

1	Meeting:	OVERVIEW AND SCRUTINY MANAGEMENT BOARD
2	Date:	12th July, 2013
3	Title:	General Fund: <ul style="list-style-type: none"> • Budget Principles: 2014/15 and onwards; • 2014/15: Proposed Budget Setting Timetable; and • 2013/14: Reporting in year financial budget performance
4	Directorate:	Resources

5 Summary

In setting the 2013/14 Revenue Budget, it was recognised that the current budget principles, that had served the Council well since the Coalition Government's programme of austerity started, would need to be refreshed in light of recent announcements that further significant funding reductions for local government were likely to continue until at least 2018. This report proposes a refreshed set of budget principles on which the 2014/15 General Fund (GF) Revenue Budget and Medium Term Financial Strategy should be based.

The report also recommends for Cabinet approval the proposed Budget Setting Timetable for setting the 2014/15 Revenue Budget and Medium Term Financial Strategy (MTFS), and the proposed approach to reporting the Council's in year financial performance to Cabinet for the financial year 2013/14.

Recommendations

OSMB to note:-

- **The refreshed Principles on which the 2014/15 General Fund Revenue Budget and Medium Term Financial Strategy.**
- **The proposed budget setting timetable for the Revenue Budget 2014/15 and MTFS.**
- **The proposed approach to reporting to Cabinet the Revenue Budget Monitoring position for 2013/14 financial year onwards.**

7.1 Background

Local Government has seen significant funding cuts since the Coalition Government was elected. Rotherham Council has had to find cumulative savings of over £50m in 2011/12 and 2012/13 respectively and is required to deliver a further £20.2m savings during the course of 2013/14. The provisional settlement for 2014/15 and the Chancellors most recent budget statement indicates that Rotherham will see funding reduction of more than 10%, with further year on year reductions expected until at least 2018.

The date for the next Spending Review (SR) has been announced as 26th June 2013 when details of funding settlements for the next few years will become apparent – professional commentators expect local government funding to reduce by over 50% over the two SR periods. This will aid our medium term financial planning in further developing our understanding as to the potential scale of the financial challenges to be faced.

In addition to significant funding cuts, Local Government is starting to see the impact of the significant Welfare Reform changes on its residents and in particular on those on low income levels. Equally, these will have significant implications for the Council in terms of likely demand for services and for its financial performance and overall long term financial position. Further, the increasing localisation of funding for Business Rates and the newly implemented Council Tax Reduction Scheme, will mean the Council having to bear an increasing financial risk, especially in these difficult financial and economic conditions for a large number of businesses and residents in the borough. Given the recency of these changes and the Government's transition timetable for welfare reform, the full extent of the impact on the borough's economy, its people and the Council is still to be fully understood.

7.2 Proposed Budget Principles

7.2.1 Background

The Council needs to refresh its Medium Term Financial Strategy (MTFS). The following paragraphs propose the new budget principles on which the 2014/15 Budget and MTFS should be based and the proposed approach to updating the MTFS.

The Budget Principles we have adhered to over the last few years have ensured we have rationalised and aligned services wherever possible to deliver effective and efficient services within the funding available. However, some of our Budget Principles are no longer fit-for-purpose if the Council is to meet these expected challenging, sustained reductions in funding. We have strategically reintegrated and repositioned major partnerships to drive out further efficiency savings; our Support Services have been pared to a minimum and our staff head count has been reduced by over 1,000 with management posts reduced by 19%. We can no longer 'salami-slice' services to ensure spend is within budget - we are a very lean Council. We cannot sustain the next generation of savings without a **radically different direction**.

The context within which the Council provides services to its citizens is very challenging:-

Nationally it is recognised that global, Eurozone and UK economies are unlikely to pick-up in the short term and there is no political disagreement on both the scale of spending reductions needed and the need to adhere to current or expected spending plans.

At a local level:-

Citizens in Rotherham generally have poorer health outcomes than average (11.3% of our population have long term conditions which limit their activities a lot this is 36% higher than the national average (8.3%)).

There are fewer jobs available locally - Rotherham lost 11,000 jobs between 2007 and 2010, a reduction of 9.5% compared with a national reduction of just 1.2% and Rotherham's unemployment level in 2011/12 was 11.1% compared with 8.2% in England.

