

Report to: Cabinet, 12th February 2013

Report of: Cabinet Member for Delivering Value for Money

Subject: UPDATE TO MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2013-2018, ANDBUDGET & COUNCIL TAX 2013/14

1. Purpose of Report

1.1 Cabinet are asked to recommend that Council approve the updated MTFS 2013-2018 and the Budget & Council Tax for 2013/14.

2. Background

2.1 The Council's Medium Term Financial Strategy (MTFS) was presented to Cabinet in October 2012. The MTFS made assumptions about Government formula grant reductions over the next 4 years. The Local Government Finance Settlement was published on the 19th and 20th December with provisional funding figures for both 2013/14 and 2014/15. As the settlement figures were worse than the assumptions for 2014/15 and the resource review changes have altered the split between Council Tax and Formula Grant, an updated MTFS financial summary has been produced. The updated MTFS summary also reflects the small number of changes included in the December Budget papers and some presentational improvements.

2.2 The Council's draft Budget 2013/14 was presented to Cabinet in December 2012. An update paper on the Budget and Council Tax 2013/14 was presented to Cabinet in January 2013. This budget paper consolidates the two previous Cabinet papers and updates a number of areas.

2.3 As part of the consultation and scrutiny process the Performance Management and Budget Scrutiny (PMBS) Committee considered the budget at its two January meetings. An extra PMBS meeting is scheduled to be held after this paper is published on 5th February 2013. The findings of the two previous PMBS meetings will be summarised at this meeting and feedback and any alternative budget proposals will be provided to Cabinet for consideration at their February meeting, prior to their recommending approval to full Council.

2.4 Updated appendices relating to the MTFS and Budget are shown as follows:

Appendix 1–Financial summary - MTFS and Budget 2013/14;
Appendix 2–Capital Programme and Capital Financing;
Appendix 3– Commissioning Framework;
Appendix 4– Fees & Charges 2013/14; and,
Appendix 5– Treasury Management Prudential Indicators 2013/14.

2.5 At this stage, the following appendices from previous budget papers remain unchanged and are not repeated again:

December papers:

Budget Saving Proposals (Appendix 3);
Earmarked Reserves (Appendix 5);
Budget Book 2013/14 (Appendix 7);

January papers:

Pay Policy Statement 2013/14 (Appendix 2);
Annual Treasury Management Strategy 2013/14 (Appendix 3),

2.6 These appendices will be updated, where necessary, following consideration of the findings from PMBS, and included in the full set of MTFS and budget papers for February Council.

3. Local Government Finance Settlement

3.1 Government announced the provisional Local Government Finance Settlement for 2013/14 and 2014/15 on the 19th and 20th December 2012. Within Worcestershire districts, Worcester City has had the most favourable settlement overall with a 19% reduction over the two financial years. The reductions have been phased in a back loaded way, with a more significant reduction in 2014/15 of over 14% compared to a 5% reduction in 2013/14.

3.2 The 5% reduction in funding in 2013/14 equates to £263k. This reduction is in line with the assumptions in the MTFS and savings proposals are in place to deliver a balanced budget in 2013/14.

3.3 The reduction in funding in 2014/15 is a further £721k, giving a total reduction of £984k (19%) over the two years. The second year reduction is 5% worse than our original MTFS assumptions, which were for a 14% reduction over the two years, not 19%. The impact is a funding shortfall of c£250k in 2014/15 compared with the mid-point grant reduction assumed in our original MTFS.

3.4 The changes relating to Council Tax Support (CTS) and the 10% reduction in Government funding, are also in line with MTFS assumptions. However, it should be noted that the CTS changes effectively transfer £688k of the Council's funding from Council Tax to baseline Formula Grant funding. This change gives rise to two financial risks. The first is that this grant is no longer an identified nor ringfenced funding stream from 2014/15, which means that it could be reduced in line with general government reductions. The second is that it may not generate inflationary income increases in line with our MTFS assumptions.

3.5 It should also be noted that the Council is now responsible for funding our share of any future increases in the Council Tax Support bill. A further review on CTS will take place in 2013/14 prior to consultation on a new scheme for 2014/15.

3.6 Also included within the Settlement is confirmation of the continuation of the 'Homelessness Grant' of £162k p.a. for two years and the 2011/12 Council Tax Freeze Grant of £134k for its final two years (it was a four year award). The 2012/13 Council Tax Freeze Grant was only in place for one year.

