

<b>14 November 2013</b>		<b>ITEM: 8</b>
<b>Corporate Overview and Scrutiny Committee</b>		
<b>2014/15 Budget – Council Tax and Pensions</b>		
Report of: Councillor John Kent		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Non Key	
<b>Accountable Head of Service:</b> Sean Clark, Head of Corporate Finance		
<b>Accountable Director:</b> Graham Farrant, Chief Executive		
<b>This report is</b> Public		
<b>Purpose of Report:</b> To inform the committee of two key aspects included within the Medium Term Financial Strategy.		

## **EXECUTIVE SUMMARY**

Council agreed a two year balanced budget at their meeting on 27 February 2013, covering the financial years 2013/14 and 2014/15. As such, the savings required for 2014/15 have already been agreed and are in the process of being implemented.

This report sets out details of two key aspects included within the Medium Term Financial Strategy (MTFS): the impact of a council tax freeze and the results of the actuarial valuation carried out on the Essex Pension Fund and its impact on Thurrock.

The current MTFS position is a forecasted balanced position for 2014/15, a deficit in excess of £13m for 2015/16 and a further deficit of £10m for 2016/17.

### **1. RECOMMENDATIONS:**

#### **1.1. That the Overview and Scrutiny Committee:**

- a) Discuss and comment on the merits of a Council Tax increase and of a Council Tax freeze; and**
- b) Note the results of the actuarial valuation and its impact on Thurrock Council.**

### **2. INTRODUCTION AND BACKGROUND**

- 2.1. Members are aware that the government has given Councils the opportunity to freeze Council Tax in return for a grant.

- 2.2. This was first offered in 2011/12 and Thurrock Council accepted this grant in both 2011/12 and 2012/13. The Council raised the Council Tax by 1.98% in 2013/14.
- 2.3. The MTFs assumes Council Tax increases in 2014/15 and future years but a further grant option was announced as part of the Comprehensive Spending Review (CSR) on 26 June 2013. These are currently expected to be set at a level equal to a 1% Council Tax increase and will be offered for both 2014/15 and 2015/16 for two years and one year respectively.
- 2.4. The advantage of a freeze is clear: there is an increase in revenue for the Council whilst residents are protected from any increase.
- 2.5. The disadvantages are also clear: the funding is only for 1% whereas a Council Tax increase can be set as high as 2% and that the grants are time limited. This results in a further financial pressure in 2016/17 on top of the 10-15% government grant reduction announced in the CSR.
- 2.6. Based on the current Council Tax base, each 1% equates to approximately £512,000. The impact of a Council Tax freeze on the MTFs is a reduction in income of £512,000 in the year in question and a further loss of £512,000 in 2016/17 as the end of the grant is reached.
- 2.7. There is an obvious cumulative impact as well – if the freeze grant is accepted for both 2014/15 and 2015/16 the impact on resources against the current MTFs is as follows: 2014/15 £512,000, 2015/16 a further £512,000 and 2016/17 a further £1,024,000.
- 2.8. Any reduction in resources will have to be met from further expenditure reductions or increased income.

### **3. ACTUARIAL VALUATION**

- 3.1. Essex County Council manages the Pension Fund on behalf of Thurrock employees and there is a legal requirement to have the fund valued by actuaries on a tri-annual basis. The findings of this valuation are legally binding although there are limited options linked to repayment.
- 3.2. The Council's contributions are split into two distinct parts:
  - a) Paying towards the pension liabilities from current service; and
  - b) Clearing the deficit that has built up over the life of the fund.
- 3.3. Current Service
  - a) This is currently paid over on an actual basis of 12.2% of pensionable pay. For 2013/14 this is expected to be circa £5m; and
  - b) The valuation has identified that this rate needs to increase to 14.3%. There is no ability to change this and so, based on the current salary level, this will increase the Council's contribution to £5.9m.

### 3.4. Clearing the Deficit

- a) The Council's financial statement showed Thurrock Council's share of the deficit to be £158m as at 31 March 2013;
- b) The Council currently pays, in monthly instalments, £4.1m per annum towards clearing this sum;
- c) The revised instalment according to the actuarial valuation is £3.614m on a like for like basis;
- d) However, there are a number of options to be considered linked to this sum:
  - 3.4.d.1. We can increase the annual payments over the next three years - £3.455m in 2014/15, £3.612m in 2015/16 and £3.776m in 2016/17. This is not recommended as increases the amounts required in later years when the Council is under most pressure and there are better alternatives;
  - 3.4.d.2. We can pay the £3.614m in a lump sum at 1 April of each year at a discounted rate of £3.514m, thus saving £0.1m per annum. This should be considered against 3.4.d.3; or
  - 3.4.d.3. We can pay the £3.614m for the three years (£10.842m) in a lump sum at 1 April 2014 at a discounted rate of £9.958m, thus saving on average £0.295m per annum although there will be some interest costs related to this at no more than £50k per annum. This is currently the Head of Corporate Finance's preferred approach but further discussion is required.

3.5. In summary, if 3.4.d.3 is the option finally taken then the overall impact from both current service and deficit changes largely cancel each other out.

## **4. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:**

- 4.1. This report is to provide Members with information about two key aspects of the MTFS that inform the budget decisions going forward.
- 4.2. There is a clear option to be made regarding Council Tax and officers will consider the best approach, considering the MTFS and future pressures, regarding the treatment of the pension deficit.

## **5. REASONS FOR RECOMMENDATION:**

- 5.1. The report is to provide Members of the Committee information on two corporate aspects of the Council's budget – no decisions are required but any discussion on the issues may well be reflected in budget reports through to Council in February 2014.

## **6. CONSULTATION (including Overview and Scrutiny, if applicable)**

- 6.1. Issues around Council Tax have been discussed in previous meetings of Overview and Scrutiny, Cabinet and Council. Discussions with the Essex Pension Fund managers are ongoing.

## **7. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT**

- 7.1. The budget provides the finance to meet the Corporate Priorities. Any changes to the budgets may impact, positively or negatively, on the delivery of these priorities and performance with a corresponding impact on the community.

## **8. IMPLICATIONS**

### **8.1. Financial**

Implications verified by: **Sean Clark**  
Telephone and email: **01375 652010**  
**sclark@thurrock.gov.uk**

These are included in the body of the report.

### **8.2. Legal**

Implications verified by: **David Lawson**  
Telephone and email: **01375 652087**  
**dlawson@thurrock.gov.uk**

There are no direct legal implications arising from this report.

### **8.3. Diversity and Equality**

Implications verified by: **David Lawson**  
Telephone and email: **01375652087**  
**dlawson@thurrock.gov.uk**

There are no specific implications from this report.

### **8.4. Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

There are no specific implications from this report.

## **BACKGROUND PAPERS USED IN PREPARING THIS REPORT (include their location and identify whether any are exempt or protected by copyright):**

- There are various working papers within accountancy.

## **APPENDICES TO THIS REPORT:**

- There are no appendices to this report.

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