

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

25 SEPTEMBER 2012

REPORT OF HEAD OF CENTRAL SERVICES

BUDGET FRAMEWORK 2013/14

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 2013/14 budget and service planning preparation process.

2.0 RECOMMENDATIONS

- 2.1 That Committee approve the proposed corporate planning and budget framework timetable for 2012/13, in respect of the 2013/14 financial year, set out at Appendix A.
- 2.2 That no inflation be provided for in the 2013/14 budget at service budget level, other than fees and charges which has been provided for at the rate of 3%, unless adjusted for known prices by budget holders. Instead a contingency budget for inflation be determined at an appropriate level set by the Head of Central Services and reported to Members as part of the budget setting process for 2013/14.
- 2.3 The Council retains its objective of setting a balanced budget for 2013/14.
- 2.4 The target working balance on general expenses is increased to £820,000 with existing levels retained for special expenses (Melton Mowbray) at £50,000 and the Housing Reserve Account (HRA) at £500,000.
- 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 corporate planning and budget framework process is attached as Appendix A. The main change from the process approved last year is that there is a new requirement for policy committees to input into the process during early autumn from a corporate planning perspective.

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 some

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 and provided two year amounts for the Council for the period 2011-13. A full review of local government funding commenced in 2011 in order to inform the 2013/14 funding position; the outcome for which has yet to be determined but should be available for when the MTFs is approved by this committee in December.
- 3.4 The Local Government Resource Review continues to 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 looks 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 i.e. the localisation of business rates and council tax benefits from April 2013, the introduction of universal credit from October 2013, technical changes to council tax and a new Single Fraud Investigation Service; the impact on the Council's finances being currently determined. More information should be available for when the MTFs is approved.
- 3.5 Proposals for Business Rates Retention have previously been reported to this committee and the deadline for agreeing the pooling proposals and governance arrangements for membership of the pool is 19 October 2012. LG Futures have been commissioned to provide support for the pooling considerations. Public Sector Consultants (PSC), who have been providing information on the proposals, have completed various financial models, for which they have had to use their own numerous assumptions as well as DCLG data in order to inform grant projections. 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. However, proposed changes to the formula grant for rural sparse authorities could see the Council gaining. A response to the consultation paper, to include these proposals, has been submitted to the government in time for the deadline of 24 September 2012. This took into account various groups responses i.e. SPARSE and PSC. The Chief Accountant also attended a SPARSE seminar in September and the Head of Central Services attended a DCLG event which helped inform the Council's response. A separate report is contained elsewhere on this agenda regarding further progress relating to the proposed pooling with other Leicestershire authorities.
- 3.6 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. A further commitment for a one year period only was repeated in 2012-13. However, the government, as part of the consultation on business rates consultation, is proposing to roll this grant for 2011-12 into the formula grant and then apply a cut for the period 2013-15 despite this earlier commitment. This point has been made by SPARSE and PSC in their responses to the consultation. This doesn't apply to parish precepts.

Inflation Forecast

- 3.6 The Government's target for inflation is 2% CPI (Consumer Prices Index). Actual CPI has been above this target but continues to fall back towards this target reaching 2.6% in July and is judged likely to fall further back this year. This compares to the same time last year when it was 4.4% reaching a peak of 5.2% during the past year. Downward pressure on wages and prices is expected to bring the actual rate to the target in the medium term however the timing of this is difficult to predict in the current climate. Pay increases have been weak and are likely to remain low with the government proposing a 1% pay increase

for Local Government in 2013/14. This is on top of a pay freeze that Local Government has had for three years.

- 3.7 This forecast was considered at a meeting of the Budget & Strategic Working Group (BSPWG) held on 13 September 2012 and it was agreed that a contingency be set for inflation and an appropriate level be determined by the Head of Central Services and reported to Members as part of the budget setting exercise for 2013/14. On this basis no inflation has been set at service budget level other than 3% for fees and charges as already provided for in the fees and charges reports considered by committees in the September committee cycle. However, where budget holders have knowledge of price rises, adjustments can be made to these budgets to reflect actual price changes.

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 through supplementary estimate requests. As members will be aware the current forecast indicates an underspend of around £41k, however, this position is subject to regular updates and change. As the budgets and spend are proactively managed every effort is being made to manage costs within budget.

	General Fund General Expenses £	General Fund Special Expenses £	Housing Revenue Account £
1 April 2012	640,000	50,000	727,072
Latest budgeted Increase/reduction (-) 2012/13	408,030	5,230	150,970
Supplementary estimates approved to date	-148,550	0	-37,000
Estimated Balance 31 March 2013	£899,480	£55,230	£841,042

- 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 £815k which includes a new allowance for the increased risk of losing business rates income up to a safety net margin of 10% of

business rates yield. This follows changes introduced by the government for the localisation of business rates from 1 April 2013.

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 and not all factors are likely to occur in any one financial year.

The level of the working balance was considered at a meeting of the BSPWG held on 13 September 2012 and it was agreed that after taking into account the above that the existing amount of £640k be increased to the sum of £820k for 2013/14.

- 3.12 With regard to the £50k 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 from £250k to £500k by this committee in a meeting held on 25 January 2012 with a requirement to review annually. The increase was needed to reflect the increase in risk of a self-financed HRA, particularly with regard to treasury management activity, as a result of the reform of the HRA and the buying out of the subsidy system.
- 3.14 It has been previously agreed that, should there be a surplus over the HRA working balance then this is available to support the requirements of the HRA business plan.

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	8 November 2012
PFA Committee consider first draft of revenue estimates and approval of MTFS	4 December 2012
Budget Away Day (All Councillors)	9 January 2013
PFA considers outcome of Budget Away Day	23 January 2013
Full Council determines the budget	6 February 2013
Full Council sets Council Tax	21 February 2013

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 **Probability**



Very High A				
High B				
Significant C			1	
Low D		2		
Very Low E			3	
Almost Impossible F				
	IV Neg- ligible	III Marg- inal	II Critical	I Catast- rophic

Impact →

Risk No.	Description
1	Uncertainty and risks over the future of government funding following the Local Government Finance Bill and the resultant impact on the Council’s finances
2	Budget overspend
3	Depletion in level of working balances

9.2 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.

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 2012

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/2012-13/25-09-12/Budget Framework 2013/14