

EAST HERTS COUNCIL

JOINT MEETING OF SCRUTINY COMMITTEES – 15 JANUARY 2013

EXECUTIVE – 5 FEBRUARY 2013

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

10. CONSOLIDATED BUDGET REPORT: PROBABLE OUTTURN 2012/13
REVENUE BUDGET 2013/14 MEDIUM TERM FINANCIAL PLAN
2013/14 TO 2016/17

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

This report recommends a revenue budget for 2013/14 in the context of:

- the Council's priorities
- the medium term financial plan to 2016/17
- funding the capital programme (subject of a separate report)
- the anticipated revenue budget outturn for 2012/13
- the proposed Treasury Management Strategy for 2013/14 (subject of a separate report to the Audit Committee followed by Executive)
- the council tax base for 2013/14 (to be agreed at Council prior to Executive)
- no council tax increase for 2013/14
- proposals for reserves and balances

RECOMMENDATION FOR JOINT MEETING OF SCRUTINY COMMITTEES: that

(A)	The Executive be advised of Scrutiny's comments on the proposals detailed in the report including any amendments to the budget which the Committee wish to be considered by the Executive.
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RECOMMENDATIONS FOR THE EXECUTIVE:

(A)	The probable outturn for 2012/13 be approved and it be agreed that any variation at out turn showing an improved position against the £1,006k under spending reported below, be put to the cost of change reserve;
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(B)	The revenue budget for 2013/14 be approved;
(C)	The medium term financial plan to 2016/17 be approved; and
(D)	There be no increase in Council Tax for 2013/14.

1.0 Background

1.1 The Council continues to set its Medium Term Financial Plans (MTFP) against a backdrop of reducing public expenditure and increasing financial constraints across the sector. The budget for 2013/14 is set in a significantly changed funding regime for Local Government which has the potential to increase the risks for financial planning going forwards. These changes include:

- The cessation of Council Tax Benefit which has been replaced with a locally determined and managed Council Tax support scheme.
- The localisation of Business Rates which places the risks and rewards for increases and decreases in Business Rate yield with the Council.

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, particularly given the need to be able to respond to any fluctuations in funding levels presented by the transfer of risk arising from the changes in the way Local Government is funded.

1.3 Following on from the Autumn Statement on 5th December 2012, the government announced the provisional Local Government Finance Settlement for 2013/14 and 2014/15 on 19th December. This is subject to consultation and final checks by DCLG of the data they have used, and will not be finalised until the end of January 2013. The provisional settlement for 14/15 will not be finalised until January 2014. The numbers in this report are subject to further revision once the settlement has been finalised.

1.4 As part of the announcements, a Comprehensive Spending Review has also been announced which will consider funding for

2015/16 and beyond and will be announced during early 2013 although no specific date has at this stage been announced.

- 1.5 The Office of Budget Responsibility issued a report in December 2012, alongside the Autumn statement. This report stated that growth had been weaker than they had anticipated in their March report and the slower than originally anticipated growth would continue for some time. Concerns around growth in both the UK and wider European and worldwide economies increase the uncertainty for the economy.
- 1.6 It had been anticipated that further shared services for back office support services would be in place to deliver savings from 13/14. However, due to a change in direction on these plans, these savings are at risk. Assumptions have been revised accordingly.
- 1.7 The MTFP updated for planning purposes in September assumed a council tax freeze from April 2013. The government subsequently announced it would pay a one off grant in 2013/14 and 2014/15 equal to the income from a 1% increase in council tax to councils agreeing to freeze their tax.
- 1.8 The impact of the introduction of Council Tax Support in 13/14 was subject to a separate report to Executive on 8th January and Council on 30th January. The scheme design means that a proportion of funding has to be found from other Council resources to be able to protect pensioners. In addition, the government announced a one-off source of funding which we will have to apply for, to be able to limit the liability for other residents entitled to the discount at 91.5% instead of 90%. The confirmation that we will receive this funding will not be until March 2013.

2.0 Report

Opening balances 1 April 2012

- 2.1 The budget for 2012/13 was set in February 2012 with an expectation that 31 March 2012 would see a balance on the general reserve of £3,342k. The final accounts recorded a balance of £4,150k i.e. some £816k higher than expected.
- 2.2 The unallocated general fund balance was £3,854k inclusive of the £321k building control surplus. Earmarked reserves compared as follows:

2.3

Reserve	Expected Balance 31.3.12 £000	Actual Balance 31.3.12 £000
Interest Equalisation	0	434
Insurance Fund	10	10
Emergency Planning	36	36
VAT partial exemption	146	146
Service Improvement	617	610
LDF/Green belt	664	664
Housing condition survey	51	51
Council election	0	0
LABGI	112	110
Leisure utilities/pensions	180	180
Restructure	33	33
Legal fees	0	0
Performance Reward Grant	67	67
Pension strain costs	127	152
Waste recycling	275	275
Footbridge reserve	100	100
Cost of change	400	400
DCLG Preventing Repossession	0	30
DEFRA Env. Pollution	0	62
Total	2818	3360

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 400k above ceiling. It was agreed that contingency sums of £200k in 13/14 and 14/15 were added into the MTFP to mitigate against the risk of funding reductions in the settlement.

