Scrutiny Committee

Report No 55/11

Report of Head of Finance

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2012/13 budget update report

Purpose of Report

1. The purpose of this report is to inform the scrutiny committee of the budget requirement for 2012/13 and the Medium Term Financial Plan (MTFP) for the next five years. It deals with the composition of the base budget, the levels of government funding streams and defines the issues to be considered by councillors before Council sets its revenue and capital budget for 2012/13.

Background

2. The Council is obliged by statute to set a "balanced budget" in which net expenditure is balanced by funding and prudent use of reserve balances in the short-term.

3. On 10 February 2012 the Cabinet will consider a report on the revenue and capital budgets for 2012/13 and the MTFP and capital programme to 2016/17; Cabinet will recommend its MTFP and budget to Council on 22 February 2012. To allow the Cabinet to propose its budget, all relevant issues affecting funding, expenditure and income must be brought to their attention in a timely manner to allow them an opportunity to challenge and consult on the options available.

4. This report considers both revenue and capital income and expenditure and the funding options available, paying particular attention to those areas where councillors have significant discretion over the outcomes.

Revenue budget 2012/13

5. The objectives to be achieved when setting the MTFP and the annual revenue budget are:

- To set a balanced revenue budget (prepared in accordance with proper accounting practice), i.e. the estimated income in the year (including that from the council tax) will equal the estimated expenditure.

- To set a revenue budget requirement that maintains a level of revenue balances that is sustainable over the medium term. A sustainable level of balances is not less than 5% of the annual budget requirement.

- To ensure the council's five year revenue spending plans concur with its medium term financial strategy objectives with regards its balances.

- To direct resources to meet council priorities.

- To continually strive to deliver services in an efficient and effective way.

6. To meet these objectives the MTFP (shown at appendix A) has been set with a firm budget requirement for 2012/13 and indicative budget requirements for the remaining years of the plan (these are confirmed annually to allow flexibility with the changing circumstances of the council). For 2012/13 the budget requirement has been calculated as £10,748,246 (line 44of the MTFP). This represents the previous year's budget requirement (£11,393,150) adjusted for inflation, growth proposals (appendices B and D) and savings proposals (appendix C). These are all subject to consultation in accordance with the council's constitution.

Budget composition 2012/13

7. Base budgets. The first stage of budget setting is to formulate the base budget. This is achieved by taking the working budget from the previous year and adjusting it for known changes (eg: inflation, staff costs, full year effect of budget savings/increases). These budgets are then subjected to a challenge process to ensure all excess costs are cut from the base. These budget reductions are summarised at Appendix A1.

8. The net cost of service budgets have reduced from £13,732,350 in the 2011/12 MTFP to £13,219,800 in this MTFP (line 20) being proposed. The main reason for this reduction is the full year effect of the shared service restructures at fourth tier (service managers) and below fourth tier.

9. Inflation, salary increments, and other salary adjustments. Together these total a net saving of £21,480. The cost of living (inflation) figure of £81,850 represents an average increase of less than one per cent on the 2011/12 net expenditure budgets. For all council employees, except for the chief executive, strategic directors and heads of service, an increase in salary of two per cent is budgeted for 2012/13. Increments payable to council employees not at the top of their salary range total £35,500. Other salary adjustments represent a net saving of £138,830 reflecting additional savings arising from restructures initiated in prior years and other budget corrections.

10. Until the final budget is set the 2012/13 figures are provisional and are liable to change as work continues on refining the budget. The paragraphs below identify how the budget requirement for 2012/13 has been reached.

11. Essential growth. Each year the budget will change based on new legislative requirements, demographic pressures, contractual obligations and agreed changes in policy. These items total £345,800 (line 29). They comprise additional expenditure which is considered unavoidable, and reflect changes that have occurred in the current year or which are known will happen in 2012/13. Given the value of these additional essential growth items they are subject to further review.

12. Changes in responsibilities. There are no costs relating to changes in responsibilities in 2012/13

13. Savings. In this year's budget setting, Heads of Service and Service Managers have been asked to identify savings within their service areas. These items total £419,920 (line 30). These are reductions in costs identified by officers which are the result of more efficient working, previously agreed policy decisions, cost reductions outside of the council's control, and corrections to budgets.

14. Fit for the Future savings. The council uses a lean systems thinking approach to remove inefficiencies in business processes and improve the quality of customer service. Internally this approach is known as Fit for the Future (FFTF) – savings made to date are already included in the service area base budgets.

15. The third phase of this project will commence shortly and involves processes in some of the council's service teams being looked at in detail with the aim of identifying efficiency savings. The provisional savings targets are summarised in table 1 below and are shown at line 81 of the MTFP. The cabinet will take these into account when recommending its budget to council.

