

# AGENDA ITEM 9

## POLICY, FINANCE AND ADMINISTRATION COMMITTEE

4 DECEMBER 2012

### REPORT OF HEAD OF CENTRAL SERVICES

#### LATEST POSITION - REVENUE BUDGET 2012/13 AND 2013/14

##### 1.0 PURPOSE OF REPORT

- 1.1 To report on the activity of the Budget and Strategic Planning Working Group with regard to the scrutiny of the 2012/13 estimated year end position and the 2013/14 estimates.
- 1.2 To advise on the latest position on the current year's revenue budget (2012/13) and the current position with regard to 2013/14.
- 1.3 To set out some of the issues still to be resolved regarding 2013/14.

##### 2.0 RECOMMENDATIONS

- 2.1 **That Members note the estimated year end position for 2012/13 as set out in paragraph 3.2.**
- 2.2 **That Members note the position with regard to the 2013/14 estimates at this stage in the process and the issues yet to be resolved as set out in paragraph 3.3.**

##### 3.0 KEY ISSUES

###### 3.1 Background

- 3.1.1 The Management Team scrutinised all budget submissions prior to submission for member scrutiny. The Budget and Strategic Planning Working Group (BSPWG) met on 8th November 2012 to consider a number of matters arising from the scrutiny and to provide guidance on a number of areas for both General and Special Expenses. The Town Area Working Group met on 14th November 2012 to also consider special expense budgets. Amendments were made to individual draft service budgets following these meetings. A copy of the Working Group minutes for these meetings can be obtained from Central Services.
- 3.1.2 The emphasis of these meetings was to achieve a balanced budget for 2013/14 and also to scrutinise all service growth put forward, including their fit with Council priorities and to ensure only those that fit such criteria move forward through the budget process. In reality no such growth bids were submitted. In addition, the Members present considered the ongoing issues experienced in balancing the budget and the particular pressures faced as a result of the financial implications in relation to government proposals on the localisation of business rates and localising support for council tax with the likelihood of further cuts in formula grant. These were discussed with a view to considering further areas where efficiencies and reductions could be made.

###### 3.2 Estimated Year End Position 2012/13

- 3.2.1 The position for the current financial year, 2012/13 is estimated to be as set out in the following table:

## Estimated Year End Position 2012/13

	Original Estimate 2012/13  £'000	Estimated Year End Position 2012/13  £'000
<b>General Expenses</b>		
Net Cost of Services	6,353	6,665
Non Specific Service Items	-216	-656
	-----	-----
Total General Expenses	6,137	6,009
<b>Special Expenses (MM)</b>		
Net Cost of Services	619	627
Non Specific Service Costs	-113	-118
	-----	-----
Total Special Expenses (MM)	506	509
<b>Special Expenses (Sproxtton)</b>	4	4
<b>Special Expenses (Frisby)</b>	5	5

- 3.2.2 The estimated year end position for General Expenses shows a reduction over the original budget of £128k. Supplementary estimates have been approved from the Corporate Priorities Reserve and the working balance as detailed below totalling £390k.

	£
Approved Revenue Carry Forwards from 2011/12	135,200
Supplementary Estimates - Corporate Priorities Reserve	68,450
Supplementary Estimates - Working Balance	186,050
Total	----- 389,700

In addition to the above, the original budget was re-stated at a meeting of this committee on 17 April 2012 to reflect the savings arising from the sale of land at Nottingham Road and the subsequent repayment of general fund debt. This has resulted in savings of £407,330 in 2012/13.

As such the estimated year end position on general expenses is showing an underspend of £111k against in year approvals. This doesn't take into account the final settlement claim with the Council's insurers following the fire to the Council Offices in May 2008. This compares to in year monitoring that is currently indicating an underspend of around £127k. The variances between the original budget and the estimated year end position primarily relate to additional income from partners occupying Parkside, increased benefit subsidy, interest received and savings in external audit fees following the abolition of the Audit Commission. These are offset by lower income than budgeted for e.g. building control fees, car parks and the industrial units. The figures are the best estimate based on information available at this time. As such the current estimates show an estimated surplus of £331k over the approved working balance. This committee has already approved an increase to the target working balance from £640k to £820k and this estimated balance provides members with the option to do this at the year end from the additional surplus.

- 3.2.3 The estimated year end position for Special Expenses (Melton Mowbray) is showing a £2k overspend which will reduce the recommended working balance from £50k to £48k. Members will need to determine whether to reduce the budgeted contribution to the Special Expenses Reserve from £38k to £36k in order to fund this overspend or transfer the reduced working balance to be restored from next year's surplus.

This contribution was approved by members to increase the reserve to provide for non recurring items of capital and revenue expenditure.

3.2.4 The estimated year end position is only an indication of the likely position at the year end and budget holders can only spend at this level if they seek approval through virements and supplementary estimates. Whilst the estimated year end position for General Expenses is showing a potential underspend there is still some pressure on increased costs which are estimated to be covered by savings elsewhere.

