

# AGENDA ITEM 15

## POLICY, FINANCE AND ADMINISTRATION COMMITTEE

7 DECEMBER 2011

### REPORT OF HEAD OF CENTRAL SERVICES

#### LATEST POSITION - REVENUE BUDGET 2011/12 AND 2012/13

##### 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 2011/12 estimated year end position and the 2012/13 estimates.
- 1.2 To advise on the latest position on the current year's revenue budget (2011/12) and the current position with regard to 2012/13.
- 1.3 To set out some of the issues still to be resolved regarding 2012/13.

##### 2.0 RECOMMENDATIONS

- 2.1 **That Members note the estimated year end position for 2011/12 as set out in paragraph 3.2.**
- 2.2 **That Members note the position with regard to the 2012/13 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 to member scrutiny. The Budget and Strategic Planning Working Group (BSPWG) met on 10th November 2011 to scrutinise budget submissions for both General and Special Expenses. The Town Area Working Group met on 17th November 2011 to also consider special expense budgets. A number of Heads of Service and budget holders attended as required and changes were made to individual draft service budgets as a result of these meetings. A copy of the committee 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 2012/13 and also to scrutinise all service enhancements put forward including their fit with Council priorities and ensure only those that fit such criteria move forward through the budget process. In addition, the Members present considered the ongoing issues experienced in balancing the budget and the particular pressures faced as a result of the announcement of the Comprehensive Spending Review (CSR) in 2010 and the implications of this, for example the replacement of Formula Grant with localisation of business rates, with a view to considering further areas where efficiencies and reductions could be made. Financial implications were considered for future years in relation to government proposals on the localisation of business rates, localising support for council tax and the Housing Revenue Account (HRA) Reform and its impact on the General Fund.
- 3.1.3 The potential revenue implications of a large capital receipt from the sale of land on Nottingham Road were also discussed.

### 3.2 Estimated Year End Position 2011/12

3.2.1 The position for the current financial year, 2011/12 is estimated to be as set out in the following table:

#### Estimated Year End Position 2011/12

|   | Original<br>Estimate<br>2011/12<br><br>£'000 | Estimated<br>Year End<br>Position<br>2011/12<br><br>£'000 |
|---|--|---|
| <b>General Expenses</b>                             |  |   |
| Net Cost of Services                                | 6,248  | 6,761   |
| Non Specific Service Items                          | -366   | -679  |
| <b>Total General Expenses</b>                       | <b>5,882</b>                                 | <b>6,082</b>  |
| <b>Special Expenses (MM)</b>                        |  |   |
| Net Cost of Services                                | 553  | 608   |
| Non Specific Service Costs                          | -71  | -125  |
| <b>Total Special Expenses (MM)</b>                  | <b>482</b>                                   | <b>483</b>  |
| <b>Special Expenses (Sproxton)</b>                  | 4  | 4   |
| <b>Special Expenses (Broughton &amp; Old Dalby)</b> | 4  | 4   |
| <b>Special Expenses (Frisby)</b>                    | 6  | 6   |

3.2.2 The estimated year end position for General Expenses shows an increase over the original budget of £200k. Supplementary estimates have been approved from the Corporate Priorities Reserve and the working balance as set out below of £273k.

|  |                |
|--|----------------|
|  | £              |
| Approved Revenue Carry Forwards from 2010/11           | 248,430        |
| Supplementary Estimates - Corporate Priorities Reserve | 5,000          |
| Supplementary Estimates - Working Balance              | 20,000         |
| <b>Total</b>   | <b>273,430</b> |

As such the estimated year end position on general expenses is showing just over a £73k underspend against in year approvals. This doesn't take into account an outstanding compensation claim for a planning appeal that if successful it would be appropriate to fund from the working balance or other such similar issues that may arise as the year progresses. This compares to in year monitoring that is currently indicating around a £34k underspend. The variances primarily relate to lower income than budgeted for e.g. planning and building control fees and increases in the costs of Parkside and new ways of working. These are offset by increased benefit subsidy over that estimated, reduced borrowing costs and an estimated refund of legal cost fees for the sale of land on Nottingham Road. The figures are the best estimate based on information available at this time. As such the current estimates show an estimated surplus of £54k over the approved working balance and members will need to determine whether to transfer this balance to the corporate priorities reserve at the year end or budget to transfer the balance in the next financial year/s. There also remains the unfunded review of IT services that members approved in September 2011.

3.2.3 It should also be noted that there is an opportunity afforded to the Council to capitalise in-house professional fees, i.e. property/legal, to offset the potential capital receipt for the

sale of land on Nottingham Road. This follows a change in the capital financing regulations introduced from 1 April 2010. This permits up to 4% of the cost of disposal to be offset against the sale proceeds. Previously this was only allowed for on HRA assets. This could generate further savings for the revenue budget and hence increase the value of the corporate priorities reserve but would reduce the value of capital receipts available to fund capital expenditure or redeem debt. By increasing the capacity of the Corporate Priorities Reserve this increases the range of options for members, as this reserve can be utilised to fund revenue schemes in addition to capital, whereas actual receipts can only be used to repay debt or for capital purposes. Members will be advised accordingly and options for its use presented for further consideration.

3.2.4 The estimated year end position for Special Expenses (Melton Mowbray) is showing a £1k overspend which will result in a slightly lower than originally estimated contribution of £34k to the special expenses reserve. This contribution was approved by members to increase the reserve to provide for non recurring items of capital and revenue expenditure.