3.7 Not included in the grant settlement are the 1% Council Tax Freeze Grant for 2013/14 (payable for two years) which will be included once the Council formally notifies its intent to accept it in February 2013, nor the Council Tax Support Transitional Grant, which is a one-off grant for 2013/14 only.

4. Updated MTFS Financial Summary - 2013-2018

4.1 The updated MTFS financial summary is shown at **Appendix 1**.

4.2 The MTFS revised financials show a small budget surplus of £15k in 2013/14, an increased budget deficit of £0.3m in 2014/15 which rises to £1.8m by 2017/18.

These deficit figures are after the application of the proposed savings for 2013/14 and 2014/15 which total £1.2m.

- 4.3 The deficit has increased by c£0.3m-£0.4m from 2014/15 onwards. This arises from the worse than expected grant settlement for 2014/15 and from reducing the future Council Tax inflationary increases to 1.99% (from 2.5%), on a lower Council Tax base, in line with the 2013/14 Council Tax increase referendum limit and the CTS changes.
- 4.4 At this stage, no benefits or reductions are included in future years for the localisation of Business Rates. The Council has confirmed its commitment to join the Worcestershire Business Rates Pool. The estimates for 2013/14 showed an immediate benefit of £121k for Worcester City from pooling. However, this has subsequently been reduced by half following revised Government guidance on how to deal with outstanding rateable value appeals going back to 2005 and 2010. There is still an estimated financial benefit from joining the pool, but there is a significant amount of uncertainty and volatility in this area. The H&W Treasurers Association are recommending that the first year of the new financial regime should be allowed to run its course before any future budget changes are included.
- 4.5 The updated forecast capital programme expenditure and financing is shown at **Appendix 2**. The programme for 2013/18 totals £19m and is split into improvement projects and replacement programme/projects.
- 4.6 The improvement projects total £3.775m and largely relate to reserves funded priority projects, housing improvements funded by government grants and the LAMS project, funded by revenue neutral borrowing. The replacement programme totalling £15.3m includes estimates on fleet replacement, crematorium refurbishment, parking refurbishment and the costs of the proposed replacement swimming pool.
- 4.7 The crematorium refurbishment and replacement swimming pool are subject to separate reviews and the development of business cases to identify financing and to ensure affordability. Revenue budget provision to finance the borrowing for the replacement fleet has been included in the MTFS.

5. Budget 2013/14 - Headlines

- 5.1 The updated budget figures for 2013/14 are also shown in **Appendix 1**. The budget baseline for 2013/14 has been adjusted to reflect the transfer of £162k 'Homelessness' grant from revenue budgets to government Formula Grant. The budget for 2013/14 includes £155k of pay and prices inflationary pressures, £289k of cost pressures, reductions of £54k for previously agreed items and agreed savings to date of £117k. This results in a net budget requirement of £11.065m and a funding gap of £671k.
- 5.2 Savings of £686k are proposed which provides a small surplus of £15k in 2013/14. The majority of the saving proposals are efficiency gains, with a limited number relating to income generation, the latter category showing small increases, to reflect the difficult economic market at the moment.
- 5.3 Council Tax income reflects a proposed further one year freeze for 2013/14. This has been partly funded by government with a 1% freeze grant for 2013/14, payable in both 2013/14 and 2014/15. Government has also introduced a Transitional Grant for Council Tax Benefit/Support changes for 2013/14 only, which provides more time to address the 10% funding reduction for Council Tax support, faced by Local authorities. The budget assumes that both of these grants will be accepted.

5.4 If the Budget is approved as outlined, then the Council's New Homes Bonus funding is protected as a separate funding stream for 2013/14 at least, thus enabling investments in Worcester City, the 'place', to be implemented.

6. General Fund Revenue Budget 2013/14 - Key Assumptions and Other Changes

6.1 **Table 1** lists the key **assumptions** that have been made in the Budget 2013/14:

Table 1	2013/14
Council Tax base growth	0.25%
Council Tax inflation	0%
Interest Rates (Earned)	1.25%
Inflation – Pay	0%
Inflation – Utilities/Rates (net)	3%
Inflation – Fuel	3%
Inflation – car park income	0%
Inflation – other income	1%

Pay and Prices Increases

6.2 No allowance for a pay award payment has been included in 2013/14. This is in line with the Terms & Conditions review agreement, which provides for any national pay award settlement made in 2013/14 to be deferred for payment until 2014/15.