The need for Housing is great and is growing, EU migration from Bulgaria and Romania is likely to both increase demand on services and the number of children requiring care and see an increase in the number of older people needing care and for longer.

Rotherham has slipped a further 15 places to the 53rd most deprived Community in the country. Government Welfare Reform changes will have a further significant adverse impact on the poorest and most vulnerable in the Borough and this is expected to place even greater demand on Council services into the future – recent academic research suggests that by 2017/18 welfare reform changes will lead to £91m being lost from the Rotherham economy.

7.2.2 Council Priorities

In the face of this background, it is essential that the Council reconsiders its core offering to its citizens to ensure clarity of its future position in the Community.

The Council's prime future role is to act as advocate for Rotherham and influence and implement government policy locally to ensure the best outcome for Rotherham Citizens. In doing this we need to direct available resources to maximise the social, economic, environmental and cultural benefit to citizens now and into the future.

The Community Strategy and Corporate Plan objectives can be summarised as:

- **CP1- Stimulating the local economy and helping local people into work;**
- **CP2- Protecting our most vulnerable people and families, enabling them to maximise their independence;**
- **CP3- All areas of Rotherham are safe, clean and well maintained; and**
- **CP4- Helping people from all communities to have opportunities to improve their health and wellbeing.**

7.2.3 Proposed Budget Principles

Having regard for both the Council's Priorities, the significant ongoing funding reductions and welfare reform changes that the Council will face until at least 2018, the following **new Budget Principles are proposed** to ensure the Council operates effectively within the funding available:

- Focus and deliver on business and jobs growth;
- Help people to help themselves wherever possible;
- Provide early support to prevent needs becoming more serious and;
- Continue to adopt strong financial management and governance and tight control on spending

To enable this we need to:

- Focus on the things most important to all local people ('Crime & Grime');
- Shift scarce resources to areas of greatest need, including targeting and rationing services to a greater extent than at present;
- Limit spending to clearly essential items when tested against the new Budget Principles;
- Stop doing things that are not important to all local people; and
- Promote Local – where possible, maximise spending power within the Borough across the supply chain.

What this means for Rotherham:

- Need to create a Business/Jobs Growth Fund to focus on delivering new employment opportunities
- Not doing everything; provide fewer direct services and reshape many Council services to support people to do more for themselves where they are able to.
- Evidence tells us that 'Crime & Grime' are the most important services to all local people – without increasing costs, we must do things differently and get these services right.
- Using our dramatically reduced resources to tackle the biggest problems focussing on deprivation.
- Achieving the best quality, safest, most reliable outcome via the most affordable service delivery method.
- Direct provision of service only where we are the cheapest/best quality solution to meet the critical needs of our citizens.

7.2.4 The Council's Challenge

In order to work within the above Budget Principles the Council will need to consider and respond to a number of questions:

- What will future Council service delivery look like and to what level should we provide services in future?
- What does 'working differently' and 'doing different things' look like?
- What should be 'universal' services to all and which should be targeted, rationed or cease?
- How can we take a better lead in the community?
- How do we effectively communicate these new circumstances to our citizens?
- How do we involve our partners to work towards a common goal?

7.3 Medium Term Financial Strategy (MTFS) 2014/15 – 2016/17

The proposed approach for updating the Council's MTFS is:

A) Update our financial model for expected Central Government funding announcements – provisional 2014/15 figures were released with the 2013/14 final settlement. The next Spending Review (SR) announcement is due on the 26th June 2013. For 2015/2016 estimated Resources have been calculated based on previously published National level DCLG data. This will be superseded by the Spending Review Announcement on 26 June 2013.