### 3.3 Proposed Budget 2013/14

3.3.1 Following amendments to the proposed budgets both during and following the BSPWG and Management Team meetings, the latest position on the General Fund and Special Expenses is summarised in the table below. At this stage in the process there are always a number of uncertainties with some budgets remaining unclear:

#### Latest Proposed Budget 2013/14

	<b>General Expenses</b>	<b>Special Expenses (MM)</b>
	<b>£000</b>	<b>£000</b>
Latest Proposed Budget 2013/14	5,882	487
Formula Grant	-2,660	0
Council Tax Income	-2,579	-518
Council Tax Freeze Grant	-97	-18
Preventing Homelessness Grant	-71	0
New Homes Bonus	-623	0
Collection Fund Deficit	25	0
Budget Shortfall/Surplus (-)	-123	-49

3.3.2 Confirmation of the Formula Grant is to be much later this year and the announcement for individual local authorities is not due until late December 2012 and may even be early January. The final figures cannot be predicted with any degree of certainty at this point in time but an assumption of loss of grant of 10% has been assumed in the estimates. We wait to see if the government's proposals for adjustments to the formula grant, recognising the increased costs of providing services in rural areas, will result in a sparsity adjustment to the formula and resultant increase in grant for Melton. It can be seen from the table that an assumption has been made that members will wish to take advantage of a further award of the Council Tax Freeze Grant which the government has recently announced for a further two year period, equivalent to a 1% increase in council tax. This is in addition to the award given in 2011/12 for a four year period and the one given in 2012/13 for a one year period only; both equivalent to a 2.5% council tax increase. The funding for the remaining two years of the original award is to be incorporated into Formula Grant and the implications of this on the estimates prepared to date is unclear and will remain so until the settlement is announced. As the funding drops out the Council will need to meet this shortfall from its own resources with council tax remaining at 2010/11 levels.

3.3.3 The council tax base assumptions used in the estimates are based on a best case scenario including a deduction for an assumed new council tax support scheme (CTSS) and discount scheme for empty properties. The CTSS will be determined by Full Council on 12 December 2012 following which the tax base can be calculated, subject to further guidance in the form of regulations being received from the government regarding the setting of the base.

Furthermore it was assumed that no deduction for a new CTSS would apply to special expenses; these being treated in the same way as parish precepts subject to the final outcome of the government's consultation paper on special expenses. This, however, does create an anomaly on the overall council tax increase in that by applying a nil council tax increase to both General and Special Expenses this does not result in an overall nil increase due to the higher proportion of the Special Expenses tax base to that of the General Expenses tax base. In order to arrive at an overall nil increase and qualify for the grant the council tax income figure would need to reduce by approximately £49k. Discussions have taken place between the DCLG and the Chief Accountant and it is hoped that the final regulations on the new scheme would mitigate this impact by removing special expenses from the calculation in respect of both council tax freeze eligibility and also the triggering of a referenda. Should this be the case there would be scope for considering an increase in council tax in respect of special expenses. The Town Area Working Group (TAWG) were consulted on their views on an increase to Special Expenses council tax should the option be available and supported a 1% increase. The group also support a nil council tax increase should the council tax freeze grant be available.

3.3.4 A number of other announcements as set out in the government's last comprehensive spending review (CSR) will have financial implications for this Council from 2013/14 i.e. the government's proposals for the localisation of the business rates, localising support for council tax, universal credit system and a single fraud investigation service; all of which have been subject to consultation and for which the financial implications are still being assessed. As information becomes available the implications of this will be assessed and incorporated into the estimates/Medium Term Financial Strategy as appropriate.

3.3.5 In addition to the above assumptions a number of other key assumptions have been made in compiling the above figures as set out below:

- The balance on the collection fund will not be determined until January 2013 following the calculation of the council tax base and is therefore based on estimates.
- Support cost recharges to the HRA and between funds are based on current year's estimates and will be subject to change.
- Estimates for property which carries a certain amount of risk following the move to Parkside and a lack of historical data on which to base the estimates on. Assumptions have been made regarding the running costs of Parkside, the use by partners and the subsequent letting of Phoenix House both in terms of the level of rental income and service charges that will be achieved.
- Estimates for IT which carries a certain amount of risk due to a review of the service currently being carried out and no assumption has been made at this stage for a change in the costs.
- The level of income from the commingled waste collection service has been based on a forward projection of market prices for the recycling commodities at a mid-point level.
- A variety of assumptions have been made relating to a range of income streams, including investment income, affected by the current economic climate. These are based on a balance of the budget holders' knowledge of the service area, current and estimated market trends.
- An allowance has been made for further increases in the New Homes Bonus which is available over the next four years. A contribution of £66k to the NHB reserve was made in 2012/13 and at this stage no further contributions have been allowed for in the estimates. A spreadsheet model developed for the purpose of estimating future grant entitlement based on a predicted growth in housing development forecasts considerable increase in grant over this period and members will need to decide how this reward should be used. The original estimates for 2013/14 have been based on the current award for 2012/13 of £476k plus a further increase of £147k for new growth in 2013/14.

The model will continue to be assessed and any assumptions that can be made on likely grant built into the estimates as appropriate based on the risks associated with the certainty of receipt.

