

Report To: Cabinet

Date of Meeting: 14th January 2014

Lead Member/Officer: Julian Thompson-Hill/Paul McGrady

Report Author: Paul McGrady, Head of Finance & Assets

Title: Budget 2014/15

1. What is the report about?

The report provides an update of the budget setting process and details proposals to be approved by County Council to set the council's revenue budget for 2014/15.

2. What is the reason for making this report?

The Council is legally required to set a balanced and deliverable budget before the start of each financial year and to set the resulting level of Council Tax to allow bills to be sent to residents.

3. What are the Recommendations?

That Cabinet supports the budget proposal for 2014/15 as shown in Appendix 1 and recommends accordingly to full Council.

That Cabinet recommends the resulting 3.5% increase in the level of Council Tax for 2014/15 to full Council.

4. Report details

Analysis of the Draft Local Government Settlement and the consequences for the council indicated that savings of approximately £8.5m would be required. This was confirmed in the Final Settlement received in December.

The budget process has so far resulted in savings of £1.7m for 2014/15 being approved by County Council in September (Phase 1) and £4.7m (Phase 2) on 3rd December. The details of these savings are enclosed as Appendix 2.

The Phase 1 savings were items that had been proposed as part of the 2012/13 and 2013/14 Service Challenge process and had been debated accordingly. Phase 2 savings were presented to a member budget workshop on 21st October and each proposal was presented by lead cabinet members, providing details of the saving, the impact and an assessment of risk. This was the second of three budget workshops held to inform the debate around the 2014/15 budget. Following the workshop, elected members were invited by the Lead Member for Finance & Assets and the Head of Finance & Assets to comment on any of the proposals prior to the council meeting in December.

Phases 1 and 2 identified savings of £6.459m, leaving a gap of approximately £2.0m to find. This gap was the focus of a third budget workshop held on December 9th.

The event was attended by 31 members. The papers presented at the workshop were circulated in advance to all members and have been published on Modern.gov and are therefore available to all members to access.

The key theme of the workshop was to present details and options to be considered to bridge the £2m budget gap for 2014/15.

The key information presented included:

- An update of the in-year position of social care and education budgets
- Analysis of school funding
- Options to increase school budgets
- Review of balances and reserves
- Corporate Plan update
- Council Tax options
- Additional Savings Proposals
- Recommendation

Appendix 1 shows the details of the proposals to bridge the £2m gap. The additional saving proposals for 2014/15 relate to bringing forward savings previously identified for 2015/16 and total £395k. Of this, £95k relates to bringing forward restructures in Business Planning & Performance and £300k is the proposed removal of the budgeted contribution to balances one year earlier than originally planned. The recommendation included a proposal to use a general balances as part of the budget in 2014/15. Although the workshop was an informal event, there was general acceptance of the recommendation to balance the budget with further debate required around the level of Council Tax increase.

Final budget proposals and the level of Council Tax for 2014/15 will have to be agreed by County Council in February 2014. At the latest budget workshop, some views were expressed informally about what the level of Council Tax increase should be. The options and implications are set out in the table below:

| Increase | Gross | C/Tax | Net | Additional |
|----------|----------|---------|----------|------------|
| | Increase | Benefit | Increase | Income |
| % | £'000 | £'000 | £'000 | £'000 |
| 2.75% | 1,119.31 | -279.83 | 839.48 | -228.95 |
| 3.00% | 1,221.06 | -305.27 | 915.80 | -152.63 |
| 3.50% | 1,424.57 | -356.14 | 1,068.43 | 0.00 |
| 4.00% | 1,628.08 | -407.02 | 1,221.06 | 152.63 |

The table shows that at a 3.5% increase, the budget is balanced. At the budget workshop there was debate around the level of Council Tax with some members requesting consideration of a lower level.

Appendix 1 shows the savings proposals and it is clear that services will find it difficult to deliver any further savings in 2014/15 at this stage. This would leave balances as the only source of funding to fill any gap left by a lower Council Tax.

The proposals in Appendix 1 already include the use of £500k of balances and deleting the budget that ‘tops up’ our balances each year. The importance of appropriate levels of balances has been highlighted over the past year with major flooding events in Ruthin, St Asaph and Rhyl and county wide problems with snow as well as an unexpected major claim from our previous insurance company. In each case we have been able to respond appropriately in the knowledge that funds are available to pay for any response and subsequent works. With uncertainties around the future of local government and increasing incidents of bad weather reducing balances further is not the most desirable course of action.

The use of balances also does not solve the underlying issue – it merely uses cash to temporarily plug a permanent hole in the Council’s finances and so defers the problem to another day. The budget for 2014/15 does not allow for any service specific cost pressures. Inflation has been built into the budget assumptions corporately to include items such as energy, pay and additional employer’s pension costs. Investment in priorities is proposed at a level of £750k. The delivery of the Corporate Plan is dependent on both budget and cash resources to facilitate Prudential Borrowing.

The proposed allocation of investment funding for 2014/15 is:

| | £'000 |
|--|------------------|
| Modernising Education/21st Century Schools | 650 |
| Highways - Road Improvements | 100 |
| | <hr/> 750 |

The investment in education includes £318k of savings agreed with schools as part of the Phase 2 budget savings. The allocation to Highways is match-funding to the allocation provided by Welsh Government to facilitate borrowing for road improvements.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council’s revenue and capital budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

The budget proposals contain £750k funding for 21st Century Schools, Modernising Education and improving Highways in line with the Corporate Plan

6. What will it cost and how will it affect other services?

The saving target for 2014/15 is £8.5m. The council's net revenue budget will be £187m compared to £191m in 2012/13. The cash reduction in the council's revenue settlement from Welsh Government is -4.6%.

7. What consultations have been carried out?

Prior to approval by county Council, the savings agreed so far have been discussed with Heads of Service and Lead Members, presented to member budget workshops and have been circulated to staff. The final proposals to balance the budget have been discussed in detail at a member workshop and members have been given the opportunity to raise issues prior to the final report going to Council. The Corporate Governance Committee has been provided with regular updates as it has an oversight role to the budget process.

This is the third formal report with budget recommendations. The previous two have also been through workshops, Cabinet and full Council and been reviewed by the Corporate Governance Committee.

8. Chief Finance Officer Statement

The council faces significant financial challenges over the coming years. The budget as proposed is realistic and deliverable. It makes sufficient savings to balance our position, protects front line services from major reductions and allows investment of £750k into Council priorities.

The use of balances as proposed is not ideal, but gives the Council some breathing space to develop further savings proposals for 2015/16. The Council will still have sufficient balances to deal with any reasonable contingencies.

9. What risks are there and is there anything we can do to reduce them?

If the budget is not agreed within the relevant timescale then the Council will be breaking the law. This is the most challenging financial period the council has faced and failure to deliver the agreed budget strategy will put further pressure on services in the current and future financial years. Effective budget monitoring and control and early reporting of variances will help ensure that the financial strategy is achieved.

The budget process and medium term financial plan assumptions are risks identified both in the corporate and departmental risk registers. The corporate risk register and mitigating actions is regularly reviewed by CET.

10. Power to make the Decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their finances.