6.3 Provision has been made to meet annual incremental scale point changes, National Insurance contribution rate changes and ongoing additional payments to the pension fund required from the employer to recover the deficit. This is part of the strategy to achieve 100% funding of the pension fund over a 22 year period.

6.4 Prices inflation has been included on selected non-pay items, namely business and water rates, utilities, fuel and contractual obligations. An inflation rate of 3% has been included for 2013/14 for these items. All other inflationary increases are expected to be absorbed within base budget, which represents a real time reduction through efficiency gains.

6.5 Prices inflation is included on selected fees and charges at approximately 1% p.a. on average. The exceptions are car park charges, where no inflationary increase is included, and Building Control where a 5% increase (on all charges) from January 2013 is recommended by the South Worcestershire Joint Committee. No extra income budgets are included for the Building Control increase as the forecasts are indicating a shortfall on income budgets anyway, which the charges increase can help to address.

Previously Agreed Items

6.6 A number of items were approved by Council in February 2012 to take effect from April 2013. The net effect is a budget reduction of £54k, and the two most significant items are a provision for a reduction of car park income at St Martin's Gate car park of £200k, and a number of existing savings items across all Services of £185k.

Cost Pressures

- 6.7 Cost pressures of £289k are included in the 2013/14 budget. The most significant short term cost pressures relate to reduced income streams on property rentals of £99k, primarily related to the current economic conditions (the situation is forecast to improve to reverse the cost pressures in 2016/17) and an additional provision on car park income of £100k to reflect the income reductions being experienced across all car parks.
- 6.8 A new item has been included in this section to reflect the difficulties facing Voluntary Sector Organisations. An inflationary increase of 3% has been included on all Voluntary Sector grants made by the City Council. This does not include multi-year Service Level Agreements or contracts with Voluntary Sector Organisations.

Identified Budget Savings

- 6.9 The agreed budget savings relate to two items agreed in 2012/13 which will take effect in 2013/14. The first is the restructuring of the Legal & Democratic Services which includes the deletion of the Service Manager, the creation of a new team leader level Legal Services Manager and the transfers of Legal to Finance Services, Facilities to Human Resources and Democratic Services to PIE. The second relates to the non-pay award elements of the Terms & Conditions review.

Net Budget Requirement and Budget Gap

- 6.10 With the items included above, the total net cost of the Council, the "Net Budget Requirement" for 2013/14, is estimated at £11.065m. This compares to the "Total Sources of Finance" of £10.395m which provides a budget shortfall of £0.67m.

Proposed Budget Savings

- 6.11 Savings proposals totalling £686k in 2013/14 and £1.2m in total in 2014/15 were provided in the December Cabinet papers. These proposals aim to protect essential front line service provision. The majority of the proposals put forward are efficiencies plus there are a small number of income generation proposals. The proposals are estimated to reduce the Council's staff base by some 26 full time equivalent posts over the next two years, which is approximately 7% of the total Council workforce. This will involve putting a small number of staff at risk of redundancy.

7. Capital Programme and Capital Financing

- 7.1 The updated capital programme expenditure is forecast at £2.6m for 2013/14 and £19m over the next five years (**Appendix 2**). The improvement projects total £1.745m for 2013/14 and largely relate to reserves funded priority projects, housing improvements funded by government grants and the LAMS project, funded by revenue neutral borrowing. The replacement programme totalling £910k for 2013/14 includes estimates on fleet replacement, crematorium refurbishment, parking refurbishment and the initial costs of a replacement swimming pool.
- 7.2 The culvert at Perdiswell is included as a scheme to the extent of the Worcester City contribution of £65k. The total scheme cost is estimated at £1.1m with most of the funding coming from the Environment Agency. The Property Shared Service has recently taken over the lead for Worcester City's role. Discussions are underway to confirm how the project will be run, who will host it, timescales and how it will be project managed.

- 7.3 The five year programme includes estimated expenditure on Crematorium infrastructure investment which is subject to full business case development to assess the affordability options. At this stage it is assumed that the Crematorium investments will be funded through new revenue generation.
- 7.4 Expenditure of £10.5m is also included over the five years, as an estimate for the proposed replacement swimming pool. The business case for this is currently being developed. At this stage it is assumed that this will be met by borrowing, and that the borrowing will be financed from a mixture of existing budgets and new revenue generation.
- 7.5 The capital programme also includes a £2.4m investment in replacement fleet, which is also funded by borrowing. Revenue budget provision to finance the borrowing for the replacement fleet has been included in the MTFS.

