

CABINET

18 February 2014

Title: Budget Framework 2014/15	
Report of the Cabinet Member for Finance	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
Report Author: Kathy Freeman, Group Manager - Corporate Finance	Contact Details: Tel: 020 8874 3497 E-mail: kathy.freeman@lbdd.gov.uk
Accountable Director: Jonathan Bunt, Chief Finance Officer	
Summary: This report sets out the: <ul style="list-style-type: none">• Medium Term Financial Strategy (MTFS) for 2014/15 to 2017/18;• Proposed General Fund budget for 2014/15;• Proposed level of Council Tax for 2014/15;• Financial outlook for 2015/16 onwards;• Three year draft capital investment programme. <p>The General Fund net budget for 2013/14 is £178.3m and the proposed net budget for 2014/15 is £165.3m. The budget for 2014/15 incorporates changes in government grants, decisions previously approved by Members in the Medium Term Financial Strategy, savings approved by the Cabinet on 19 December 2012 and other financial adjustments.</p> <p>Council Tax for 2014/15 is proposed to remain at the current level (£1,016.40 for a Band D property). This would be the sixth consecutive year that Council Tax will have been frozen.</p> <p>The proposed draft capital programme is £250.2m for 2014/15 to 2015/16, including £134m for proposed HRA schemes. Details of the schemes included in the draft capital programme are at Appendix E.</p> <p>The Greater London Authority is reducing their precept by 1.3% for a Band D property, reducing the charge from £303.00 in 2013/14 to £299.00 in 2014/15.</p>	
Recommendation(s) Cabinet is asked to recommend the Assembly: <ul style="list-style-type: none">(i) To approve a base revenue budget for 2014/15 of £165.3m, as detailed in Appendix A;(ii) To approve the adjusted Medium Term Financial Strategy (MTFS) position for	

2014/15 to 2017/18 allowing for other known pressures and risks at this time, as detailed in Appendix B;

- (iii) To delegate authority to the Chief Finance Officer, in consultation with the Cabinet Member for Finance, to vary the contribution required from reserves in respect of the 2014/15 budget gap, pending confirmation of levies and further changes to Government grants prior to 1 April 2014;
- (iv) To approve the Statutory Budget Determination for 2014/15 as set out at Appendix C, which reflects a freeze on the amount of Council Tax levied by the Council, plus the final Council Tax announced by the Greater London Assembly on 14 February 2014 (1.3% reduction), as detailed in Appendix D;
- (v) To approve the Council's draft Capital Programme for 2013/14 to 2015/16 as detailed in Appendix E; and
- (vi) To approve the grant of business rate relief of £1,000 to all eligible retail premises with a rateable value of less than £50,000 in 2014/15 and 2015/16, as detailed in paragraph 7 of the report.

Reason(s)

The setting of a robust and balanced budget for 2014/15 will enable the Council to provide and deliver services within its overall business and financial planning framework. The Medium Term Financial Strategy underpins the Council's vision of "encouraging growth and unlocking the potential of Barking and Dagenham and its residents".

1.0 Introduction and Background

- 1.1 The purpose of this report is to seek agreement to the revenue budget for 2014/15 of £165.3m (£178.3m in 2013/14).
- 1.2 The report also sets out the Medium Term Financial Strategy (MTFS) for 2014/15 to 2017/18 and the Council Tax level for 2014/15.
- 1.3 As part of the budget setting process consideration has been given to the priorities set out in the existing Community Strategy and Corporate Plan and how best these can be achieved with the resources available.

The vision is 'Encourage growth and unlock the potential of Barking and Dagenham and its residents'.

The priorities are:

1. Every child is valued so they can succeed
2. Reduced crime and the fear of crime
3. Improve health and well-being through all stages of life
4. Creating thriving communities by maintaining and investing in new and high quality homes
5. Maximise growth opportunities and increase household income of borough residents

2.0 Medium Term Financial Strategy (MTFS)

- 2.1 The 2013/14 Finance Settlement provided the Council with higher than expected funding for 2013/14, resulting in a £5.2m surplus. Assembly agreed in February 2013 that this surplus be carried forward to support the 2014/15 budget.
- 2.2 The 2013/14 surplus significantly reduced the 2014/15 gap to £1.45m. It was agreed at Assembly that the remaining budget shortfall would be funded by a one-year contribution from General Fund balances.
- 2.3 Final allocations for 2014/15 and provisional allocations for 2015/16 were announced in the Local Government Finance report by DCLG (Department for Communities and Local Government) on 18 December 2013.
- 2.4 The difference between the position estimated in February 2013 and the final settlement for 2014/15 was a further funding decrease of £0.994m. This is shown in table 1 below:

