investment in new HRA stock (taking into account new Right to Buy proposals – see report to Community Scrutiny 12 June 2012)?
  - Do you want to allocate funds to potentially support swimming pools replacement/improvements?
  - How do you want us to direct the New Homes Bonus funds? Should they be directed to support our Growth agenda or directed into revenue generating capital schemes? If so what kind of areas would you like us to explore?
  - Do you want to continue the current list of “recurring” schemes?
- 8.5 Members will have several opportunities over the coming months to influence and shape the future capital programme – this update will hopefully stimulate discussion and debate.

## **9 The Corporate Business Plan**

- 9.1 As reported by the Strategy Manager to Corporate Scrutiny Committee in 21 April 2012, the Council plans to develop a new Corporate Business Plan for the next three years. The development of this plan is an important step in defining affordable priorities in the medium term, and will need to take into account the financial pressures, risks and opportunities identified within the MTFP.

9.2 The draft Business Plan is due to be submitted to Corporate Scrutiny in July 2012.

## **10 Finance Comments**

10.1 This is a finance report – no further comments required.

## **11 Legal Comments**

11.1 None for the purpose of this report.

## **12 Links to Corporate Aims**

12.1 This development of the Corporate Business Plan will provide Members with the opportunity to develop and approve updated corporate priorities. These priorities will help to determine funding and spending plans as the Council moves through the budget setting process, leading up to the approval of the 2013/14 Budget in February next year.

## **13 Environmental Implications**

13.1 This report provides a summary of the current forecast financial position for the Council and as such has no direct impact on the environment. Measures prioritised through the development of the Corporate Business Plan and the update of the HRA Business Plan may have an impact and this will be shared in any future related reports to Members.

## **14 Community Safety Implications**

14.1 This report provides a summary of the current forecast financial position for the Council and as such has no direct impact on community safety. Measures prioritised through the development of the Corporate Business Plan and the update of the HRA Business Plan may have an impact and this will be shared in any future related reports to Members.

## **15 Equalities Impact**

15.1 This report provides a summary of the current forecast financial position for the Council and as such has no direct equalities impact. Measures prioritised through the development of the Corporate Business Plan and the update of the HRA Business Plan may have an impact and this will be shared in any future related reports to Members including full Equalities Impact Assessments where appropriate.

## **16 Risk Management**

16.1 Financial risks and uncertainty have been identified above within this report.

## **17 Partnership Implications**

17.1 This report provides a summary of the current forecast financial position for the Council and as such has no direct impact. Measures prioritised through

the development of the Corporate Business Plan and the update of the HRA Business Plan may have an impact and this will be shared in any future related reports to Members.

## **18 Recommendations**

- 18.1 The Executive are requested to note the latest position on the Council's medium term financial plans and consider these during the review and development of business plans.

### **Contact:**

Paul Fitzgerald  
Financial Services Manager, Southwest One  
01823 358680  
p.fitzgerald@tauntondeane.gov.uk

### **Background Papers:**

Community Scrutiny 12 June 2012 – Introduction of the Community Infrastructure Levy

Corporate Scrutiny 24 May 2012 – Potential Relocation of Council Depot

Corporate Scrutiny 26 April 2012 – Development of a new Corporate Business Plan

Corporate Scrutiny 22 March 2012 – Finance Reform: Local Council Tax Reduction Scheme Preliminary Steps

Executive 9 February 2012 – General Fund, HRA and Capital budget reports

Executive 9 February 2012 – Housing Revenue Account 30-Year Business Plan

Full Council 5 October 2010 – Budget Strategy