8. Earmarked Reserves

- 8.1 The Council's earmarked reserves total £5.1m at the beginning of 2012/13 and are split into 2 areas – revenue and capital reserves. Revenue reserves total £3.5m and capital replacement/other reserves total £1.6m.
- 8.2 The revenue reserves consist of the following:
- a number of small operational reserves totalling c£0.4m which are earmarked for specific items;
 - an on-going change programme priority reserve of c£0.4m to fund the costs of restructuring through transformation and commissioning;
 - a priority projects reserve of c£0.7m to fund corporate plan priorities, and;
 - a housing and planning reserve of c£0.5m to fund various associated initiatives and the SWDP process.
- 8.3 In addition there is a pension back-funding reserve of c£0.5m earmarked for a one-off cash payment to the Council's pension fund for past service costs, and an environmental warranty reserve of c£1m for insurance premiums and potential non-insured losses on former housing land.
- 8.4 The main capital replacement reserves are c£0.4m for a rolling programme of priority capital replacement, c£0.25m for the swimming pool business case development, £0.4m from the 1st tranche of New Homes Bonus grant, and c£0.5m for housing improvements funded by the remaining balance of the Regional Housing Pot allocation.

9. Commissioning Proposals

- 9.1 The budget challenges facing the Council in the remaining period of the MTFS and beyond require a radical re-thinking of our approach to Service delivery. An outline approach to a commissioning process was included in the December Cabinet papers. This has been updated and a proposed commissioning framework is included at **Appendix 3**.

10. New Homes Bonus

10.1 New Homes Bonus (NHB) is a relatively new grant that commenced in the 2011/12 financial year and is effectively a reward for increasing the number of properties within an area. It is funded from National Non-Domestic Rates (Business Rates) and effectively replaces some of the funding that councils previously received from formula grant. DCLG have stated that this grant will be a permanent part of the funding of local authorities. The mechanics of the scheme are that the government pay Councils the equivalent to a band D council tax for each increase to the taxbase in their area. This is guaranteed for six years and in two tier areas is split 80% to the district council and 20% to the County Council.

10.2 Worcester City Council received NHB in 2011/12 of £406k which will continue as a funding stream for six years. £200k of this allocation has been approved as a contribution to three partnership infrastructure schemes: Southern Link improvements 1st phase – Whittington roundabout; High Street resurfacing, and Superfast Broadband. In addition, £100k has been approved for Impetus grants. The NHB allocation for 2012/13 for six years is £270k p.a. and for 2013/14 it is £369k p.a. for six years. No further estimates are included in the MTFS for later years.

10.3 Council policy was to allocate 50% of NHB to support the delivery of infrastructure improvements through partnership where appropriate, and 50% to support economic prosperity initiatives and regeneration schemes. This will be changed for new NHB received from May 2012 to 1/3rd each for the following categories:

- Infrastructure and Regeneration;
- Economic Prosperity; and,
- Affordable Housing.

10.4 This is subject to there being no requirement to utilise NHB as a source of funding for the revenue budget in future years. The allocations to the three categories is shown in the table below:

New Homes Bonus	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	Total
2011/12 Grant*	512	406	406	406	406	0	2,136
2012/13 Grant	270	270	270	270	270	270	1,620
2013/14 Grant	0	369	369	369	369	369	1,845
Total	782	1,045	1,045	1,045	1,045	639	5,601
<u>Categorised as follows:</u>							
Infrastructure & Regeneration	244	348	348	348	348	213	1,850
Economic Prosperity	350	348	348	348	348	213	1,956
Affordable Housing	188	348	348	348	348	213	1,794
Total	782	1,045	1,045	1,045	1,045	639	4,856

* The 2011/12 grant of £406k was carried forward to 2012/13. Of this £300k has been allocated leaving £206k to add to the 2012/13 allocation of £406k, giving £512k in total.