3.2.5 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 considerable pressure on increased costs which are covered by savings elsewhere.

### 3.3 Proposed Budget 2012/13

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 2012/13

|                                | <b>General Expenses</b> | <b>Special Expenses (MM)</b> |
|--------------------------------|-------------------------|------------------------------|
|                                | <b>£000</b>             | <b>£000</b>                  |
| Latest Proposed Budget 2012/13 | 5,883                   | 487                          |
| Formula Grant                  | -2,625                  | 0                            |
| Council Tax Income             | -2,847                  | -517                         |
| Council Tax Freeze Grant       | -142                    | -26                          |
| Collection Fund Deficit        | 18                      | 0                            |
| Budget Shortfall/Surplus (-)   | 287                     | -56                          |

3.3.2 Confirmation of the Formula Grant is due in early December 2011 which should be consistent with the figure included in the table above as previously announced as part of the CSR 2010 although that is by no means certain. Members may well recall that the cuts in government grant were heavily front loaded in the first two years of the CSR. It can be seen from the table that an assumption has been made that members will wish to take advantage of the Council Tax Freeze Grant which the government has recently announced an award for a further one year period and means that Council Tax for general expenses could remain at the 2010/11 level. This funding is only available for 2012/13. This is in addition to the grant allowed for in the current year which lasts for the four year period of the CSR after which time its continuation is uncertain and may mean the Council has to fund this from within its own resources in 2015/16. As the funding drops out savings

will either have to be made from the revenue budget or council tax will have to be increased.

3.3.3 A number of other announcements as set out in the 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 are subject to consultation and for which the detail is still awaited. As information becomes available the implications of this will be assessed and incorporated into the estimates/Medium Term Financial Strategy as appropriate.

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

- The council tax base will not be determined until mid December and is therefore based on estimates.
- The balance on the collection fund will not be determined until January 2012 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 and IT which carry a certain amount of risk due to 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 date and also the level of rental income and service charges that will be achieved.
- 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.
- No allowance has been made for further increases in the New Homes Bonus which is available over the next five years. 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 2012/13 have been based on the current award for 2011/12 of £169k whereas the model indicates £470k payable to the Council for 2012/13. This represents an increase of £301k. 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.
- No allowance has been made for the potential impact of a pending change in legislation to allow for planning fees to be determined locally. In addition no changes have been allowed to existing to existing fees and charges as a result of the Deloitte's review which, due to the need for time to investigate proposals is likely to come into effect in 2013/14.
- As previously agreed no inflation has been provided for prices and pay awards unless adjusted by budget holders for known increases or contractual increases.
- Assumptions have been made relating to externally funded services where the continuation of funding remains uncertain at the present time.
- No allowance has been made for the potential financial implications on receipt of the money for the sale of land on Nottingham Road. Various options for the use of this money are being considered.
- No allowance has been made for the impact of the HRA Reform on the General Fund and the treasury management implications.

- 3.3.5 Figures will continue to be refined until the Full Council meeting in February 2012 when the budget and Council Tax are formally set.
- 3.3.6 No provision has been made for growth in the general expenses budget which is set out in Appendix A. A number of proposals for disinvestment have been put forward for General Expenses as set out in Appendix B with a further proposal outstanding.
- 3.3.7 By approving those items put forward for disinvestment on the general fund members will be reducing the net spend in order to assist with balancing the budget. The Council's Medium Term Financial Strategy, which is currently being drafted with the aim to bring to this committee for approval in January 2012 when it is hoped that some of the uncertainties listed above will have been resolved, 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. All of which 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.
- 3.3.8 Growth of a non recurring nature can be funded from the Corporate Priorities Reserve, although the estimated balance on this fund at 31/3/12 is approximately £400k after allowing for certain items that have been earmarked from this fund allows for a further draw on this reserve if necessary. Due to the lack of capital receipts, notwithstanding the proceeds from the sale of land on Nottingham Road, this fund is also required to fund capital items.
- 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. Members of the Town Area Working Group are recommending a nil council tax increase for Special Expenses Melton Mowbray.
- 3.3.10 It should be noted that as internal recharges and the Council Tax base 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 has only considered proposals for service enhancements 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 2011 and the outcome of the sale of land on Nottingham Road is known any estimate of the extent of any savings that need to be made, not just with the 2012/13 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 enhancements will need to be assessed when those enhancements 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 disinvestment proposals will need to have equality impact assessments completed as appropriate by the service lead. The latest position is included in the attachment at Appendix B as to whether an assessment is required to be carried out and if so whether this is complete at this stage.

## 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 2012/13 financial year due to the move to the new build and 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 2011 and will be included in the Council's Medium Term Financial Strategy. 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 Union representatives 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.

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Date: 17 November 2011

Appendices:           Appendix A – Growth Items - General Expenses  
                          Appendix B – Options for Disinvestments - General Expenses  
                          Appendix C – Exempt Appendix

Background Papers: Medium Term Financial Strategy working papers  
                          Budget Book 2011/12  
                          Budget Working Papers  
                          Minutes from BSPWG 10/11/11

Reference:            X: C'tees, Council & Sub-C'tees/PFA/2011-12/7-12-11/DG-Latest Position  
                          Revenue Budget 2011/12 & 2012/13