

EAST HERTS COUNCIL

EXECUTIVE 7 FEBRUARY 2011

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

CONSOLIDATED BUDGET REPORT:

PROBABLE OUTTURN 2011/12

REVENUE BUDGET 2012/13

MEDIUM TERM FINANCIAL PLAN 2012/13 TO 2015/16

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

This report recommends a revenue budget for 2012/13 in the context of

- the Council's priorities
- the medium term financial plan to 2015/16
- funding the capital programme and participation in the Local Authority Mortgage Scheme (subject of separate reports)
- the anticipated revenue budget outturn for 2011/12
- the proposed Treasury Management Strategy for 2012/13 (subject of a separate report to the Audit Committee then the Executive)
- the previously agreed council tax base for 2012/13
- no council tax increase for 2012/13
- proposals for reserves and balances

RECOMMENDATIONS

(A)	That consideration be given to comments and proposals by Scrutiny and, in the light of that consideration recommendations be made to the Council that ,
(B)	1. The probable outturn for 2011/12 be approved and it be agreed that any variation at out turn showing an improved position against the £13k under spending reported below be put to the interest equalisation reserve.
	2. The revenue budget for 2012/13 be approved and the planning contingency be taken to the investment income reserve (para 2.22 refers) .
	3. The medium term financial plan to 2015/16 be approved

	4. There to be no increase in council tax for 2012/13 and in the absence of government making currently unplanned reductions in local authority funding there be no increase in 2013/14

1.0 Background

- 1.1 The Council has set its budget and Medium Term Financial Plan in recent years against a backdrop of constraint in public spending. That constraint is set to continue. The prospects for the UK economy and reduction of the public sector borrowing requirement are uncertain particularly because of unresolved issues of sovereign and bank solvency in the euro zone. The budget for 2012/13 is set in the knowledge of significant changes to local government funding from 2013/14. Responsibility for council tax benefit is being devolved plus the cessation of national pooling and redistribution of business rates (but the setting of the business rate remaining with government). The consequences for individual authorities are not quantifiable.
- 1.2 The Council's Financial Strategy was updated in September and emphasised its prudent approach to long term commitments and the intention "to maximise the Council's financial resilience". The Strategy included a statement on the policy on general and earmarked reserves emphasising the need to maintain a good level of reserves. The report accepted by Council in September acknowledged that the scale of its capital programme had to be reduced to maintain sustainability and affordability. The proposals set out here are consistent with that Strategy.
- 1.3 On 8th December the government announced the Local Government Finance Settlement for 2012/13. The grant was unchanged from the plans announced a year earlier.
- 1.4 The Office of Budget Responsibility has issued two reports during 2011. A key feature of those reports repeated the pattern of a year earlier - the expectation that interest rates will now remain lower for longer and which also features in the Bank of England's quarterly Inflation Reports to November .

- 1.5 The Council has retendered its parking contract and the new contract to commence January 2012 will reduce costs by £230k per year. The strategic business case for further shared services was accepted by Council and it is anticipated that the detailed business case will confirm saving across back office services in later years of the MTFP but starting in 2013/14.
- 1.6 The MTFP updated for planning purposes in September assumed a council tax freeze from April 2012. The government subsequently announced it would pay a one off grant in 2012/13 equal to the income from a 2.5% increase in council tax to councils agreeing to freeze their tax.

2.0 Report

Opening balances 1 April 2011

- 2.1 The budget for 2011/12 was set in February 2011 with an expectation that 31 March 2011 would see a balance on the general reserve of £3,354k. The final accounts recorded a balance of £3,762k i.e. some £408k higher than expected.
- 2.2 The unallocated general fund balance was £3,854k inclusive of the £446k building control surplus. Earmarked reserves compared as follows:
- 2.3

Reserve	Expected Balance 31.3.11 £000	Actual Balance 31.3.11 £000
Interest Equalisation	0	0
Insurance Fund	10	10
Emergency Planning	36	36
VAT partial exemption	146	146
Service Improvement	692	667
LDF/Green belt	514	514
Housing condition survey	37	37
Council election	75	75
LABGI	86	134
Leisure utilities/pensions	120	120
Restructure	33	33
Legal fees	21	12

Performance Reward Grant	0	67
Pension strain costs	79	100
Waste recycling	275	275
Footbridge reserve		50
Cost of change	400	400
Total	2524	2676

Taken together the additional general and earmarked reserves at out turn provide the Council with a further degree of resilience to meet short term pressures. The statement on reserves in September noted that the sum of the general reserve and general fund balance was now near the ceiling at which a review would be triggered and further comment is made below.

Projected outturn 2011/12

- 2.4 The latest health check report at the time of drafting this report is the November report. This shows adverse variances of £1,330k offset by favourable variances of £1,242k – a net adverse variance of £88k. The health check report includes both service and non service estimates.
- 2.5 The later detailed review of the probable outturn undertaken as part of the preparation of the 2012/13 estimates has indicated a slightly improved position of a net positive variance of £13k. The positive variation on service estimates (reported separately on this agenda) of £374k being almost fully off set primarily by adverse variances on non service budgets (in particular £325k on investment income).
- 2.6 A report to the Audit Committee in November 2010 reviewed how and when variances had been reported in each of the prior two years. That report identified a bias in reporting favourable variances some what later than the reporting of adverse variances – a judgemental allowance to compensate for this bias was proposed. The level of both favourable and adverse variances reported in the current year to November 2011 are both much reduced from the figures to the same stage last year. A judgemental allowance for further improvement of perhaps £200k by year end would be reasonable.
- 2.7 The resulting general and earmarked reserves expected to be in hand at the start of 2012/13 are set out below.

Priorities

- 2.8 The Council's priorities against which spending proposals need to be measured have been simplified to the broad strands of People Place and Prosperity.
- 2.9 In summary the key objectives of (and set out in full in) the Corporate Strategic Plan 2012/13 – 2015/16 are

People – Opportunities for everyone to contribute to and access the Council's services

- Support for the vulnerable
- Community engagement
- Health Inequalities
- Satisfaction with the Council

Place – Safe and Clean

- Increased waste recycling
- Satisfaction with cleanliness of the area
- Satisfaction with parks and open spaces
- A sustainable Hertford Theatre
- Reduced council carbon dioxide emissions
- Well managed Council assets
- Reduce fear of crime

Prosperity – Improving the economic and social opportunities to our communities

- Parking and transport strategy
- Enhance broadband in rural area
- Zero per cent council tax increase
- Development meeting priorities
- Stream line the Council's back office
- Office and industrial space
- Improved economic resilience of market towns
- Guidance for development in Hertford and Ware
- Rural business programme
- Local Development Framework

- 2.10 The proposals in this report are designed to be consistent with achieving the above objectives within the resources available in particular further freezing of council tax.
- 2.11 With spending restraint likely to be with all Councils for some time the budget round has necessarily focussed again on where savings can be made that have least impact on priorities. The overall priority has continued to be the prudent management of the Council's finances to avoid unplanned service reductions.

Financial Strategy

- 2.12 Corporate Business Scrutiny Committee on 23 August considered a draft updated financial strategy 2012/13 to 2015/16 which was subsequently endorsed by the Executive. Key planning assumptions have subsequently been amended to:
- Further reduce the investment income assumptions in the light of evidence from the OBR and MPC of a more sustained period of historically low rates of interest
 - Amend pay assumptions to reflect a further 2 years of restraint
 - Incorporate savings from the new parking contract
 - Incorporate more detailed savings identified during the development of service estimates based on 2010/11 and current year variations
 - Take into account the sharing of New Homes bonus including the year 2 tranche
 - Take account of the council tax freeze grant for 2012/13
- 2.13 The policy with regard to reserves establishes a band within which the general reserve is to be maintained. The proposals in this report ensure the general reserve will remain within these boundaries.
- 2.14 The MTFP retains significant planning contingency sums for 2013/14 and later years - given the funding changes and in particular the potential offsetting reductions to future retained business rates to pay for the new homes bonus.
- 2.15 The revised financial model for the MTFP is set out at Essential Reference Paper B.

Revenue Support Grant Settlement

- 2.16 The 2012/13 settlement was unchanged from the provisional figures announced in December 2010 other than for the council tax freeze grant.
- 2.17 There is more concern about future years as set out above. The MTFP shows a cash reduction in formula grant plus new homes bonus from £8.2m in 2010/11 to £6.5m by 2014/15 a real terms reduction of 26% with an average 2.5% rate of inflation. Each further 1 percentage point reduction would lose £82k of income and inhibit the scope for further council tax freezes.

The revenue Budget 2012/13

- 2.18 The budget 2012/13 can be summarised as follows:

	£000	£000
Neighbourhood Services	3463	
Customer & Community Services	5707	
Internal Services	3902	
Chief Executive	1192	
- capitalised salaries	<u>-226</u>	14038
Investment income net of interest payable		0
Pension costs not chargeable to services (note 1)		401
Further efficiency savings and fees net of growth		-372
Planning contingency		<u>827</u>
Net Expenditure		14894
Pensions Reserve (note1)		95
Contributions to reserves		<u>171</u>
Net Expenditure after reserves		15159
Funded by:		
Collection Fund (Surplus)/deficit		-62
Formula Grant		-5306
Grant to freeze council tax		-461
Leaving:		
Demand on Collection Fund		<u>9330</u>
Band D tax base		58,628
Band D tax		£159.13

Note 1 The service estimate figures exclude capital charges (see separate report) which will be added prior to publication of detailed estimates. Costs to be added relate to pension strain costs and pension contributions to fund the deficit which is not included in current costs.

2.19 The MTFP savings are set out at Essential Reference Paper B . The savings options were available for review and questioning by members in preparation for Scrutiny on a member web site. Total ongoing savings for 2012/13 total £1.588m of which

- Additional proposals subject to confirmation £592k
- Savings achieved and included in detailed estimates £748k
- Earlier savings proposals revised and achieved by restructuring in 2011/12 £248k

2.20 In refreshing the MTFP the savings proposals in respect of 2012/13 have been varied from earlier proposals included in the MTFP agreed in February 2011 as follows:

	£000
New proposals	
• Waste contract shared service	135
• Cash collection	10
• Parking contract	230
• Hosting self service	10
• Pay and display maintenance	50
• HMRC shared service	16
• Depot materials handling	30
• Recycling maintenance	8
• Bulky waste collection	6
• Commercial Waste	23
• Insurance premiums	89
Amended Proposals	
• Taxi licensing – reduction of saving by	8
• Discretionary rate relief – reduction of saving by	17

Deferred from 2012/13 in respect of shared services

- HR staffing 60

Brought forward from 2014/15

- Financial Services restructure 38

2.21 Some of the additional savings identified above are potentially reapplied

	£000
• To supporting parking and enforcement	112
• Tourism development & markets	21
• As a resource to the Information Technology Steering Group to commission developments	72
• Surveying support	35
• Maintenance etc arising from capital works	25
• Reduced waste income from lower volume	75
• Play ground equipment	3
• Housing Improvement Agency	20

2.22 The Planning contingency for 2012/13 at £817k is little changed from the figure reported in September at £887k (contingency + balancing figure). Unless otherwise allocated it would be appropriate to make a contribution to the investment income reserve.

Council Tax

2.23 The government has confirmed grant income to offset the loss of council tax income from not increasing Council tax by 2.5% from 1 April 2011 will continue in 2012/13 but the grant for another freeze in 2012/13 is for one year only. The MTFP builds in a further freeze from 2013/14 with increases of 2.5% each year thereafter.

2.24 A final determination of any surplus or deficit on the Collection Fund was made in mid January. It is assumed there will be a nil contribution in the current year and the residual balance on the Fund at 31 March 2011 that was not taken into account when this year's budget was set will be applied in 2012/13. The implication for the Council is a contribution of £62k from the remaining surplus as shown in the MTFP.

Reserves

2.25 The proposals in this budget include no fresh proposals to call on reserves. The General Fund Balance is unchanged at £3854k over this period. There is no planned call on the general reserve in the period 2012/13 to 2015/16.

2.26 Movement on the General Reserve in 2011/12 is based on the judgementally adjusted probable outturn rather than the approved supplementary estimates. In summary this is as follows:

	£000
Balance 1 April 2011	3762
Add	
Planned use 2011/12 budget	-66
Approval to use some of the 2010/11 under spending	-119
Net variance	13
Judgemental further under spending	200
Year end Appropriations	-200
Balance 31 March 2012	3590

2.27 In setting the budget for 2010/11 and MTFP it was previously planned to draw on earmarked reserves and these intentions are retained.

2.28 The consequent (additions to) and withdrawal from reserves will result in year end balances as set out in the table below.

Reserve	Bal at 31/3/12 £000	Bal at 31/3/13 £000	Bal at 31/3/14 £000	Bal at 31/3/15 £000	Bal at 31/3/16 £000
Interest Equalisation	0	0	0	0	0
Insurance Fund	10	10	10	10	10
Emergency Planning	36	36	36	36	36
VAT partial exemption	146	146	146	146	146
Service					

Improvement	617	617	617	617	617
LDF /Green belt	664	754	604	354	404
Housing condition survey	51	65	29	43	57
Council Elections	0	25	50	75	0
LABGI	112	112	112	112	112
Leisure utilities/pensions	180	240	300	360	420
Restructure	33	33	33	33	33
Legal fees	0	0	0	0	0
Performance Reward Grant	67	67	67	67	67
Pension Strain costs	127	59	2	2	2
Waste recycling income volatility	275	275	275	275	275
Footbridge River Stort	100	150	150	150	150
Earmarking general reserve March 2011	400	400	400	400	400
Total	2818	2989	2831	2680	2729

Robustness of estimates and adequacy of reserves

- 2.29 Section 25 of The Local Government Finance Act 2003 requires the Section 151 Officer to report on the adequacy of reserves and robustness of the estimates. The balance of this section represents the judgement of the Section 151 Officer.
- 2.30 The proposals in this report retain adequate but not excessive levels of reserve. This judgement has regard to the Council's policy with regard to reserves, its record of containing spending within budget, it having identified saving options in excess of the sum needed to balance the MTFP and its prudent approach to risk management. Consideration has been given to potential calls on reserves to meet external "shocks" – from environmental, economic, and operational uninsured losses having regard to the Council's activities and scale of operations.
- 2.31 The Council retains very substantial investments in relation to its annual spend. With the exception of a £10m structured deposit the Council has adopted a very risk averse investment policy accepting

lower returns. It is prudent to retain above minimum levels of reserves in these circumstances.

2.32 The relative risks to budget assumptions are set out below together with a judgement of relative risk of actual experience differing from current assumptions. The potential direction of variance needs to be considered e.g. the risk to pay and inflation assumptions is on balance that current planning assumption may prove optimistic.

Area of Risk	Factor	Comment and Mitigation	Illustrative Cost of variation
Volatility of grant income	Medium/High	Although trend formula grant is certain for 2012/13 other grant income is subject to annual revisions..	A 5% reduction in grant = £265K
Localisation of council tax benefit and a10% saving to be achieved.	High	Announced to take effect from 2013/14 but with no supporting detail announced.	The 10% saving = £700k with EHC share potentially 15% or £105k
New Homes Bonus	Medium	The potential loss of formula grant by top slicing is a significant risk.	NHB is projected to grow by a net £200k per year after claw back compared with over £400k in years 1 and 2 i.e allowance has been made for a 50% top slicing. Each further 10%

			cost = £40k
Discretionary Rate Relief	Low	No provision is made in the MTFP to respond to proposed freedoms to extend discretionary NNDR relief.	The policy for 2012/13 has now been set.
Income achievement	Medium	Allowance has been made for continuing impact of the recession. It is uncertain that economic recovery will be achieved at the pace expected in the pre budget report	A 5% shortfall on car park income = £148k A 5% shortfall in other income = £70k
Achieving savings	Medium/High	Targets become increasingly challenging over the MTFP and public acceptability of some proposals may be difficult to achieve.	A 10% under achievement = £59k
Interest rates	High	There are divergent views on the direction of short term rates reflecting different assumptions about the impact of markets concerns about sovereign debt and how the	The £10m structured deposit has a floor rate of 3.7% the balance of investment are budgeted to return 0.65% in 2012/13 a reduction to

		UK economy will respond to public sector spending cuts and increased taxes. The MTFP anticipates investment returns consistent with OBR forecasts.	0.55% would see income fall by £58k
Compliance with grant requirements	Low	Recent audits record a good performance	Nil
Vacancy saving	Medium	The provision has been reduced to reflect current lower levels of turnover	The factor allowed is 3% a reduction to 2% would cost £110k
Pay and inflation	Medium	A third year of pay restraint at zero and two further years at 1% will be challenging for national employers if pay in the private sector accelerates as the economy recovers	A 1% award in 2012 would cost £110k per year
Pension costs	Low	Pension contributions reflect the provisional outcome of the 2010 revaluation and so rates for the next 3 years are unlikely to	Pension costs are not variable in 2012/13

		be further revised. Changes to the scheme including increased employee contributions and potential capping of benefits may improve the funding position at the 2013 valuation.	
Council tax increases	Low	The target for zero increases is determinable by the Council.	A 1% increase = £94k
Changing Council priorities	Low	The Council has refined its key priorities and fine tuning rather than significant revision is likely.	Not quantifiable

2.33 The estimates are considered sufficiently robust for the Council to set a budget and council tax for 2012/13.

2.34 Essential Reference Paper C sets out a stress testing of the MTFP by considering different scenarios by which the Council might be subject to unexpected financial pressures. The intention is to illustrate how resilient the Council's finances would be to a single or series of incidents.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A')**.

Background Papers

Bank of England Inflation Reports

OBR reports

Local Government Finance Settlement December 2011.

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ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives	The budget and MTFP apply resources to achieve all the Council's priorities
Consultation:	The outcome from consultation will be reported separately as Essential Reference Paper D (to follow)
Legal:	<p>The Council must set a lawful and balanced budget and subsequently set a council tax for 2012/13 within prescribed time frames.</p> <p>Members should have regard to the advice of the Section 151 but may take decisions at variance with this advice where there are reasonable grounds to do so.</p> <p>It is an offence for any Member with arrears of council tax outstanding for two months or more to attend any meeting of the Council or its committees at which a decision affecting the budget is made unless the Member concerned declares at the outset of the meeting that s/he is in arrears and will not be voting on the decision for that reason.</p>
Financial:	As set out in the report.
Human Resource:	Where savings options may cause redundancy the relevant HR policies will apply and those savings remain subject to the outcome of the application of those policies.
Risk Management:	Contingencies are included and the level of reserves forms part of the corporate approach to mitigation of risk.