

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

28 SEPTEMBER 2011

REPORT OF HEAD OF CENTRAL SERVICES

BUDGET FRAMEWORK 2012/13

1.0 PURPOSE OF REPORT

- 1.1 To consider a number of key items which will feed into the Council's Medium-Term Financial Strategy (MTFS) and the 2012/13 budget and service planning preparation process.

2.0 RECOMMENDATIONS

- 2.1 That Committee approve the proposed service and financial planning timetable for 2011/12, in respect of the 2012/13 financial year, set out at Appendix A.
- 2.2 No inflation be provided in the 2012/13 budget for non pay costs and pay and related costs unless adjusted for known prices by budget holders.
- 2.3 The Council retains its objective of setting a balanced budget for 2012/13.
- 2.4 The target working balance on general expenses remain at £640,000, special expenses (Melton Mowbray) at £50,000 and the Housing Reserve Account (HRA) at £250,000.
- 2.5 The Programme Board determine the relative priority of schemes for members to consider and allocate funding based on the information set out in the project mandates.
- 2.6 The key dates for the budget process be noted.

3.0 KEY ISSUES

Background

- 3.1 An updated timetable for the service and financial planning process is attached as Appendix A. There are no changes from the process approved last year.

Formula Grant

- 3.2 Traditionally the Government has conducted Comprehensive Spending Reviews (CSR's) every two years and their purpose is to set out for the forthcoming three-year period, how much the Government is going to spend in cash terms and in which policy areas. The CSR2010 was announced in October 2010 and covered a 4 year period 2011-15. The review sets departmental spending limits and defines the key areas of improvement the public can expect from this expenditure. The CSR contained a range of proposals for the public sector and local government; the full details and implications of which in many areas are still to come. The most significant financial impact was the announcement of a 29% reduction in funding over the 4 year period with much of this front loaded.

- 3.3 Following the CSR2010 the local government finance settlement was announced in December 2010. The two year amounts issued for this Council are set out in the table below. A full review of local government funding has commenced in 2011 in order to inform the 2013/14 funding position.

Formula Grant

Financial Year	£	% Reduction
2011/12	3,042,950	15.2
2012/13	2,624,624	12.5

- 3.4 The last Budget reiterated the commitment, previously made in the Coalition Document, to work in partnership with local government to implement a council tax freeze in 2011-12. Where councils chose to freeze the council tax the government have funded an equivalent of a 2.5% increase in 2011-12 for the 4 year period via the new council tax freeze grant. The commitment appears now to be only for one year, whereas previously the aspiration had been to extend it to two years if possible. This doesn't apply to parish precepts.
- 3.5 The Local Government Resource Review will consider the way in which local authorities are funded, with a view to giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies. It will look at ways to reduce the reliance of local government on central government funding, increase local accountability and ensure that the benefits of economic growth are reflected in the resources authorities have. There are a number of areas being covered in this review; the impact on the Council's finances being currently uncertain. Whether more information is available for when the MTFs is approved remains to be seen and broad estimates may well have to be made. The more significant areas are as follows:
- 3.5.1 Proposals for Business Rates Retention, which is covered elsewhere on this agenda. Public Sector Consultants, who have been providing information on the proposals, have completed a financial model, for which they have had to use their own numerous assumptions. The conclusion we have read from this is that even if we take into account all the Council's New Homes Bonus for revenue expenditure in real terms we will only just break even against existing funding levels. A further consultancy firm has offered their own calculator, using their assumptions but this would be for an additional substantial fee.
- 3.5.2 Housing Revenue Account (HRA) Reform, the details for which have appeared in regular updates to the Community & Social Affairs Committee.
- 3.5.3 Localising Support for Council Tax. This is out for consultation and proposes reforms to move policy control for council tax benefits from central government to local authorities. The changes will be introduced from 2013/14 and one of the proposals that could have real cost implications for the Council is to reduce expenditure on support by 10%. The proposals also have major implications on the calculations of the council tax base which are still being assessed in term so the mechanism and the impact.
- 3.5.4 Reform of public sector pensions and potential cost implications for the Council.

Inflation Forecast

- 3.6 The Government's target for inflation is 2% CPI (Consumer Prices Index). Actual CPI has been well above this target and is likely to remain so into 2012. Downward pressure on wages and prices is expected to bring the actual rate to below the target however the timing of this is difficult to predict in the current climate although it is predicted that it will not start to fall until the beginning of 2012. The rate is estimated to fall further during 2012 and come within target during the first quarter of 2013. Pay increases have been weak and are likely to remain low.

- 3.7 On the basis of these estimates and taking into account the likely financial position of local government a general increase in non pay budgets is not recommended but where budget holders have knowledge of price rises, adjustments can be made to these budgets to reflect actual price changes. This will help ensure increases are generally made only where needed and help to reduce the overall pressure on the Council's finances. With regard to pay projections a nil rate is also recommended in order to assist with the pressure on the budgets. However, should a rate be negotiated nationally even if at the lower levels this will need to be met either from savings elsewhere or from the working balance.