Table 1 – Funding position estimated in February 2013 vs post December 2013 Settlement position

Funding Source	2014/15		
	Before £000	After £000	Diff £000
Formula & Specific Grant	11,807	12,213	406
Council Tax Freeze Grant	-	(540)	(540)
New Homes Bonus Grant	(1,328)	(342)	986
Benefits Administration Grant	-	25	25
NNDR Retained Above Baseline	-	978	978
Education Services Grant	-	50	50
Change in Funding			1,905

- 2.5 Since February 2013, an actuarial valuation was carried out which required an increased contribution of £0.150m to address the Pension Fund deficit.
- 2.6 Changes to the Council Tax base and the Collection Fund resulted in an increase to the funding gap of £0.563m.
- 2.7 Elevate contract savings of £0.971m further reduced the funding gap.
- 2.8 To smooth the effect of variances between actual and estimated Council Tax and business rates income the Council has a Collection Fund Reserve. All of the available reserve of £1.553m is being used to address the deficit on the Collection Fund and variance in business rates income.
- 2.9 Information from the East London Waste Authority (ELWA) showed that the MTFS had built in a levy increase of £0.5m more than will be required for 2014/15.
- 2.10 The changes outlined in paragraphs 2.4 to 2.7, reduces the February 2013 budget gap from £1.45m to £1.111m, as the final position for 2014/15 to be funded by a

one off contribution from reserves. These changes are summarised in table 2 below.

Table 2 – MTFS Changes since February 2013

Medium Term Financial Strategy Pressures and Adjustments	2014/15 £000
Opening MTFS Budget Gap	1,450
Funding Changes (Table 1)	1,905
Council tax – increase in base	(193)
Collection fund deficit from prior years	756
Increased contribution to pension fund deficit	150
Elevate contractual savings	(971)
Contribution from Collection Fund Reserve	(1,553)
Reduction in levies	(500)
MTFS Budget Gap – Feb 2014	1,044
Contributions from reserves	(1,044)
Additional Savings required	-

- 2.11 Following the 2014/15 finance settlement the Council's net budget requirement is £165.3m. Table 3 below shows how this is funded and details the changes in funding from 2013/14 to 2015/16.
- 2.12 Since the start of the Comprehensive Spending Review 2010, the Council's funding has been cut by c£55m by 2015/16 and savings of £105m would have been made.
- 2.13 Table 3 shows that government funding has reduced by 8.2% (£11.2m) in 2014/15 then by a further 15.3% (£19.2m) in 2015/16.

Table 3 - Sources of funding 2013/14 to 2015/16

Funding Source	2013/14 £000	2014/15 £000	2015/16 £000
Formula & Specific Grant	124,888	112,681	95,677
Education Services Grant	4,921	4,871	3,671
New Homes Bonus Grant	2,892	3,234	4,098
Council Tax Freeze Grants	1,885	2,419	2,418
Benefits Administration Grant	1,860	1,835	435
Weekly Collection Grant (Refuse)	417	417	-
Government Funding	136,642	125,457	106,299
Collection Fund Surplus/(Deficit)	450	(756)	-
Council Tax Precept	40,610	41,187	41,987
NNDR Retained Above Baseline	410	(568)	(568)
Local Funding	41,470	39,863	41,419
Total Funding	178,333	165,320	147,718

- 2.14 No further information has been announced beyond 2015/16 as Spending Round 2013 only covered 2015/16 due to the national elections.