Table 1: FFTF savings targets (cumulative)

Year	£
2012/13	57,400
2013/14	193,800
2014/15	313,000
2015/16	313,000
2016/17	313,000

16. Revenue and capital growth. In setting the annual budget the council must consider if it wishes to enhance, improve or extend existing service provision. Heads of service have submitted a number of suggestions for additional spend that support the council's key aims as set out in the council's corporate plan, and management team has agreed that a number of these merit further consideration as part of the budget setting process. These proposals are included in the budget proposal but they are still under consideration and are subject to political decision as to whether they should be progressed.

17. The growth bids are attached to the report as follows:

- appendix D – revenue growth bids - £388,760 (line 31)
- appendix F – capital growth bids – including net revenue one-off costs of £20,000 and £7,000 ongoing (line32)

18. It will be for the council to decide in February whether these or any other proposals are included in the final budgets. If any member of the committee wishes to have further details of any of the bids please can they contact the relevant head of service.

19. This budget represents the budget proposals submitted by officers and it allocates resources to allow the council to provide an affordable level of service at the current standards (all other things being equal), and reflects previously agreed policy decisions. It also includes essential growth items, any growth in respect of new responsibilities placed on the council, and all growth proposals which have been put forward by officers.

20. Investment income. Investment returns for 2012/13 are used to finance expenditure in-year. For 2012/13 these are expected to be lower than previously forecast in the MTFP for 2011/12; this is mainly due to interest rates remaining at their current low for a longer period that originally expected. It is currently forecast that £417,900 will be earned in 2012/13 (line 21).

21. Property income. The council receives income from its investment property portfolio, and for 2012/13 this is estimated at £1,618,580 (line 22)

22. Government Grant Income. Council tax freeze grants for 2011/12 and 2012/13 of £284,437 (lines 23 and 24) are included. Paragraph 28 discusses this in more depth. New homes bonus grant funding of £997,645 (2011/12 £451,595 – line 25 and 2012/13 £546,050 – line 26) is shown as being received, but transferred to an earmarked reserve (line 37). This is discussed in more depth in paragraph 31.

23. Taking into account these contributions the provisional net expenditure of the council for 2012/13 is £10,215,858 (line 34).

Capital programme 2012/13 to 2016/17

24. The capital programme has been reviewed in detail by heads of service in conjunction with finance staff as part of the budget monitoring process, and has been changed to reflect current expectations of the spending profile. An updated programme, reflecting these changes, is attached as appendix E.

Government funding for revenue expenditure

25. In October 2010, as part of the comprehensive spending review, government announced that councils would see "an average loss of grant of 7.25 per cent, in real terms, in each of the next four years[1]", i.e. 29 per cent over 4 years. In reality however, this council lost 15.2 per cent in the 2011/12 settlement and a further 11.8 per cent reduction this year meaning, the council will have lost 27.0 per cent in the first two years alone. Officers are expecting that over the four year period the council will actually lose 40 per cent.

[1] Letter from secretary of state for communities and local government, 20 October 2010

26. In 2011/12 the government announced a provisional two year settlement. This was further updated on 7 December 2012 with publication of the 2012/13 provisional settlement figure which will be confirmed in January 2013. The impact of the settlement on the council's grant funding is shown in table 2 below:

Table 2: local government settlement 2011/12 to 2012/13

	2011/12 actual £	**2012/13 provisional £**
Formula grant after adjustment	**5,598,015**	**4,820,569**
Increase/(decrease) year on year	(1,003,418)	(777,446)
Percentage increase/(decrease) year on year	(15.2%)	(13.9%)
Percentage increase/(decrease) from 2010/11	(15.2%)	(11.8%)
Cumulative percentage/(decrease) from 2010/11	(15.2%)	(27.0%)

Issues for consideration

27. The paragraphs below set out further issues that need to be considered before the final budget for 2012/13 is set by council in February 2012. As such they represent areas of discretion in the budget setting process that are open to councillors.

Council tax freeze

28. The government has announced that it will pay an additional grant to councils who do not increase their council tax in 2012/13. The grant will be the equivalent of a 2.5 per cent increase in council tax, which equates to an additional grant of £143,166. CLG has confirmed that this grant, if the council chooses to accept it, will be for one year only. In terms of tax yield, the council will be worse off in future years as a result of not increasing council tax. The council is already receiving a four year grant of £141,271 annually from the first tranche of the council tax freeze grant (2011/12 to 2014/15). Again in terms of tax yield, the council will be worse off in future years as a result of this grant funding ceasing, than it would have been if council tax had been increased last year by 2.5 per cent.

Planning fees – full cost recovery

29. The government has now completed the consultation period on proposals to decentralise responsibility for setting fees to local planning authorities. The proposals will allow authorities to help to reduce the subsidy of planning applications by local taxpayers, by allowing planning authorities to charge on the basis of full cost recovery, if they so wish. If the council decided to recover costs in this way, there will be a significant increase in fees.

30. Officers are currently waiting for further information from government. Changes which were initially expected to be implemented from October 2011 have been delayed. It is now anticipated that if any such change were to be introduced the earliest this could happen would be in the financial year 2013/14. There will still be a need for a six month transition period.

