

**REPORT TO THE MEETING OF THE EXECUTIVE 15 JULY 2015**

**PORTFOLIO: FINANCE**

**REPORT FROM: ASSISTANT DIRECTOR, RESOURCES**

**SUBJECT: MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2015/16  
UPDATE**

**1 DECISION BEING RECOMMENDED**

- 1.1 That the current position of the MTFS be noted.
- 1.2 That the outline timetable for the 2016/17 budget process be agreed.
- 1.3 That the arrangements for a public consultation in preparation for the budget process be noted.
- 1.4 That the funding of the Local Council Tax Support Scheme remains unchanged, in order for the annual review and consultation of the scheme to go ahead for 2016/17.
- 1.5 That Members identify any initiatives or ideas that they would like brought into the 2016/17 budget process.

**2 REASON/S FOR RECOMMENDATION**

- 2.1 Following the closure of the accounts for 2014/15, the MTFS can be updated and the 2016/17 budget process launched.
- 2.2 This report provides an update on key issues and assumptions that affect the Council's financial planning. This report also seeks the Executive's views on the future funding of the Local Council Tax Support Scheme.
- 2.3 The MTFS will be continually updated by officers during the budget process, with updates provided to Members, either by reporting to the Executive or at the Member away days, before next year's budget and revised MTFS is finally approved by Full Council in February 2016.

**3 2014/15 OUTTURN**

- 3.1 The closure of the accounts for 2014/15 means that the MTFS can be updated with the financial results from last year. The General Fund balance as at 31 March 2015 is £810k, which is £49k better than estimated.
- 3.2 There were a number of areas where the final outturn for the year was either above or below budget. Across all the cost centres, the main variance to be highlighted is in relation to redesign:-

- There was an overall saving on salaries of £580,268 compared to original budget. Due to one off redesign cost of £695,265, the year ended with a net staffing cost increase of £114,997.

### 3.3 ARREARS AND WRITE OFFS

3.4 Members have previously requested that additional information be provided in the Accounts on the level of arrears and write offs.

3.5 In the current economic climate, the Council is continuing to maintain a close watch on the level of arrears and write offs, as it understands that individuals may be having difficulties.

3.6 In 2014/15 the following amounts were written off, compared to the amounts for 2013/14:-

<b>Write Offs</b>	<b>2013/14 (£)</b>	<b>2014/15 (£)</b>
Council Tax	18,667	35,283
National Non Domestic Rates	24,615	106,740
Housing Benefits	26,720	35,995

3.7 A summary of write offs will continue to be reported to the Executive during the year as part of the quarterly Financial Management reports. Internal review of debt collection activity found, the processes being sound.

3.8 As at 31 March 2015, the level of arrears has changed from the previous year as follows:-

<b>Arrears as at:</b>	<b>31 March 2014 (£)</b>	<b>31 March 2015 (£)</b>	<b>Change (£)</b>
Council Tax	1,531,358	1,634,043	102,685
National Non Domestic Rates	531,381	439,022	-92,359
Housing Benefits	1,110,011	1,244,568	134,557

3.9 The arrears on council tax for 2013/14 were 3.4% of the collectable debt. In 2014/15 this has risen to 3.5% of collectable debt. This demonstrates there had been no significant change in the level of outstanding council tax arrears when compared to the collectable debt for that year. The collection rate for 2014/15 was 98.4% (98.3% - 2013/14).

#### 4 Pensions

4.1 The accounting treatment and calculation of the pension deficit for the purposes of the Financial Statements is different to that used for the triennial revaluation.

- For the Financial Statements, the pension deficit shows an increase from £24.5m to £27.8m. The main factors causing this year's overall deficit increase of £3.3m were due to perceived increase in costs of meeting future benefit obligation arising due to changes in demographic and financial assumptions.
- In 2013, the triennial actuarial valuation was carried out and an actuarial deficiency of £1,990,338 was identified and had to be paid. The Council took the option to pay its deficit payment for the next three years in one instalment which would make an estimated savings of £67,200. The actuarial deficiency amount of £1.99m was paid in 2014/15.

#### 5 CAPITAL PROGRAMME

5.1 Expenditure on the Capital Programme was £0.91m, compared to an estimate of £1.33m. The expenditure was funded by £0.22m in grants and £0.69m capital receipts.

What we spent:	Planned £000s	Actual £000s
Vehicles and Equipment	440	367
Leisure and Play Facilities	249	145
Disabled Housing & Adaptations	383	295
IT infrastructure	104	19
Council properties	152	85
<b>Totals</b>	<b>1,328</b>	<b>911</b>

5.2 The main source of capital receipts is from the sharing arrangements established as part of the Large Scale Voluntary Transfer of the Council's housing stock. The receipts from right to buy and VAT Shelter for 2014/15 were £0.16m., compared to an estimate of £0.30m. The detail of the capital expenditure for 2014/15 and the resulting revisions to the 2015/16 Programme will be reported for approval to Council in July.

5.3 The details of the capital expenditure for 2014/15 and the resulting revisions to the 2015/16 Programme will be reported for approval to Council in July. Hence, projections on capital financing and analysis of future capital spend are not being addressed in this report.

## 6 2016/17 BUDGET PROCESS

- 6.1 Work has now begun on preparing the 2016/17 budget. The high level timetable is set out below, but detailed project plans and risk assessments are also being updated. The dates in *italics* for Government announcements are based on the 2015/16 budget and subject to change:-

Activity	Date
<b>2015</b>	
Portfolio Holder Review	By late September
Joint SMT/Executive	late September
Member Away Day	Early October
Executive – Budget Consultation	Mid October
Public Consultation	Mid Oct to Mid Dec
Review Committee – Estimates	Early December
<i>Government's Autumn Statement – sets out changes to spending forecasts</i>	<i>Early December</i>
Revised Estimates for 2015/16 agreed by Council	Mid December
2016/17 Grants to Voluntary Organisations budget set	
<i>Government's Provisional Financial Settlement</i>	<i>Mid December</i>
<b>2016</b>	
Joint SMT/Executive	Early January
Member Away Day	Late January
<i>Government's Final Settlement</i>	<i>Early February</i>
Council - Budget Setting	Mid February
Council – Council Tax	Late February

- 6.2 The Portfolio Holder for Finance will be meeting with each Portfolio Holder and relevant officers to go through service budget estimates. This will happen during August /September.
- 6.3 The rest of this report provides updates on some of the major factors that will affect the 2016/17 budget planning.

## 7 GOVERNMENT FUNDING

- 7.1 From 2013/14, the formula grant mechanism was replaced by the Rates Retention Scheme (RRS). Approximately 40% of our main funding comes from retained business rates, with a system of baseline funding levels, top-ups/ tariffs, levies, national shares and safety net. As part of the RRS,

Government retained a Revenue Support Grant (RSG) and this makes up the remaining 60% of the baseline funding. This 42:58 RRS/RSG split for 2013/14 will change as RSG reduces in line with the Government's continuing public sector cuts. In 2014/15 the RRS/RSG split was 51:49.

7.2 For 2015/16, the RRS/RSG split is expected to be 56:44. The RRS budget for 2015/16 was based on the January 2015 estimate (NNDR1). The Council will also receive S31 grant for the following estimated reliefs:-

- The temporary doubling of small business rate relief;
- The cost of the 2% cap on the 2015/16 business rates multiplier;
- Relief provided to retail properties.

7.3 The net impact on Rochford District Council's retained rates for 2015/16 is shown below:-

	£000s
2015/16 original estimate of retained rates	1,664
Adjusted by:	
Add: S31 Grant	443
Less: Levy on growth	(265)
Less: Share of previous years' deficits	(622)
Add: NDR Grant not budgeted for 2014/15	470
Current estimate for Retained Rates for services	1690

## 8 POOLING

8.1 As part of the Rates Retention Scheme (RRS), the Government included the opportunity for local authorities to come together to form a 'pool' with a single tariff or top up. RDC is now part of a pool with other Essex authorities for the 2015/16 financial year.

8.2 The Essex Strategic Leaders Finance Group (ESLF) was established by the Essex Leaders and Chief Executives to take forward work on financial collaboration across the county. The group proved effective in overseeing the work on the implementation of Local Council Tax Support and sharing the financial gains from the council tax technical changes.

## 9 NEW HOMES BONUS (NHB)

9.1 This Government incentive to encourage more homes was introduced in 2011/12. It is based on the increase in new houses and bringing empty

homes back into use and the grant matches Council Tax for 6 years, with 80% being received by the District Council, as the planning authority, and 20% going to County. The growth in housing is measured from a statistical return which reports the Council Tax Base as at September each year.

9.2 To date, the Council has received the following NHB:-

<b>Financial Year</b>	<b>New Homes</b>	<b>Reduction in Empty Homes</b>	<b>Total change in housing</b>	<b>Affordable Homes</b>	<b>Cumulative Amount of NHB Income received in year £000s</b>
2011/12	60	41	101	-	117
2013/14	68	62	130	-	266
2013/14	78	67	145	46	440
2014/15	112	14	126	13	596

9.3 The current MTFS was based on the following projections for the increase in homes within the district:-

<b>Financial Year</b>	<b>Total change in housing</b>	<b>Affordable Homes</b>	<b>Cumulative Amount of NHB £000s</b>
2015/16	380	38	1,054
2016/17	247	44	1,357
2017/18	156	39	1,436
2018/19	130	30	1,450
2019/20	178	30	1,493

9.4 The Government will continue to operate the NHB on a payment by results basis but will be reviewing the scheme.

## 10 COUNCIL TAX

10.1 The first Budget away day will give Members an opportunity to consider the level of Council Tax for 2016/17.

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**11 LOCALISING COUNCIL TAX SUPPORT SCHEME**

- 11.1 The Government replaced the nationally set Council Tax benefit scheme with a locally determined Council Tax support scheme, with effect from 1 April 2013. Under the new arrangements, the 100% subsidy has been replaced by a direct grant. The funding for Council Tax support in 2013/14 was based on 90% of the forecast subsidised expenditure. From 2014/15 onwards the amount of funding is not identified separately in either the RSG or RRS.
- 11.2 The grant and value of discounts is shared between Rochford District Council and the other preceptors, including the Town and Parish Councils.
- 11.3 The Council worked with the other Essex authorities and major preceptors in the design of the scheme and agreed some key principles.
- Develop a scheme that is cost neutral, i.e. the cost to provide Council Tax support from 1 April 2013 will be in line with the level of grant distributed by the DCLG.
  - A scheme which is mainly based on the existing CTB regulations.
  - The new scheme will, as far as possible, allow for anticipated growth in demand.
  - Reduce the complexities of the current CTB scheme and make the new scheme easier to claim and administer.
  - Individual District schemes were then designed and approved based on individual demographics.
- 11.4 The new scheme is a discount on Council Tax, rather than a benefit. This means that when calculating the Council Tax Base, on which Council Tax is to be levied, the Tax Base will be reduced by the number of discounts for Council Tax Support. For the major preceptors (Essex County, Fire and Police) and Rochford District Council (as the billing authority), this reduction in Council Tax base will be offset by the direct grant.
- 11.5 This reduced tax base has implications for the local precepting bodies, i.e., Parish and Town Councils. The Parish/Town Councils calculate their Council Tax in the same way as we do, by dividing their precept by the tax base. If the tax base has been reduced, then their Council Tax charges will increase, even with no change in their precept. The Government expects billing authorities and local precepting authorities to work together to manage the potential impact on the local precepting authority Band D Council Tax amounts. However, any reduction in the value of discounts awarded will increase the tax base.
- 11.6 For 2013/14 & 2014/15 this was achieved by passing down an element of the funding to the local precepting authority. The allocation of the funding across the Parish/Town Councils was linked to the individual impact of the scheme

developed by Rochford District Council in each Parish/Town Council area, then reduced by the forecast reduction in overall Government support.

- 11.7 Government has stated that the future funding for the local Council Tax support schemes will be within the business rates retention scheme. While the funding was made clear in the funding allocations as a visible line for 2013/14, first year of the new business rates system, it is not shown separately from 2014/15.
- 11.8 The total grant funding for LCTS for the Rochford District for 2013/14 was £4.44m, of which Rochford District Council received £693,000, which included £108,000 in respect of Parish Councils. The funding was split, 60% within the Retained Rates Scheme (RRS) and 40% within the Revenue Support Grant (RSG). As the grant is not separately identified from 2014/15 onwards, it can either be assumed to be reducing in line with the RRS and RSG, or be treated as a fixed amount, which would mean a larger reduction in the amount of RRS/RSG available to fund general services.
- 11.9 For 2014/15, it was agreed to make no significant changes to the LCTS scheme. The value of LCTS discounts was £4.04m, which is £400,000 below the grant as at 2013/14.
- 11.10 The current scheme has the following award criteria:-
- People living in properties whose Council Tax band is E, F, G or H have their LCTS restricted to the maximum amount payable for a Band D property.
  - Regardless of their financial circumstances, every working age claimant pays the first 20% of the Council Tax liability.
  - Only working age claimants who have less than £6,000 are entitled to LCTS.
  - Child maintenance is taken into account as income when we calculate entitlement to LCTS.
  - Non dependant deductions are not made when we calculate entitlement to LCTS.
  - The Second Adult Rebate scheme for working age claims has been stopped.
- 11.11 To reduce the cost of the LCTS, the Council would have to make changes to its scheme. Changes can only be made to the scheme as it applies to working age recipients and any increase in the charge made is likely to have an impact on the collection rate.
- 11.12 The Council is required to consult annually on its LCTS Scheme and this will need to happen over the summer/ autumn.



- 11.13 Members are asked to indicate whether they wish to make any changes to the scheme to form the basis of the MTFS assumptions and consultation for the 2016/17 scheme. Members may want to consider this in the context of the additional income from the technical adjustments to Council Tax made from 1 April 2015, which will generate income of £105,000 plus £250,000 from a sharing agreement with the preceptors.
- 11.14 The MTFS assumes that Members will not make any changes to the LCTS for 2016/17, but that the situation will be reviewed in future years as funding and demand changes.
- 11.15 The funding received by the Council includes an element that the Government would wish the Council to pass over to the Parish/Town Councils to make up for the impact of the LCTS on their tax base. As previously agreed, the Parish grant will be adjusted in line with the overall changes to the RRS/RSG funding received by the Council.

## 12 SERVICE REVIEWS

- 12.1 All the Council's services are being reviewed and cost reductions and income generation proposals have been identified. These will be fed into the budget estimates as it becomes clearer when the cost reductions/income will be delivered.

## 13 MTFS SUMMARY

- 13.1 The MTFS has been updated from the current forecasts agreed by Council in January 2015:-

Forecast	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Savings Required					
January 2015	100	300	300	300	300
July 2015	300	600	150	350	500
General Fund Balance					
January 2015	1,624	2,815	4,262	5,607	6,508
July 2015	1,201	1,201	1,201	1,201	1,201

Forecast	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Government Funding, incl. NHB					
January 2015	2,256	2,257	2,070	1,838	1,670
July 2015	2,304	1,957	1,836	1,450	1,493
Net Expenditure					
January 2015	9,567	9,898	9,640	9,693	10,027
July 2015 (includes MRF contract)	10,100	10,300	10,050	10,100	10,400

## 14 PUBLIC CONSULTATION

- 14.1 The budget survey conducted last year for the 2015/16 budget process provided some clear and consistent messages about what residents felt were high priority services. It would be useful if the Council continued to seek the views of residents on their priorities and views on the budget proposals being considered. The format of the survey will be developed and presented to the Executive in October for the consultation to take place over the autumn.

## 15 GRANTS TO VOLUNTARY ORGANISATIONS

- 15.1 The Government's statutory guidance on the Best Value Duty, published in September 2011, sets out the Government's expectations of the way authorities should work with voluntary and community groups. Authorities should seek to avoid passing on disproportionate cuts and, in particular, an authority intending to reduce or end funding or other support that will materially threaten the viability of the organisation or service it provides, should give at least 3 months' notice to both the organisation involved and the public/service user. In order to ensure that the Council complies with these requirements, the 2015/16 revised estimates for grants will be reported for approval to Council by mid December 2015.

## 16 EQUALITIES AND DIVERSITY IMPLICATIONS

- 16.1 The impact of budgetary and service changes is considered and reported to Members as appropriate.

**17 RISK IMPLICATIONS**

- 17.1 The Government has only announced local authority funding for the current year. The MTFS is currently based on a balance of the worse and best case scenarios, taking into account the Government's various announcements. This means there is a risk that the savings targets identified over the life of the MTFS will be insufficient to meet future shortfalls.
- 17.2 Cuts in the Council's expenditure and the continuing uncertainty over future years may have an impact on staff morale. Hence, it continues to be important, for the Council to be clear in its comments over the approach it is taking. Decisions and communication around the MTFS will help with this.

**18 RESOURCE IMPLICATIONS**

- 18.1 Changes to resource implications identified since the MTFS was agreed by Council in January 2015 have been discussed in the body of this report. Having a robust budget process and sound financial management is key to ensuring that the Council is able to deliver high quality services within a balanced budget.

I confirm that the above recommendation does not depart from Council policy and that appropriate consideration has been given to any budgetary and legal implications.



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