- 10.5 Aside from changing the NHB categories of expenditure as laid out above, no changes are proposed to the approval to spend mechanisms previously agreed by Cabinet.
- 10.6 Cabinet will be recommending Council approval to allocate elements of NHB now, to enable the Authority to advance the proposals, some of which will take time to develop. The proposals are as follows:

Infrastructure and Regeneration

- 10.7 Work is already underway on the delivery of the Masterplan for the city centre and as part of this work discussions are underway with partners and the County Council on completing the resurfacing of the High Street between Elgar Statue and Pump Street. At this stage it is anticipated that the cost for this will be around £700,000 and the proposal is that the City Council contribute 50% on a match funding basis up to a maximum of £348,000.
- 10.8 Work on the Riverside "Park" is well underway with the ongoing delivery of the Riverside phase 11 (Riverside North - both banks) but there is some concern about the ability to complete the project and maintain it to the high standards already established. It is proposed to allocate £90k to complete the package for this area and to create a reserve to fund a repair and maintenance programme.
- 10.9 The final proposal in this category is to use the remaining balance of £154k to finance an element of the procurement phase of the swimming pool project. PMBS will consider the swimming pool project in early March prior to Cabinet. If the next phase of the project is approved, the Council will incur specialist advisor and procurement costs to develop the tender and specification documentation, and for the evaluation of the submissions.

Economic Prosperity

- 10.10 Initial work in this area has been around Enterprise and Business Engagement and has been very successful with apprenticeships, business booster grants, start up support, the ERDF business programme and Worcestershire Business Central. This work will continue through the period and as one off funding for apprenticeships and similar is exhausted this will need re-financing. An allocation of £198k is proposed.
- 10.11 The next programme of work is to be focused around Employment and Skills. With an element of supporting NEETS and young people we are working with partners such as the College, University, Job Centre Plus, the Local Enterprise Partnership and the County Council to develop a Youth focus, and plan to set up a local Skills Board that will substantially change the focus delivery and targeting of skills and training. Critical to success will be the ability to engage business in this process using the excellent links built up this year.
- 10.12 There may also be a need for support for the retail sector bearing in mind the incredibly tough trading conditions. Any such scheme would need careful design to avoid any state aid issues but would also be funded from here. This is not a formal proposal at present but will be reviewed if the position continues to deteriorate.
- 10.13 The balance of £500k should be applied to these areas.

Affordable Housing

10.14 A paper on the housing enabling pipeline is being developed with the main idea being to apply our funds as an offer, through a competitive process, to RSLs to support new mainly general needs affordable housing (both market and social rents). This needs to be set up quickly to enable us to tie into the HCA 2015 programme (assuming this continues). Alternatively it may be possible, though further work will be needed to confirm this, to use initial years' funding to increase the number of affordable units delivered on larger S106 sites (which could be achieved relatively simply and quickly) and set up a competitive bid process for later years' funds, working with RP partners to develop a pipeline of deliverable schemes in the meantime.

10.15 By creating a pipeline we should see improved delivery at a more reasonable intervention rate. The Authority will need to consider how to support delivery rather than tie allocations up on schemes that cannot deliver due to the scarcity of development plan to a reasonable timeframe. This problem might be mitigated if the Authority could provide land either as well as or possibly instead of grant.

10.16 Bearing in mind the time period we are working within, it is likely the initial call for proposals will involve our allocation through to 2015 and £1.2m is proposed to be allocated to this area.

10.17 The proposals are summarised in the table below:

Project	Category	Allocation
High Street phase II	Infrastructure/Regeneration	£348,000
Riverside Park completion and reserve	Infrastructure/Regeneration	£90,000
Swimming pool development – procurement exercise	Infrastructure/Regeneration	£154,000
Enterprise and business engagement initiatives	Economic Prosperity	£198,000
Skills Programme	Economic Prosperity	£500,000
Affordable Housing pipeline	Affordable Housing	£1,200,000 *

* includes allocation up to 2015/16. All other proposals are for allocation of funding up to 2013/14 only.

11. Fees and Charges

11.1 The updated Fees and Charges booklet is included at **Appendix 4**. The increases to Fees and Charges are in accordance with the MTFs assumptions. A cautious approach to increases has been taken this year which is a reflection on the economy and the fact that the Council is experiencing a number of income generation downturns on Fees and Charges.

12. Pay Policy Statement

12.1 Section 38 (1) of the Localism Act requires English and Welsh local authorities to produce a Pay Policy Statement and for this to be adopted by Full Council each year. The Pay Policy Statement is required in order to clarify the Councils current pay position. It does not alter or amend any current Terms and Conditions of Employment. The Pay Policy Statement was produced for the first time last year for 2012/13.