- An assumption has been made regarding the level of Preventing Homelessness Grant based on last year's award following an announcement by the government that the grant will apply for a further two year period at existing levels.
- A contingency has been provided in the estimates for general prices and pay award inflation but where information is available budget holders have provided for known increases or contractual increases in the estimates. The contingency is based on an assumption of a 1.5% pay increase and a 2% increase on other items.
- Assumptions have been made relating to externally funded services where the continuation of funding remains uncertain at the present time.

3.3.6 Figures will continue to be refined until the Full Council meeting in February 2013 when the budget and Council Tax are formally set.

3.3.7 No provision has been made for growth or savings for further member consideration in the budget and no proposals for such have been submitted by budget holders.

3.3.8 The Council's Medium Term Financial Strategy, which is currently being drafted with the aim to bring it to this committee, for approval in January 2013, when it is hoped that some of the uncertainties listed above will have been resolved. This shows the ongoing position on the Council's finances over the next three years, in addition there are other areas of risk and uncertainty at this time on the Council's finances which will be set out in this document. The ongoing cuts in central government financing coupled with the economic situation nationally present risks to the Council that could result in a potential budget deficit. As such the Council needs to build capacity to deal with these risks not just in the short term but over the medium to long term also where the opportunity arises.

3.3.9 With regard to Special Expenses Melton Mowbray, there is still an estimated contribution to this reserve at the end of the current financial year and a significant contribution estimated for next year which provides some capacity for investment in items of expenditure of a one-off nature, whether revenue or capital. An element of the Council Tax Freeze Grant has been allocated to all Special Expenses funds including Melton which could change and will depend on the outcome of the settlement.

3.3.10 It should be noted that as internal recharges have not been finalised the surplus is still an estimate and is almost certain to change.

#### **4.0 POLICY AND CORPORATE IMPLICATIONS**

4.1 The process followed with regard to the setting of the Council's budget is in line with the Service and Financial Planning timetable. The Working Group would only consider proposals for service growth where there is a link to the Council's Priorities.

#### **5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 Until the provisional Formula Grant for this Council is known in December 2012 any estimate of the extent of any savings that need to be made, not just with the 2013/14 budget, but also with regard to the next two years could be very different to the actual position. However it is clear that savings will be required and therefore the Council does need to be mindful of the medium term projection and the financial risk this poses to the authority. The Council needs to continually review both the level and efficiency of the services it provides in line with its priorities in order to identify areas where savings can be made, if and when the need arises, in order to ensure reductions are planned and managed in an effective way.

## **6.0 LEGAL IMPLICATIONS/POWERS**

6.1 The legal implications of service growth, if applicable, will need to be assessed when and if such growth items are being considered.

## **7.0 COMMUNITY SAFETY**

7.1 Community Safety is a key priority of the Council and the budget proposals need to take account of the requirements to support that strategy.

## **8.0 EQUALITIES**

8.1 There are no direct links to Equalities, though some elements of the budget proposals will relate to Equalities issues. Any savings proposals will need to have equality impact assessments completed as appropriate by the service lead.

## **9.0 RISKS**

9.1 There is always the risk that an item of income or expenditure is not adequately reflected in the budget for any financial year; this will be higher in some areas for the 2013/14 financial year due to the economy as well as any initiatives/policy changes arising from the government. The process followed as set out in the Service and Financial Planning timetable is aimed at mitigating this risk. However, the Council has a working balance which is annually reviewed and calculated on a risk based approach. This working balance is there to provide for any variations in actuals against budget that could not have been anticipated at this stage. The detailed calculations were presented to this committee as part of the budget framework report approved in September 2012 and will be included in the Council's Medium Term Financial Strategy. An increase from £640k to £820k in the working balance for general expenses was approved by this committee in the same meeting. In addition, the Council has a process for enabling budgets to be moved from one area to another to help ensure the overall position is not affected. The assumptions set out in paragraphs 3.3.2 to 3.3.4 provide an indication where assumptions have been made at this stage and where there is less clarity surrounding the financial implications.

## **10.0 CLIMATE CHANGE**

10.1 Climate change and our response to this could impact on a number of budgets and this should be considered as part of the service planning process.

## **11.0 CONSULTATION**

11.1 The Service and Financial Planning timetable sets out the Council's approach to consultation and its links to the budget setting process. In addition, all Heads of Service and Members are involved in the process at various stages. Consultation with Business Ratepayers will be held via the website following advertisement.

11.2 A union representative attended the BSPWG meeting held in November in order to facilitate communication with staff representatives.

11.3 The Town Area Working Group was also consulted on proposals for Special Expenses Melton Mowbray.

## **12.0 WARDS AFFECTED**

12.1 All wards will be affected.

---

Contact Officer: David Cowl, Chief Accountant

Date: 15 November 2012

Appendices: None

Background Papers: Medium Term Financial Strategy working papers  
Budget Book 2012/13  
Budget Working Papers  
Minutes from BSPWG 8/11/12

Reference: X: C'tees, Council & Sub-C'tees/PFA/2012-13/4-12-12/DG-Latest Position  
Revenue Budget 2012/13 & 2013/14