Projected outturn 2012/13

- 2.4 The latest health check report at the time of drafting this report is the November report. This shows favourable variances of £1,636k offset by adverse variances of £630k, a net favourable variance of £1,006k. The health check report includes both service and non service estimates.
- 2.5 The resulting general and earmarked reserves expected to be in hand at the start of 2012/13 are set out below.

Priorities

- 2.6 The Council's priorities against which spending proposals need to be measured have been simplified to the broad strands of People Place and Prosperity.
- 2.7 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
- 2.8 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.
- 2.9 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

- 2.10 Corporate Business Scrutiny Committee on 21st August 2012 considered a draft updated financial strategy 13/14 to 2016/17 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
 - Incorporate more detailed savings identified during the development of service
 - Take into account the increases announced in New Homes Bonus
 - Take account of the council tax freeze grant for 2013/14 and 2014/15
 - Take account of the one-year grant that we will apply for to cap the Council Tax Support impact for all recipients (excluding pensioners) to 8.5%.
- 2.11 The MTFP retains planning contingency sums for 2014/15 and later years. Given the increased uncertainty due to funding changes and in addition the currently unquantifiable impact of Welfare Reform on Council services, these planning sums are felt to be appropriate. This sum would also fund any implications that

arise out of the recent peer review.

- 2.12 The MTFP also contains assumptions around the delivery of efficiency savings and it will be important to ensure that these are closely monitored to ensure that they are delivered on time.
- 2.13 The revised financial model for the MTFP is set out at **Essential Reference Paper B**.

Revenue Support Grant Settlement

- 2.14 The 2013/14 grant settlement was announced in December 2012 but remains provisional until the end of January 2013. Announcements on funding for 2014/15 have also been made, although these remain provisional until January 2014.
- 2.15 This year, the system for financing Local Government has changed. In prior years the way that East Herts was funded was as follows:
- Our share of Council Tax collected which we bill and collect on behalf of ourselves, Hertfordshire County Council, the Police Authority and our towns and Parishes
 - A revenue support grant that was the difference between our assumed level of spending need and our share of Council Tax and Business rates that we collected according to Government calculations.
 - A share of the yield from Business Rates (also known as NNDR) that the District collects on behalf of Government. The amount to be collected is set by the valuation office and we have no influence over the amount that the rates are set at.
 - Other specific grants, usually awarded with specific outcomes expected. Examples of this are Council Tax Freeze and Homeless grants as well as New Homes Bonus.
 - Any income that we are able to raise ourselves through fees and charges or investing the cash that we have in the bank through our treasury management strategy.
- 2.16 From 2013/14 the way we are funded changes in that the business rates that we collect are now used to fund our services.

The main change for 2013/14 and future years is that the funding from Business Rates will no longer be a share of the National Pool and instead the Business Rates that we collect are shared between us as the billing authority, and precepting authorities and Central Government. The actual rates payable by a business are still determined nationally.

- 2.17 In the first year of the new arrangements, 2013/14, there will be a gap between the Government's overall spending control totals and the anticipated level of the local Business Rates share. This difference is made up by Revenue Support Grant (RSG). It is anticipated that the level of RSG will reduce in future years in-line with the forecasts for public spending outlined in the last Spending Review and the 2012 Autumn Statement. Certain special and specific grants for each authority have been amalgamated to give authorities more control over how they may be used.
- 2.18 Monitoring and forecasting the levels of business rate collection in 2013/14 and future years will have a much more increased level of importance than in previous years due to the impact on our funding levels. Accountancy and the Revenue and Benefits service are currently working on an approach to how this monitoring can be put in place.
- 2.19 In addition to the changes in funding, the system by which vulnerable residents are able to receive support to pay their Council Tax bills has changed. Council Tax Benefit which was nationally funded and set, has been replaced by a locally determined Council Tax Support system. Funding for this forms part of the overall budget for 2013/14 and the implications of a reduction in funding of the scheme have been included in the calculation of the overall budget.