Working Balance

- 3.8 The Council's budget strategy for a number of years has been to set a balanced budget. This ensures that the net revenue expenditure, with the exception of funding for capital/new initiatives, is met from Council tax and Government grants. This strategy was also based on ensuring that working balances were retained at a sufficient level to meet any unforeseen expenditure that could not reasonably be budgeted for.
- 3.9 When calculating budget requirements, relevant authorities are required (by The Local Government Finance Act 1992) to have regard to the level of reserves needed for meeting estimated future expenditure (e.g. for emergencies), or as specific (i.e. "earmarked") funds. A clear protocol (covering purposes, utilisation, management, and review) exists for each reserve held in line with guidance. The level of working balance an authority agrees is an individual matter for them based on their own unique circumstances, risk profile and risk appetite. It is not appropriate to compare/benchmark against other authorities in order to assess an appropriate level.
- 3.10 The current projection for the level of working balances is set out in the following table. Where the actual balances at the year-end for general and special expenses have differed from the target level the balance has been restored either by taking from or adding to the general reserves. This does not take any account of predicted year end over/underspends that have not been formalised though supplementary estimate requests. As members will be aware the current forecast indicates an overspend of around £100k, however, this position is subject to regular updates and change. There is also pressure on utilising the unbudgeted New Homes Bonus which has been accounted for when calculating this shortfall. As the budgets and spend are proactively managed every effort is being made to identify savings that can be used to offset these forecast costs.

	General Fund General Expenses £	General Fund Special Expenses £	Housing Revenue Account £
1 April 2011	640,000	49,166	397,933
Latest budgeted Increase/reduction (-) 2011/12	0	834	920
Supplementary estimates approved to date	0	0	0
Estimated Balance 31 March 2012	£640,000	£50,000	£398,853

- 3.11 The target working balance for general expenses was increased in 2005/06 to its current level of £580,000. A temporary increase to £640,000 was applied in 2009/10 as a result of the uncertainty of a number of key income streams due to the recession. The calculation has been updated for any changes in assumptions and is set out in Appendix B. It can be seen that the revised figures produce a midpoint of £680k.

As mentioned last year the size of this midpoint against the current working balance is primarily due both to the impact of the recession on the uncertainty of income levels and the effect this had in 2008/09 and the estimated cost of emergency expenditure which takes into account the financial impact of the fire. Such events are extreme in their own right but to experience all at the same time leads to such a high impact on working balance estimates. Not all factors are likely to occur in any one financial year and the current enhanced level of £640k is within the range. As with last year it is recommended that in order to prevent unnecessary cuts in expenditure to increase the working balance at a time when the budgets are already extremely tight that the position continue to be monitored and the temporary increase approved in 2009/10 be retained.

- 3.12 With regard to the £50,000 working balance for special expenses (Melton Mowbray) there is no justification for amending this amount based on previous years supplementary estimate history. As shown above the current and projected balance is below this target and this will need to be addressed as part of the budget setting process.
- 3.13 The Housing Revenue Account (HRA) working balance was last increased to £250,000 in 2005/06. Comparisons with other housing authorities suggest this is a reasonable level. However there is a history of overspending on this account following the experience of the last few financial years. It may be necessary to take this into account and increase the level when this can be accommodated. This could be considered as part of the reform of the HRA currently being examined by central government.
- 3.14 It has been previously agreed that, should there be a surplus over the working balance then this is available to support change initiatives or to accelerate the achievement of the decent homes standard.

Programme Board

- 3.15 The Programme Board was allocated responsibility in 2008/09 to determine the relative priority of schemes submitted for funding as part of the budget setting process for member's consideration and final approval for funding by Full Council at the budget setting meeting. No issues were encountered from this approach and therefore it is recommended that this procedure continue.

Key Dates

- 3.16 For Members information the key dates in the budget process are as follows:-

Budget and Strategic Planning Working Group meet to consider draft MTFS and scrutinise budget submissions	10 November 2011
PFA Committee consider first draft of revenue estimates and approval of MTFS	8 December 2011
Budget Away Day (All Councillors)	9 January 2012
PFA considers outcome of Budget Away Day	25 January 2012
Full Council determines the budget	1 February 2012
Full Council sets Council Tax	23 February 2012

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The key items considered as part of this report will inform the Council's MTFS. The MTFS is an overarching strategy within the Council's Corporate Policy Framework and draws together the financial consequences of all the Council's strategies and policies.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The financial implications of each of these key decisions will feed into the MTFS along with the detail around the Council's reserves and balances which will be submitted for approval to the December meeting of this Committee.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no specific legal implications as a result of these proposals.

7.0 COMMUNITY SAFETY

7.1 There are no specific community safety issues as a result of these proposals however as a corporate priority specific funding will be allocated as part of the service and budget setting process to this area.

8.0 EQUALITIES

8.1 There are no direct links to equalities as a result of these proposals. The MTFS itself has been subjected to an equalities impact assessment.

8.2 As in all our service areas and in supporting our corporate priorities ensuring equality of access for all sections of the community and in particular those that are vulnerable is a key factor for all officers to consider and improve.

9.0 RISKS

9.1 There are a number of uncertainties surrounding local government finance and the Council's financial position. The budget is the best estimate of likely income and expenditure for the year that it covers. The proposals contained within this report attempt to quantify some of these unknowns in order to produce a best estimate. To mitigate some of these risks the working balance is provided which itself is based on a risk assessment of likely need. Corporate risk insert and put in grid

10.0 CLIMATE CHANGE

10.1 There are no direct links to climate change.

11.0 CONSULTATION

11.1 As part of the Corporate Planning and Budget Framework provision is made to undertake consultation on budget disinvestment. This helps inform the budget setting process and allocation of resources.

11.2 All Heads of Service and the Budget and Strategic Planning Working Group are involved in finalising the document.

12.0 WARDS AFFECTED

12.1 As these proposals inform the MTFS then potentially all wards are affected.

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Date: 5 September 2011

Appendices: A – Service and Financial Planning Timetable
B– Level of Working Balance from MTFS

Background Papers: MTFS working papers

Reference: X: C'tees, Council & Sub-C'tees/PFA/2011-12/28-09-11/Budget Framework
2012/13