3.0 General Fund Revenue Budget 2014/15

- 3.1 The proposed budget for 2014/15 has been set starting with the original 2013/14 budget approved by Assembly in February 2013. This was then adjusted for items detailed in the approved MTFs and other adjustments made in accordance with financial regulations during 2013/14.
- 3.2 The Chief Finance Officer has advised that in order to ensure the Council's financial base is not eroded that Council Tax levels should increase. However, a political decision has been taken to keep Council Tax frozen for a further year. If annual Council Tax increases were made, this would have increased the Council's base budget by £7.5m, assuming increases up to the cap. The Council Tax Freeze Grant has however partially offset this by £2.4m.
- 3.3 Proposed Directorate budgets are provided in Appendix A and the Statutory Budget Determination for 2014/15 is set out in Appendix C of this report.
- 3.4 In order to address the funding reductions as well as other service pressures outlined in the MTFs, Cabinet in December 2012 approved savings of £7.749m in respect of 2014/15. An analysis of savings by Directorate was provided in Appendix B of the Budget Strategy Report (December 2012). An equalities impact assessment of savings options was also completed based on separate assessments for each saving and can be found at Appendix D of the same report. A recent review on the implementation of 2014/15 savings shows that the majority of proposals are being delivered as agreed. A shortfall of £0.120m has been identified. This shortfall will be monitored and addressed as part of the monthly budget monitoring process from April 2014 onwards.
- 3.5 The proposed net budget requirement for 2014/15 is £165.3m and the details of how this is funded are set out in Table 3 of this report.
- 3.6 Details of the levies (Environment Agency, East London Waste Authority, Lee Valley Park, London Pension Fund Authority) the Council is required to pay in 2014/15 have yet to be confirmed. The budget includes an increased provision for the cost of levies of £200k for 2014/15 which, based on current information provided by the levying authorities, is expected to be sufficient.

4.0 Council Tax Requirement

- 4.1 The Council proposes to freeze its Council Tax for 2014/15 (£1,016.40 for a Band D property). This will be the sixth consecutive year the Council has set a budget without increasing Council Tax.
- 4.2 The Mayor of London has set a 1.3% reduction in the Greater London Authority precept for 2014/15. The precept will be reduced from the 2013/14 amount of £303.00 to £299.00 (Band D property). This reduction was approved by the London Assembly on 14 February 2014.

- 4.3 Councils who opt to freeze their Council Tax will receive a grant from the government in 2014/15 and 2015/16. Barking and Dagenham will receive additional funding of £545k and this has been factored into the MTFS.
- 4.4 The calculation of the proposed Council Tax for 2014/15 is shown in Appendix D.
- 4.5 Under the Local Government Finance Act 1992, Council Tax must be set before 11 March of the preceding year.

5.0 Financial Outlook

- 5.1 The Chancellor's Autumn Statement made on 5 December 2013 estimated the economy was expected to recover at a similar rate to that forecast in the 2013 Budget. However this is still below the growth projected in the 2012 Budget.
- 5.2 The provisional settlement for 2015/16 indicates significant reductions in government funding of £19.2m. This represents 11.5% of the proposed 2014/15 budget.

5.3 Pressures arising from legislative and funding changes

- 5.3.1 In May 2013, the Care Bill was introduced to ensure that citizens should not face unmanageable or unpredictable costs for their social care needs in old age. The Bill proposed that no individual should have to pay more than £60,000 for care costs in their lifetime, with councils being liable for costs above the cap. The Bill also proposes to increase capital thresholds for residential and nursing care from £14,250 (lower) and £23,250 (upper) to £17,500 (lower) and £100,000 (upper), before service users are liable for the full cost of their care. Other aspects of the Bill include a universal deferred payment scheme and increased rights for carers. The primary legislation lacks sufficient details to accurately assess the financial implications. The Bill will be effective from 1st April 2016. At present, the MTFS assumes a cost pressure of £2.5m from 2015/16 and £4m per annum from 2016/17 onwards. Nationally, the Government has identified £335m in 2015/16 to cover the cost of early assessment and reviews, deferred payments, an information campaign and recruitment and training of staff. The indicative allocation for the Council is £1.084m. At present, no further announcements have been made regarding the on-going costs of the Care Bill.
- 5.3.2 The Children and Families Bill 2013 proposes to extend provision of Local Authority Special Educational Needs (SEN) support from birth to 25, beyond the current system of support from 5 – 18. The Council's budget of supporting SEN placements is c£5m per annum, funded from the Dedicated Schools Grant. There is also an element of expenditure within the General Fund to fund passenger transport and assessments. Based on current numbers of children receiving SEN support, the MTFS factors in a pressure of £1.25m for 2015/16 should the DSG be unable to contain this pressure.
- 5.3.3 The Council's Education Services Grant is based on the number of pupils in schools under Council control. As more schools leave Council control the grant will be reduced accordingly. The Government is currently consulting on the impact of reducing the grant by 20% - this equates to a £1.2m reduction which has been incorporated into the MTFS for 2015/16.