12.2 Worcester City Council's Pay Policy Statement has been updated for 2013/14. The only changes compared to last year relate to tidying up the number of senior posts and spot salary details, and updating the text to reflect the recent Terms and Conditions agreement. There are no changes included regarding the 'Living Wage' the implications of which have been considered by PMBS, and feedback will be considered at their February meeting.

13. Treasury Management Annual Strategy 2013/14 and Prudential Indicators

13.1 Treasury management operations are defined by CIPFA as follows:-

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

13.2 The Council has previously adopted the 2009 revised CIPFA Code of Practice on Treasury Management in the Public Services, and the Prudential Code for Capital Finance.

13.3 The revised code identifies three key principles which are in place in Worcester City:

- i that Councils should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management arrangements.
- ii that the Council's policies and procedures should make clear that the effective management and control of risk are prime objectives in the treasury management arrangements, and that it is clear where responsibility for these lies within the organisation. The appetite for risk should be made clear in the annual strategy document and priority should be given to security and liquidity when investing funds. CIPFA endorses an approach of more emphasis being placed on managing and avoiding risks rather than maximising returns.
- iii that the Council's policies and practices should reflect the fact that whilst the pursuit of value for money in treasury management is a valid business objective, and the use of suitable performance measures are important tools, this has to be within the context of effective risk management.

13.4 The Council operates in accordance with the Council's Treasury Management Policy, a five year policy statement, and Practices (TMPs) which are operating procedures and statements. There are no proposed changes to the 5 year policy and there have been no significant changes to the TMPs in the past twelve months.

13.5 The Annual Strategy has been updated for 2013/14. The only significant change to the Annual Strategy relates to the inclusion of a reference to the Local Authority Mortgage Scheme (LAMS), as recommended by our Treasury Advisors.

13.6 The updated Prudential Indicators are shown at **Appendix 5**. The main changes relate to the planned future capital programme expenditure, and the impact this has on the indicators. Linked to this is a proposed change to our Authorised and Operational Limits for external debt, in accordance with the revised borrowing requirements for a replacement swimming pool and the £2m approved for LAMS.

14. **Policy, Legal, Financial, Equalities and Risk Management Implications**

14.1 **Policy:** the budget provides resources for the Council’s priorities and ensures that decisions resulting in lower spending are taken in non-priority areas. The Council has adopted the 2009 revised CIPFA Code of Practice on Treasury Management in the Public Services, and the Prudential Code for Capital Finance. The Council has adopted a policy whereby allocations of New Homes Bonus funding in excess of £25k are approved by full Council.

14.2 **Legal:** The Council is required to approve any changes to the Annual Pay Policy Statement, the Treasury Management Policy and Strategy, the Prudential Indicators and limits, and the Minimum Revenue Provision policy statement.

14.3 **Equalities:** an equalities impact assessment is not required, there are no equalities implications arising from this report.

14.4 **Financial:** included within this report.

14.5 **Risk Management:**

Risk Identified	Risk Score*	Proposed Measures	Revised Score*
The level of reduction in Government Grant for 2015/16 onwards will be greater than the 5% p.a. included in our modelling. Each additional 5% reduction will cost the Council an additional £250k per annum.	A2	Consultation will be carried out by Government on any further proposed changes to funding, and this Council will lobby strongly stating its case for a fair funding deal. Greater reductions will have to be met by further reductions in expenditure or increases in income. In the short term i.e. in 2013/14 any shortfall will be met from the General Fund balance.	A3
Council Tax Support costs increase from 2013/14 onwards in excess of the Government’s 90% funding baseline	A3	Fundamentally review the CTS scheme for 2014/15 and devise measures that deliver savings in excess of the current 10% gap.	A4
Employee costs will be more than current assumptions for pay awards. Each additional 1% increase will cost the Council an extra £100k.	D2	Terms & Conditions review is agreed including a deferral on any nationally agreed pay award.	D4
Inflation will be more than the current assumption. Each additional 1% increase on identified areas will cost the Council an extra £40k.	C2	Inflation increases in excess of those budgeted for will need to be matched by additional identified savings	C3
Not all of the saving proposals will be agreed following the consultation process and PMBS scrutiny and the budget does not balance.	C2	Greater reductions will have to be met by further reductions in expenditure or increases in income. In the short term i.e. in 2013/14 any shortfall will be met from the General Fund balance. In future years, if the value is significant, the New Homes Bonus grant could be utilised in revenue budgets.	C4
The capital programme borrowing requirement is not affordable in revenue budgets.	B2	Develop robust business cases that explore all funding options and the affordability impacts.	C3