New homes bonus

31. As part of last year's settlement, the government announced a new homes bonus scheme, aimed at incentivising local authorities to increase housing supply by rewarding them with additional grant. As part of the 2012/13 settlement the council received £451,595 which the council budgeted to put into an earmarked reserve. This will be received for a further five years. This year, in addition to the £451,595, the council will receive £546,050 as part of the second tranche – a total of £997,645 for 2012/13. The council will need to decide how the additional funds received are to be used – it is currently assumed that the funding received will all be transferred to an earmarked reserve.

Future prospects

32. In addition to considering the budget for the 2012/13 financial year, consideration must also be given to the financial position of the council over the medium term. In particular, the impact of the likely continued reduction in government grant funding over the medium term will present a significant challenge for the council. There are three particular issues for which costs and potentially revenues will not be known until summer 2012 at the earliest, they are:

- <u>Localisation of council tax benefit</u> – consultation on this policy is currently under way with primary legislation expected in the summer of 2012. A 10 per cent cut in funding of this benefit is proposed, with pensioners and other vulnerable groups being "no worse off" as a result of the implementation of locally designed and administered local authority schemes. Claimants falling outside those protected groups may suffer cuts to benefits exceeding 20 per cent if local schemes choose not to subsidise the cut.

- <u>Business rates retention</u> – consultation on this ended on 24 October 2011. Legislation is expected for implementation in April 2013. Instead of contributing all business rates into a central pool as is currently done, from a base line year, any "new" rates collected will be retained locally. Conversely if collection rates decline, there will be a negative impact on funding locally. The rationale behind the new strategy is to encourage authorities to grant planning permission for appropriately-sited and well-planned non-residential development to stimulate economic growth.

- <u>New homes bonus</u> – although the grants awarded for 2011/12 and 2012/13 are known or can be estimated quite accurately, total grants awarded in excess of the £250 million set aside by government for 2012/13 to 2014/15, will be funded from formula grant. The government has stated that "Those authorities which respond to the incentive and embrace housing growth will reap the benefits"[2].

33. On 16 February 2011, the welfare reform bill was introduced to parliament. The Universal Credit, a major feature of this bill, will be administered by the Department for Work and Pensions (DWP). It aims to simplify the current benefits system providing a basic allowance which will replace amongst other benefits housing benefit currently administered by local authorities. The potential implications and opportunities for local authorities are significant.

[2] New homes bonus: final scheme design DCLG February 2011

34. The DWP will hold further discussions with local authorities about the detail and implications of universal credit for their housing benefit operations, including consideration of whether there may still be a role for local authorities in dealing with non-mainstream housing benefit cases (for example, people living in supported or temporary accommodation). Local authorities may also have a role to play in delivering face-to-face contact for those who cannot use other channels to claim and manage their universal credit. Although it is likely that implementation dates will slip, the government's timetable indicates that by April 2014 all new benefit claims will be made through universal benefit.

35. Appendix A of this report presents a Medium Term Financial Plan (MTFP) for the council, which quantifies the financial pressure on the council over the medium term. It assumes that government grant funding will fall in total by 40 per cent by 2014/15 and a one per cent year on year reduction thereafter. It also incorporates assumptions on interest income, and other known pressures on the council, such as inflation and salary increments. In line with the draft corporate plan, it assumes no change to council tax for 2012/13 and 2013/14, with a two per cent increase thereafter. It does not however reflect the items in paragraphs 48 to 50 above, where costs and revenues are unquantifiable at the present time.

36. Although required to set a balanced budget, the council is allowed to prudently call upon general fund balances to support the revenue budget in the short term. Based on current assumptions, the general fund will need to be used as follows in table 4 below:

Table 4: use of the general fund balances

	(Contribution to)/Use of general fund balances £000	**General fund balance at year end £000**
2012/13	550	(2,411)
2013/14	1,119	(1,292)
2014/15	1,680	387
2015/16	1,795	2,183
2016/17	2,302	4,484
Total	**7,446**	**N/A**

37. As identified above, if the budget for 2012/13 were to be adopted with no further changes then, based on the assumptions, the general fund balances of the council would fall below a sustainable level in 2014/15.

Financial Implications

38. These are included within the body of the report.

Legal Implications

39. There are no legal implications arising directly from this report.

Conclusion

40. This report brings together all known, relevant income and expenditure and funding information. This should aid members in understanding the major issues to be faced in setting the 2012/13 budget and allow them to consider and challenge that information before council sets its 2012/13 revenue and capital budget in February 2012.

Background Papers

Appendices

- Appendix A – medium term financial plan
- Appendix A1 – Summary of budget changes
- Appendix B – essential growth
- Appendix C – service budget savings
- Appendix D – revenue growth bids
- Appendix E – capital programme to 31 March 2017
- Appendix F – capital growth bids

Other background papers

- Budget monitoring: September 2011 – cabinet 9 November 2011
- Universal credit : welfare that works (white paper) – Nov 2010 department for works and pensions
- Welfare reform bill 2011 (green paper) – February 2011 – department for works and pensions