B) Include inflationary increases and grant funding assumptions as follows:

- Pay – 1% per annum for next 3 years
- Non-Pay (excluding Utilities and Contracts) – 0%
- Fees and Charges Income – 0% (See below)
- Benefits Income – 1% under 65 residential care, 2% other
- Gas/Electricity/Fuel – 10%
- Water / Business Rates – 5%
- Contracts – at negotiated contract inflation rates
- Superannuation – 1.6% (From 17.9% to 19.5% - see below)
- Recurrent Council Tax Freeze Grant (equivalent to 1% for 2 years) and Council Tax Support Transitional Grant (not confirmed)
- Recurrent use of additional New Homes Bonus payments

Fees and Charges Income - From 2014/15 it is proposed that Directorates review all income generating services and submit details of expected income growth as part of the savings identification process. This differs to the approach in previous years where the same percentage increase was applied to income generating services, regardless of the services capacity to generate that income. Historically this approach has in some services created significant budget challenges. This new approach addresses this issue. (It should be noted that Benefits income has already been inflated per the rates above).

Superannuation – The 1.6% increase is an estimate which takes account of some significant changes which will be effective from April 2014 including:

- Ending of a 3 year freeze on ‘backfunding’ contributions (shortfall of £800k)
- Implementation of a new pension scheme from April 2014 based on ‘Career Average’
- Non-contractual overtime will become superannuable from April 2014
- The impact of more schools converting to academies
- Implementation of Auto-enrolment from April 2017

At this stage it is not possible to forecast the likely outcomes from the actuarial triennial revaluation that is underway. Provisional outcomes are expected early autumn.

C) Investment proposals covering the next 3 years of the MTFs should be prepared (including demographic pressures) reflecting the new Budget Principles. These must be underpinned by a clear business case and robust assumptions. The proposals should be worked up by Service and supported by the relevant Finance Business Partner. Quality assurance of proposals will be undertaken by Finance Managers supporting a different Directorate. These investment proposals should be prepared, quality assured, collated and submitted initially **for SLT consideration by no later than 26th July 2013.**

- D) Proposals should be prepared setting out proposed levels of inflationary increases on Fees and Charges and the additional income this will generate. The review of these charges should be undertaken using the Council's Overarching Charging Policy. These should be prepared, quality assured, collated and submitted initially **to SLT for consideration by no later than 26th July 2013.**
- E) Savings proposals covering the next 3 years of the MTFs should be prepared. These proposals should reflect the new Budget Principles. The savings proposals should be prepared, quality assured including, where appropriate, a draft 'Impact Statement' and submitted initially **for SLT consideration by no later than 23rd August 2013.**

7.4 Indicative Funding Gap 2014/15 & 2015/16

On 4th June 2013 a Joint Cabinet/SLT meeting considered a presentation which set out an indicative funding gap of £19.12m for 2014/15 and £29.275m for 2015/16 (i.e. an increase of £10.155m from 2014/15 to 2015/16.)

This indicative funding gap was based on the information included in section 7.3 above (A and B). **Therefore this indicative funding gap excludes:**

- The impact of the SR announcement on the 26th June; and
- Any new investment proposals/requirements.

7.5 Proposed Budget Setting Timetable - 2014/15 Budget & MTFs

Attached at Appendix 1 is the proposed timetable for the Council to set its 2014/15 Revenue Budget and MTFs. **Cabinet is asked to approve this timetable.**

7.6 Proposed Approach to Budget Monitoring and Reporting from 2013/14 financial year

This report also proposes changes to the in-year financial budget monitoring and reporting procedure and puts forward a proposed reporting timetable.

7.6.1 Proposed Report Changes

Due to greater income collection and recovery risk faced by Councils as a result of Welfare Reform and localisation of business rates it is proposed that a section is included in future Cabinet Budget Monitoring reports on a quarterly basis which shows the performance of the Council's Collection Fund - the future performance of the Fund will have direct revenue resource implications for setting future years' budget and council tax and will inform future policy decisions.

It is also proposed that Cabinet Budget Monitoring reports should include:

- Specific reference to any savings proposed for 2013/14 until such time as they have been confirmed as delivered. The extent to which any planned savings will not be delivered in year should include reference to how the Directorate intends to mitigate the in-year pressure.

- In the event that any new significant corporate pressures are identified during the year, these too will be included in the Cabinet Budget Monitoring report with reference to how the Council intends to manage them.