5.3.4 The Council also receives funding to administer the Local Welfare Provision scheme (£0.915m for 2014/15). The funding is allocated to support the most vulnerable people for food, gas and electricity supplies. From 2015/16 government is ending the grant.

5.4 New and potential opportunities from 2015/16

5.4.1 New opportunities will arise in 2015/16 as the Government will create a £3.8bn pool to integrate health and social care, enabling councils to invest in prevention and early intervention, in the form of the "Better Care Fund". £1.1bn will be transferred from the NHS for 2014/15 to support the new agenda, however the funding must be used to support adult social care services which have a health benefit, and plans must be agreed with local health partners on how the funding is best used within social care. Councils must submit agreed plans setting out performance targets by 4 April 2014.

5.4.2 For 2015/16, Barking and Dagenham Clinical Commissioning Group (CCG) will receive a revenue allocation of £13.055m in respect of the Better Care Fund, including £4.185m in respect of continuing resources paid direct to the Council as a Social Care grant for the last time in 2014/15. The minimum contribution the Council has to make to the Better Care Fund is £1.180m in respect of capital grants (disabled facility grants and the adult social care capital grant).

5.4.3 The minimum Better Care Fund pool in 2014/15 is £14.235m (£13.055m plus £1.180m), and both the CCG and the local authority are free to extend the scope of the pooled budget to support better integration in line with the Joint Health and Wellbeing Strategy. The final Better Care Fund Plan for 2014/15 and 2015/16 will be considered by the Health and Wellbeing Board at its meeting on 25 March 2014.

5.4.4 An extension to the Troubled Families programme of £200m will be made available to support another 400,000 families. This will operate as before on a 'Payments by Results' basis.

5.4.5 Proposals were announced allowing councils increased flexibility over capital receipts from assets to fund one-off revenue costs of reforming services. Further guidance will be available in the New Year.

5.5 Demographic and other Corporate pressures

5.5.1 Members are aware that 31% of Barking and Dagenham's residents are between 0-18. This is 30% higher than the London average and causes substantial pressures on the Children's social care budget. To date, Children's Services have largely managed this pressure through taking management action and flexible use of grant funding. However as these funds are exhausted, this leaves an on-going pressure of £3m per annum. Children's Services will continue to manage down this pressure though additional in year funds made need to be transferred to support the budget in 2014/15. This pressure increases the MTFs budget gap for 2015/16.

5.5.2 Corporate pressures are reviewed annually but are set on a three year rolling basis. The pressures based on the impact of other decisions, actuarial valuations, estimated cost of levies, revenue implications of borrowing costs from the approved capital programme and any contingencies required to support the budget.

5.6 Table 4 below captures the funding changes, potential pressures and opportunities outlined in section 5 above. The table illustrate three different scenarios:

- Best case scenario – assumes Government will fully fund the legislative changes, and demographic pressures for Children’s placements continue to be managed within the directorate.
- Middle case scenario – assumes Government will partially fund the legislative changes, and Children’s Services identify management actions to partially offset the demographic pressures.
- Worst case scenario of each pressures above – assumes no additional funding will be allocated and demographic pressures cannot be contained within the Directorate at all.

Table 4 - Potential 2015/16 MTFS gap based on scenarios above

	Best £000	Mid £000	Worst £000
Opening budget gap / (surplus)	1,044	1,044	1,044
Funding changes	18,402	18,402	18,402
Contingency to cover budget risk	2,000	2,000	2,000
Contribution from Collection Fund reserve	1,143	1,143	1,143
Investment in the capital programme	1,500	1,500	1,500
Staff pay award	1,000	1,000	1,000
ELWA levy increase	700	700	700
Increased contribution to pension fund deficit	650	650	650
2% increase in Council Tax	(800)	(800)	(800)
Elevate contractual savings	(100)	(100)	(100)
Implications of the Care Bill 2013	0	2,500	5,000
Implications of the Children and Families Bill	0	1,250	2,500
Children’s placement pressures	0	3,000	6,000
Revised budget gap / (surplus)	25,539	32,289	39,039

6.0 Post Comprehensive Spending Review – 2016/17 and 2017/18

6.1 The Autumn Statement focused on the continuing need to reduce spending and the government reinforced its commitment to tackling the deficit, to help get the public finances back in to balance. Therefore the reduction in funding can be expected to continue over the coming years.