15. Comments of the Finance Services Manager

- 15.1 The Local Government Resource Review has resulted in fundamental changes to the way Local Authorities are funded by central government with a focus now on a more localised approach. This brings with it a transfer of a number of financial risks from central government to local government. The speed of change to the funding arrangements has been challenging, with little certainty on exactly what the financial consequences will be, especially on Business Rates. The figures in the provisional local government finance settlement for 2013/14 and 2014/15 have been included in the updated MTFS financial summary and the Budget for 2013/14, along with the changes to Council Tax benefit/support. This has resulted in a £0.4m increase in the financial gap between income and expenditure over the five year period.
- 15.2 In addition to these unprecedented funding changes, Worcester City Council is still feeling the impact of the effects of the downturn, with a number of shortfalls on Fees & Charges income currently being experienced. The Budget reflects these problems, with an additional provision of £100k on car parking shortfalls and no extra income from any inflationary increases in downturn areas.
- 15.3 Savings proposals totalling £1.2m over two years are included, most of which relate to efficiencies. These will not be easy to achieve, and there will be an impact on our staffing numbers, but it is hoped that our good track record on implementing savings programmes will continue into 2013/14. Thereafter savings will need to be secured through larger transformation programmes and commissioning.

16. Comments of Councillor Andy Roberts, Cabinet Member for Delivering Value for Money

- 16.1 The MTFS was produced for the October cycle to provide an early update on the future financial context and resource pressures facing local government and Worcester City Council. A key message from the MTFS was that the financial landscape is changing and we now had to decide, as a Council, how we wished to respond. Now that the settlement has been published, the reduction in funding in 2013/14 of 5% and £263k, whilst not welcome, was at least expected from the 2007 Comprehensive Spending Review, and the Council has already put forward savings proposals to balance the budget for that year.
- 16.2 The proposed settlement reduction for 2014/15 of 14% and a further £721k is much worse than expected and comes on top of an effective 28% reduction already experienced by Worcester City Council from the last round of Government reductions.
- 16.3 The Council is now considering its future options regarding managing the £250k funding gap that now arises in 2014/15. What is now clear is that this settlement reinforces the need to radically transform what we deliver and how it is delivered. The Council needs to consider the full range of options for service delivery and take forward its commitment to commissioning quality services that deliver value for money. A framework for commissioning is included in this paper, and a high level review has been undertaken to identify the priority service areas to take forward through a commissioning process.

16.4 The Council has an ambitious vision through its corporate plan of being not just a service provider, but also focused on improving the City as a place. The cross cutting themes around customers, commissioning quality services and shaping Worcester's future, are as relevant now and into the future, as they were when the corporate plan was written last year. This budget paper, and in particular the savings proposals, deliver a balanced financial position in 2013/14 which means that the New Homes Bonus can be protected for this period and used to support the Council's vision for the City.

17. THE CABINET MEMBER FOR DELIVERING VALUE FOR MONEY, COUNCILLOR ANDY ROBERTS, RECOMMENDS:

1. That Cabinet consider any feedback and proposals from the Performance Management and Budget Scrutiny Committee and, in the light of this, recommend that Council approve the following:

- i. the budget assumptions set out in paragraph 6.1 of this report;**
- ii. the Budget 2013/14 and MTFS 2013-2018 and the details underpinning the numbers as set out in Appendix 1;**
- iii. the proposed savings for 2013/14 (included in December Cabinet papers)**
- iv. the City Band D Council Tax of £162.10 (frozen at same level as for 2012/13) to meet the Council's budget requirement;**
- v. the Capital Programme and Capital Financing as set out in Appendix 2;**
- vi. earmarked reserves (included in December Cabinet papers)**
- vii. the split of funding of New Homes Bonus into the three categories and the proposed allocations to projects, as set out in paragraphs 10.4 and 10.17 of this report;**
- viii. the Commissioning Framework as set out at Appendix 3;**
- ix. the detailed Fees and Charges as set out at Appendix 4;**
- x. Treasury Management Annual Strategy and Prudential Indicators (included in January Cabinet papers and set out at Appendix 5);**
- xi. the Pay Policy Statement 2013/14 (included in January Cabinet papers); and,**
- xii. the detailed revenue budget estimates as set out in the Budget Book (included in December Cabinet papers).**

Ward(s): All
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Background Papers: