

## POLICY, FINANCE AND ADMINISTRATION COMMITTEE

29 SEPTEMBER 2010

### REPORT OF HEAD OF FINANCIAL SERVICES

#### BUDGET FRAMEWORK 2011/12

#### 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 2011/12 budget and service planning preparation process.

#### 2.0 RECOMMENDATIONS

- 2.1 That Committee approve the proposed service and financial planning timetable for 2010/11, in respect of the 2011/12 financial year, set out at Appendix A.
- 2.2 No inflation be provided in the 2011/12 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 2011/12.
- 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. The key change to the process is the inclusion of community and business views on budget disinvestment.

##### Formula Grant

- 3.2 The recession followed by the last budget in April 2009 is expected to severely impact on public sector spending plans. UK Government Departments will need to find £6 billion more revenue savings in 2010/11 than set out in 2007 Comprehensive spending Review. Council's have been achieving 3% savings per annum since 2005-06 and most of the easy saving options have now been taken.
- 3.3 The Society of District Council Treasurers has undertaken an analysis of the potential future financial gap in district council funding. Based on a moderate scenario this analysis indicates a need for a reduction in budget requirement in 2013/14 of 18%. For Melton with a budget requirement in 2010/11 of £7.2m this translates to a gap of £1.3m. In comparison

the Medium Term Financial strategy approved in December 2009 shows a potential deficit of £1.4m by 2012/13 which would also include local service pressures.

- 3.4 The Governments budget statement indicates departmental budgets are to be cut on average by 25% and these cuts will be focused on current rather than capital expenditure. The aim being for the Government to have a balanced budget by 2015/16. This means real cuts in expenditure of 6% per annum over the next four years. If an allowance of 2% is made for inflation (the Governments target), this translates to cash cuts of 4% per annum over the period 2011/12 to 2014/15. The level of reductions will depend on how these savings are distributed across government departments and the ability to make savings in welfare payments.
- 3.5 These reductions for local government could be delivered through reductions in specific grants or the Formula Grant or both. With regard to local government priorities, district councils have generally been a lower priority for funding than upper tier authorities, police and fire authorities. Those authorities with the highest proportion of locally raised finance will be the least affected. For Melton, currently 46% of its budget requirement is funded from council tax. This compares to other district councils where the lowest is 21% and the highest 86%. Of course the transfer of the responsibility for concessionary fares from district to upper tier authorities represents a large risk in terms of the likely loss of grant compared to the grant actually received and also the costs actually incurred.
- 3.6 The Budget reiterates the commitment, previously made in the Coalition Document, to work in partnership with local government to implement a council tax freeze in 2011-12. The commitment appears now to be only for one year, whereas previously the aspiration had been to extend it to two years if possible. Whether this applies to parish precepts is unknown and what the exit strategy is likely to be is also unknown as it is unlikely the Government will wish to fund this in perpetuity.
- 3.7 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 CSR2007 was published on 9<sup>th</sup> October 2007 and covered the financial years 2008-09, 2009-10 and 2010-11. The review sets three year departmental spending limits and defines the key areas of improvement the public can expect from this expenditure. The settlement for local authorities within CSR2007 was the first 3 year settlement provided by Central government and provided some certainty of funding for local government over the 3 year period it covered. It was originally intended that the next review would be undertaken in 2009 in which the final year's funding (2010/11) of the CSR2007 would be reviewed along with the financial settlement for 2011/12 and 2012/13 being provided.
- 3.8 The outcome of the 2010 spending review is to be announced on 20<sup>th</sup> October 2010. This will provide what each Departmental Expenditure Limits are and which are likely to affect local government. The review should also announce Formula Grant control totals and national allocations for specific grants. Of course this will not indicate what the actual amounts are for Melton but will give an indication of the overall national position. Alongside the Spending Review a number of specific reviews are being undertaken e.g. Local government Finance, Public Sector Pensions and Housing Revenue Account. The outcome of these reviews may be available at the same time as the Spending Review. Whether 3 year figures will be announced as part of the review is not clear and with the current economic climate it is difficult to see how 3 year targets could be held for such a period.

### **Inflation Forecast**

- 3.9 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 2011. 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 end of 2011. The rate is estimated to fall further in the coming months to below 1% in the Autumn with it rising back to the 2% target in 2010/11. Pay increases have been weak and are likely to remain low.

- 3.10 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

- 3.11 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.
- 3.12 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.
- 3.13 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 £200k. however this position is subject to regular updates and change. 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.

### Projected working balances

	<b>General Fund General Expenses £</b>	<b>General Fund Special Expenses £</b>	<b>Housing Revenue Account £</b>
1 April 2010	640,000	42,456	95,213
Latest budgeted Increase/reduction (-) 2010/11	85,080	0	145,190
Supplementary estimates approved to date	-42,460	0	-2,920
<b>Estimated Balance 31 March 2011</b>	<b>£682,620</b>	<b>£42,456</b>	<b>£237,483</b>

- 3.14 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 £800k. 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, the estimated cost of emergency expenditure which takes into account the financial impact of the fire and also the significant capital programme currently in place as a result of the new build and the cashflow risk this carries if there is a need to fund temporary borrowing. 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. A refinement has also been made to improve the risk attributed to fluctuating income levels to reflect the fact that on occasion income has exceeded budgets and on these occasions the working balance has benefited. 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.
- 3.15 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.
- 3.16 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.
- 3.17 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**

- 3.18 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**

- 3.19 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

4 November 2010

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PFA Committee consider first draft of revenue estimates and approval of MTFS

2 December 2010

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Budget Away Day (All Councillors)

11 January 2011

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PFA considers outcome of Budget Away Day

26 January 2011

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Full Council determines the budget

2 February 2011

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Full Council sets Council Tax

24 February 2011

#### 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.

## 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: 8 September 2010

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

Background Papers: MTFS working papers

Reference: X: PFA/2010-11/29-09-10/Budget Framework 2011/12