6.2 Due to the election, CLG has given no indication regarding future funding arrangements beyond 2015/16. No commitment to funding the Council Tax Freeze grants worth £2.4m to the Council has been given past 2015/16. This funding could continue or be redistributed as part of the formula grant.

6.3 The table below models different reduction scenarios to provide an indication of the possible outcomes.

Table 5 – Indicative cuts to central funding from 2016/17 to 2019/20

% of Reduction	6%	8%	10%	12%	14%
	Annually £m	Annually £m	Annually £m	Annually £m	Annually £m
2016/17	6.4	8.5	10.6	12.7	14.9
2017/18	6.0	7.8	9.6	11.2	12.8
2018/19	5.6	7.2	8.6	9.9	11.0
2019/20	5.3	6.6	7.7	8.7	9.5
Total	23.3	30.1	36.5	42.5	48.2

6.4 Based on funding reduction trends and analysis carried out by the Greater London Authority (GLA), the Council's MTFS assumes further pressures for 2016/17 of £21.8m and £17.7m for 2017/18 respectively. Taking the mid-case scenario for 2015/16 outlined in table 4 above of £32.3m, the three year budget gap from 2015/16 is estimate to be over £70m.

6.5 Officers have already started work identifying potential saving targets via a series of budget reviews to address the estimated three year gap 2015/16 to 2017/18.

7.0 Business Rates Retail Relief

7.1 Central Government announced in the Autumn Statement on 5 December 2013 that it will provide relief of up to £1,000 to all occupied retail properties with a rateable value of £50,000 or less in 2014/15 and 2015/16. Government are leaving the process for awarding the relief up to the discretion of local authorities.

7.2 Any loss of income incurred by the Council through granting this relief will be fully funded by central Government through a Section 31 grant. There are approximately 1,400 eligible properties which equates to a grant of £300k for the Council.

7.3 As this is a discretionary relief, local authorities need to agree to award the relief before it can be granted. Should Members agree to award the relief then this will be applied to all properties with rateable value of less than £50,000 as part of the annual billing, unless the Council has evidence that they do not meet the criteria of a retail premises.

8.0 Capital Programme

8.1 The Council is required to review its capital spending plans each year and set a capital programme. A key consideration when setting the programme is the projected level of available capital resources and the affordability of the overall programme, including the revenue cost of financing any debt.

8.2 The level of existing internal resources has been reviewed during the year and where relevant capital receipts and other capital reserves are being used to reduce the borrowing requirement of the approved programme in order to reduce debt charges on the Council's revenue budget. Officers will continue to review the level of borrowing and to identify further reductions that can be made.

8.3 New schemes that have identified external funding (e.g. government grants) are added to the capital programme during the year and are appraised internally as and when the development arises. Further borrowing will only be possible for new schemes where the expenditure is essential for statutory and/or health and safety reasons to enhance assets that are in need of urgent maintenance or where the completed project generates an income stream that will enable the financing of the incurred debt.

8.4 Current capital programme

The current approved capital programme for the Council for 2013/14 (as at the end of December 2013) is £138.1 million. There are currently also draft capital budgets for 2014/15 and 2015/16 of £176.3 million and £73.9 million respectively, which are still subject to change, roll-forwards and re-profiling. A summary of these budgets is shown in the table below.

Table 6 – Draft capital programme 2013/14 to 2016/17

Capital Expenditure	2012/13 Actual £'000	2013/14 Approved £'000	2014/15 Proposed £'000	2015/16 Proposed £'000	2016/17 Proposed £'000
General Fund	57,473	56,991	84,014	32,265	(TBC)
HRA	31,059	81,170	92,315	41,639	39,757
Approved Programme	88,532	138,161	176,329	73,904	39,757
Financed by:					
Capital Grant	43,825	55,100	85,536	31,620	0
Revenue Contributions	6,120	1,009	0	0	
Section 106	931	846	400	0	0
Capital Reserves	1,056	452	765	0	0
Capital Receipts	4,521	25,684	13,026	6,375	0
MRR & HRA funding	17,548	48,090	65,552	35,629	39,757
Sub-Total	74,001	131,181	165,279	73,624	39,757
Net financing need*	14,531	6,980	11,050	280	0

* *Borrowing requirement*

8.5 The current 2013/14 programme is funded by £55.1m worth of capital grants and contributions, £1.0m of revenue funding, £26.9 of other capital sources (capital receipts, Section 106, and reserves), £48.0m in HRA resources (including the Major Repairs Allowance - MRA), with the remaining £6.9m funding requirement met from borrowing.

8.6 Following the recent budget re-profiling exercise approved by Cabinet, current year-end forecasts show an underspend of £8.6m as at December, against a budget of £138.2m. The current budget is a reduction to the July 2013 budget of £155.3m following approval of the 2012/13 roll-forwards. Any slippage in the remainder of the year will be subject to carry forward requests and submitted to Cabinet for approval in June 2014.

- 8.7 The full list of approved schemes is included at Appendix E. Future capital scheme proposals will be considered as and when new funding streams are identified, or where there are major Council developments which will require capital investment to meet strategic objectives. Essential remedial works for health and safety or statutory reasons will be met, however it is planned that further borrowing will be kept to an absolute minimum.
- 8.8 To meet the statutory demand for school places, the Council will continue to lobby for additional funds from central Government, as it has achieved some success at this in the past. The Council has recently been awarded with £19.0m of Basic Needs funding over the following three years (2014/15 – 2016/17).
- 8.9 The Council is working on implementing the ICT strategy and has identified a number of projects that will improve the way IT services are delivered. Projects such as the next phase of My Account, network performance enhancements and server upgrades which total £0.765m have been added to the capital programme for 2014/15 which will be funded through capital reserves.
- 8.10 A draft capital programme is presented for approval as amendments will be required before 1 April 2014 when further information becomes available, particularly the roll forwards / slippage from the current financial year. The amendments will be carried out in accordance with financial regulations.
- 8.11 **Capital appraisal and monitoring arrangements**
- 8.12 The Council has in place a capital appraisal process for new capital schemes. These arrangements have recently been revised, in consultation with project managers and Capital Delivery, in order to ensure it is streamlined and efficient (including preventing delays in getting projects approved), but also to ensure that proposed schemes are robust in terms of financial control, risk management, and deliverability. The appraisal process includes an analysis of the strategic fit of the scheme, options appraisal and key risks, financial implications, a detailed risk register, health and safety issues, and deliverability and key milestone issues. Only once a scheme successfully meets all these criteria can physical works commence.
- 8.13 The Council also has a capital monitoring system, which is primarily designed to ensure that projects are delivered within the timescales and within the budget. The capital programme is supported by the Capital Delivery Team and is monitored by Project Managers in consultation with the Finance Service. Upon the implementation of the new Oracle R12 system, Project Managers will have the facility to enter forecasts directly on to Oracle, which will be available for review by other relevant officers, and hence will be a more efficient way of reporting.
- 8.14 Also introduced this year is more streamlined and consistent budget re-profiling process for capital schemes. Capital schemes will now only be re-profiled in three dedicated windows, which will be within the reports presented to Cabinet in June, November, and February.

9.0 Capital Financing Requirement (CFR)

- 9.1 As at the end of 2012/13 the Council had a total capital financing requirement (CFR) of £491.578m (as shown in the Council's published Statement of Accounts). By the end of 2013/14 this is predicted to decrease to £488.761m.
- 9.2 This decrease is due to the excess of the Minimum Revenue Provision (MRP), i.e. the statutory provision to repay debt, over the new borrowing requirement for 2013/14. There is a general downward trend in the predicted future years' capital financial requirement, as MRP continues to exceed new borrowing requirements, which reduces the Capital Financing Requirement. However there is an exception within 2014/15, where there is slight overall increase, as the HRA is expecting to borrow a further £9.9m.
- 9.3 By 2016/17 the total CFR is currently predicted to fall to £472.632m, based on current borrowing predictions. As noted above however, there are draft / unapproved plans to borrow up to an additional £9.1m for Highways Improvements, which would cause upward pressure on the CFR.
- 9.4 The Council currently has £315.9m of external loans. The 2012/13 CFR less leases and PFI's is £431.6m. Thus there is a gap of £115.7m between the Council's theoretical borrowing requirement (the CFR) and its actual external loans. This difference is funded by 'internal borrowing', which is the use of other internal cash balances. This approach makes it cheaper, as the Council saves the external interest cost that would have been paid on this balance.

Table 7 – Capital Financing Requirement (CFR)

	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Capital Financing Requirement (CFR)					
Cumulative CFR	163,898	163,121	156,857	149,939	143,817
CFR - Housing	267,722	267,722	277,649	277,649	277,649
Alternative Financing	59,958	57,918	55,771	53,528	51,167
Total CFR	491,578	488,761	490,097	481,117	472,632
Movement in CFR	6,140	(2,817)	1,336	(9,314)	(8,484)
Movement in CFR Represented By:					
Net Borrowing Need for the year	14,531	6,980	11,050	280	-
MRP & other financing	(8,391)	(9,797)	(9,714)	(9,621)	(8,484)
Movement in CFR	6,140	(2,817)	1,336	(9,341)	(8,484)

- 9.5 In terms of the affordability of the capital programme, the following table sets out the financing cost of borrowing against the net budget / revenue stream for the General Fund and for the HRA. In the case of the General Fund, the financing cost below includes both the MRP (principal repayment) and the net interest cost, and is shown as a proportion of the Council's overall net budget. In the case of the HRA, the financing cost relates only to interest payable, as the HRA does not have an equivalent to the MRP, and it is shown as a proportion of the total HRA revenue stream.

Table 8 - Ratio of financing costs to net budget / revenue stream

	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
General Fund Financing cost					
MRP & Other Financing (table 8)	8,391	9,797	9,714	9,621	8,484
Net Interest Payable / (Receivable)	654	885	500	150	(150)
Total	9,045	10,682	10,214	9,771	8,334
Net budget	177,379	178,333	167,510	148,593	-
Financing cost as a % of Net Budget	5.1%	6.0%	6.1%	6.6%	-
HRA Financing cost					
Financing Cost Interest Payable	9,294	9,759	10,120	10,120	10,120
Total Revenue Stream	103,775	106,774	108,803	112,067	115,429
Financing cost as a % of Revenue	9.0%	9.1%	9.3%	9.0%	8.8%

9.6 The table above shows that as the Council's net budget continues to reduce, the financing cost becomes a greater proportion of the net budget, despite the financing cost also reducing. In contrast, within the HRA the financing cost as a proportion of the total HRA stream revenue peaks in 2014/15 and then decreases, reflecting increases in future HRA revenues and a stable financing cost.

9.7 The following tables also set out what proportion each Band D equivalent of the council tax base, and each HRA dwelling contributes on average towards the total financing costs for the General Fund and HRA respectively per week.

Table 9 - Impact of capital spending plans on Council Tax and rents

General Fund	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council Tax Base (Band D equivalents)	53,087	39,956	40,522	41,088	41,654
Proportion of Capital Financing cost per Band D equivalent	£3.28	£5.14	£4.85	£4.57	£3.85

HRA	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Housing Stock (number of properties)	19,200	18,000	17,000	17,000	17,000
Proportion of Interest payable per dwelling	£9.31	£10.43	£11.45	£11.45	£11.45

- 9.8 For the General Fund there is an increase between 2012/13 and 2013/14 to reflect both the increase in the MRP and a reduction to the Council Tax base as a result of Council Tax support localisation. From 2013/14 onwards there is a steady reduction, which reflects predicted increases in population and reductions in capital financing. For the HRA there is an increase in the contribution per dwelling until 2014/15, which reflects the reduction in the number of dwellings and the increase in the financing cost.
- 9.9 The following table also sets the incremental impact on Council Tax and Housing rents, relating to the changes in the borrowing profile from last year.

Table 10 – Impact of changes in borrowing projects since last year

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council Tax – band D	-£5.81	£1.79	- £6.03	£0.58	-
Weekly Rents	£0.00	£0.00	£0.00	£0.00	£0.00

- 9.10 The full set of Prudential Indicators is included in the Council's annual Treasury Management Strategy statement.

10.0 Consultation

- 10.1 A consultation on the 2014/15 savings was carried out in the autumn of 2012. Details of the consultation are included in Appendix F of the Budget Framework 2013/14 report that was presented to Assembly on 25 February 2013.
- 10.2 Since the approval of the 2014/15 savings by Cabinet on 19 December 2012 no new savings have been proposed.

11.0 Financial Implication

- 11.1 Financial Implications have been covered throughout the report.

12.0 Legal Implications

Implications completed by Paul Feild, Corporate Governance Lawyer

- 12.1 A local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. The current budget setting takes place in the context of significant and widely known reductions in public funding to local authorities. Where there are reductions or changes in service provision as a result of changes in the financial position the local authority is free to vary its policy and consequent service provision but at the same time must have regard to public law considerations in making any decision lawfully as any decision eventually taken is also subject to judicial review. Members would also wish in any event to ensure adherence as part of good governance. Specific legal advice may be required on the detailed implementation of agreed savings options. Relevant legal considerations are identified below:
- 12.2 Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, so for example if savings proposals will affect staffing then it will require consultation with Unions and staff. In

addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet.

12.3 If at any point resort to constricting expenditure is required, it is important that due regard is given to statutory duties and responsibilities. In particular the Council must have regard to:

- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must be fulfilled or varied with agreement of current providers;
- any legitimate expectations that persons already receiving a service (due to be cut) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
- any rights which statute may have conferred on individuals and as a result of which the council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs statement of special educational needs in the education context);
- the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
- to any responses from stakeholders to consultation undertaken.

12.4 In relation to the impact on different groups, it should be noted that the Equality Act 2010 provides that a public authority must in the exercise of its functions have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant 'protected characteristic'. This means an assessment needs to be carried out of the impact and a decision taken in the light of such information.

13.0 Other Implications

13.1 **Risk Management** – This report concerns financial risks carried by the Council. The report sets out how the Council will manage and minimise these financial risks.

13.2 **Contractual Issues** – There are no contractual risks directly linked to this report however the impact of the savings approved as part of this budget report may have an impact on individual contracts.

13.3 **Staffing Implications** – The savings plans for 2014/15 have been known for some time and where these have had implications for staff consultation will have taken place in accordance with the HR policies and procedures around change. The implications of the MTFP for staff are significant and we are already briefing Trade Unions and staff on the potential implications.

13.4 **Customer Impact** – The freezing of Council Tax at 2010/11 levels is designed to minimise the financial impact on residents. The saving options have been subject to an assessment of equalities and diversity implications and consideration given to the extent of adverse impact on customers. Extensive consultation has also taken place. Front line services have been protected as far as possible, but some cuts to front line services have been unavoidable.

- 13.5 **Crime and Disorder Issues** – The Crime and Disorder Act places a duty on the Council as a responsible authority to have regard to the reduction and prevention of crime and disorder in its decision making process and policy development and delivery. As such in terms of financial constraints it is important to have regard to the impact of budget reductions in terms of crime and disorder.
- 13.6 **Property / Asset Issues** – Some of the savings proposals have indirect property/ asset implications with regards building closures resulting from service reviews, which will reduce the Council's property estate. The implications of these will be dealt with on a property-by-property basis in line with the Council's disposal rules. Additionally the continued reduction in posts across various areas of the Council may result in increased health and safety management risks within the borough.
- 13.7 **Health Issues** – The Department of health notified LBBD that a ring-fenced public health grant of £14.213m had been approved for 2014/15. This is in addition to the £12.921m that was allocated to the Council in 2013/14. The Department of Health (DH) expectation is that funds will be utilised in-year, but if at the end of the financial year there is any underspend, this can be carried over, as part of a public health reserve, into the next financial year. In utilising those funds in the next year, the grant conditions will still need to be complied with.

Public Health England has also declared that the Public Health grant will be ring-fenced for a third year (2015/16), although specific amounts for each local authority have not yet been disclosed. It is anticipated that these will be released in December 2014.

The Health Premium Incentive Scheme will be introduced in 2015/16. It will be designed to reward communities for making progress against certain indicators identified from the Public Health Outcomes Framework. The selected health premium indicators will be communicated to local authorities by March 2014. The first incentive payment will be in the year 2015/16 to ensure local authorities are rewarded for the improvements they make.

The 2014/15 budget allocation of £14.213m has been provisionally allocated as a result of a zero-based budgeting exercise. Requests for project funding have exceeded the £14.213m grant available, but the forecast underspend from 2013/14 could be used to meet this shortfall (£667k), assuming all 2014/15 budgets are approved, as shown in the table below. This will be reviewed following the finalisation of the outturn position in May 2014. Until this point, some schemes will need to be placed on a reserve list. There may be a further potential pressure of up to £5m in 2015/16, hence decisions on priorities for investment will need to be made.

Background Papers Used in the Preparation of the Report: None

List of appendices:

Appendix A – Revenue Budget 2014/15

Appendix B – MTFs 2014/15 to 2017/18

Appendix C – The Statutory Budget Determination

Appendix D – Calculation of the Council Tax Requirement

Appendix E – Draft Capital Programme