7.7 Proposed 2013/14 Revenue Budget Monitoring Reporting Timetable to Cabinet

For 2013/14 it is proposed that Cabinet receive Budget Monitoring reports as follows:

Budget Monitoring Report to:	Cabinet Meeting Date:
30 th June 2013	17 th July 2013
31 st August 2013	16 th October 2013
31 st October 2013	18 th December 2013
31 st December 2013	5 th February 2014
31 st January 2014	19 th March 2014
28 th February 2014	9 th April 2014
Outturn 2013/14	18 th June 2014

If monthly monitoring during July, August, October or November highlight any new or emerging pressures, additional reports will be submitted to Cabinet covering this period (taking into account the Summer Recess).

Cabinet is asked to approve this timetable.

8. Finance

There are no direct financial implications.

9. Risks and Uncertainties

Failure of the Council to have in place an effective Financial Planning and Monitoring Process increases the Council's financial risk.

10. Policy and Performance Agenda Implications

The delivery of the Council's Revenue Budget within the parameters agreed at the start of the current financial year is essential if the objectives of the Council's Policy agenda are to be achieved. Financial performance is a key element within the assessment of the Council's overall performance framework.

11. Background Papers and Consultation

- Strategic Directors and Service Directors of the Council

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Appendix 1

MEDIUM TERM FINANCIAL STRATEGY AND BUDGET TIMETABLE JUNE 2013 – MARCH 2014

	<u>June 2013</u>
Cabinet/SLT To consider initial Funding Gap and assumptions (Excluding any Investment proposals or new savings Proposals)	4th June
Cabinet/SLT/Scrutiny To determine the Budget Process for 2014/15	13th June
Cabinet To consider the 2012/13 Revenue Outturn	19th June
Self Regulation Select Commission To consider the implications of the 2012/13 Outturn	27th June
	<u>July 2013</u>
Cabinet To set out and agree 2013/14 budget strategy for delivering the initial (pre SR) projected resources gap	3rd July
Overview & Scrutiny Management Board To consider the agreed 2013/14 budget strategy for delivering the initial (pre SR) projected resources gap	12th July
Council To consider the 2012/13 Revenue and Capital Outturn	24th July
	<u>September 2013</u>
Cabinet/SLT To consider the Council funding gap taking into account Spending Review announcement, Investment Proposals and Initial Savings Proposals	10th September
Budget Seminar	10th September
Cabinet To consider the Council funding gap taking into account Spending Review announcement, Investment Proposals and Initial Savings Proposals including those proposals requiring 12 weeks Consultation with Stakeholders and other Communities of Interest	25th September

October 2013

Budget consultation process starts:

Online consultation built including e survey, paper questionnaires used in workshops with communities of interest. Press release to advertise consultation on budget proposals that require consultation with stakeholders and other interested parties

1st October

Self Regulation Select Commission

To consider the Council funding gap taking into account Spending Review announcement, Investment Proposals and Initial Savings Proposals

10th October

November 2013

Cabinet/SLT

To receive an update on the budget process and consider any further potential savings proposals

19th November

December 2013

Provisional Settlement Figures Received

Cabinet/SLT

Finalise budget proposals (with Impact Assessments) in light of the provisional local government finance settlement

Mid Dec

**17th December
(Subject to date of
settlement announcement)**

January 2014

Cabinet/SLT

To consider and assess the final outcomes of the consultation process and their implications for the Council's Budget and consider the implications of any delayed settlement announcement

14th January

Cabinet To propose Council Tax Base, the Council Tax Reduction Scheme and to receive a report proposing 2014/15 Council House rents	15th January
Budget Seminar to consider the proposed Budget for 2014/15	28th January
Full Council To agree the Council Tax Base, Council Tax Reduction Scheme and set 2014/15 Council House rents	29th January
Final Settlement Figures Received	(around) end January
	<u>February 2014</u>
Cabinet To report the outcomes of the Consultation	5th February
Self Regulation Select Commission To consider the outcomes from the Consultation	6th February
Cabinet/SLT To consider the draft Revenue Budget, Council Tax and Capital Programme	11th February
Cabinet To finalise Recommendation to Council on Annual Revenue Budget and Capital Programme for 2014/15 to 2016/17 and to seek approval for the Council's Treasury Management Strategy and Prudential Indicators for the period 2014/15 to 2016/17	26th February
	<u>March 2014</u>
FULL COUNCIL Meeting To set Council Annual Revenue Budget and Council Tax Level and Capital Programme for 2014/15 to 2016/17	5th March