The revenue Budget 2013/14

- 2.20 The budget 2013/14 can be summarised as follows:

	£000	£000
Neighbourhood Services	3,338	
Customer and Community Services	5,963	
Finance and Support Services	4,126	
Chief Executive	103	
- capitalised salaries	<u>-188</u>	13,342
Investment income net of interest payable		(309)

Pension costs not chargeable to services (note 1)	1,043
Council Tax Support Scheme - Parishes	255
Further efficiency savings and fees net of growth	(263)
Planning contingency	858
Net Expenditure	14,926
Pensions Reserve (note1)	(550)
Contributions to reserves	534
Net Expenditure after reserves	14,910
Funded by:	
Collection Fund (Surplus)/deficit	(95)
RSG / Retained NNDR	(5940)
Grant to freeze council tax	(94)
General Revenue Grants	(16)
Leaving:	
Demand on Collection Fund	8765
Band D tax base	55,084
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.

2.21 The MTFP savings are set out at **Essential Reference Paper B**. Total ongoing savings for 2013/14 total £389k of which:

- Additional proposals subject to confirmation £386k
- Savings achieved and included in detailed estimates £3k

2.22 In refreshing the MTFP the savings proposals in respect of 2013/14 have been varied from earlier proposals included in the Budget Strategy agreed in September 2012 as follows:

	£000
Amended Proposals	
Planning and Building Control – reduction of savings by	100

Environmental Services – waste contract transition Reduction of savings by	100
Customer Services and Parking – addition of	(10)
People, ICT and Property (reduction of shared service saving assumptions)	35
Democratic and legal services, savings deferred to 14/15	23
Net reduction of	248

- 2.23 The Planning contingency for 2013/14 at £858k has increased from the figure reported in September at £470k. This increase does not take account of any call on that planning contingency for additional resources to mitigate against increased demand on our services in relation to Welfare reform.

Council Tax

- 2.24 The government has provided funding for a Council Tax freeze equivalent to 1% in 13/14 and 14/15 for those Council's that freeze their Council Tax in 13/14.
- 2.25 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 2012 that was not taken into account when this year's budget was set will be applied in 2013/14. The implication for the Council is a contribution of £95k from the remaining surplus as shown in the MTFP.

Reserves

- 2.26 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 2013/14 to 2016/17.
- 2.27 Movement on the General Reserve in 2012/13 based on the probable outturn is as follows:

	£000
Balance 1 April 2012	4158
Add	
Planned use 2012/13 budget	0
Approval to use some of the 2011/12 under spending	-117
Net variance	608
Estimated balance 31 March 2013	4,649

2.28 In setting the budget for 2012/13 and MTFP it was previously planned to draw on earmarked reserves and these intentions are broadly retained. Some additional appropriations are now anticipated relations to the use of LABGI, Performance Reward Grant, Preventing repossessions and Environmental Pollution.

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

Reserve	Bal at 31/3/13 £000	Bal at 31/3/14 £000	Bal at 31/3/15 £000	Bal at 31/3/16 £000	Bal at 31/3/17 £000
Interest Equalisation	1,577	2,177	2,177	2,177	2,177
Insurance Fund	10	10	10	10	10
Emergency Planning	36	36	36	36	36
VAT partial exemption	146	146	146	146	146
Service Improvement	610	610	610	610	610
LDF /Green belt	764	754	604	354	404
Housing condition survey	65	79	43	57	71
Council Elections	25	50	75	0	25
LABGI	104	104	104	104	104
Leisure utilities/pensions	240	300	300	300	300
Restructure	33	33	33	33	33
Legal fees	0	0	0	0	0
Performance Reward Grant	42	2	2	2	2
Pension Strain costs	95	25	19	19	19
Waste recycling	275	275	275	275	275

income volatility					
Footbridge River Stort	150	150	150	150	150
Cost of Change	400	400	400	400	400
DCLG Preventing Repossessions	25	15	15	15	15
Environmental Pollution	35	0	0	0	0
Total	4,632	5,166	4,999	4,688	4,777

Robustness of estimates and adequacy of reserves

- 2.30 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.
- 2.31 The Council adopted a strategy in regard to reserves in September and the proposals as they currently stand breach that policy. However, given that there are a number of risk areas that need to be considered then it is the judgement of the Section 151 Officer that this level of reserves is adequate and not excessive. The increased level of uncertainty in funding going forward and the impact on the Council's services of the substantial changes in Welfare Reform have added financial risk to the Council. Consideration is also given to the fact that this settlement is based on provisional information from DCLG.
- 2.32 This judgement has regard to the Council's 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.
- 2.33 The Council retains very substantial investments in relation to its annual spend. With the exception of a £10m structured deposit and a £5m fixed term deposit to August 2014, 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.

- 2.34 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 the RSG element of formula grant is certain for 2013/14 refined business rate grant income is subject to changes in debit collectable.	A 5% reduction in RSG/NNDR Income = £297k
Localisation of council tax support replacing Council Tax Benefit	High	In setting our local scheme there are risks about the increasing needs of our residents and there is a possibility that increasing numbers of individuals may come forward for support	Each 1% increase in spend on CTS would cost East Herts an additional £8k
Discretionary Rate Relief	Low	No provision is made in the MTFP to respond to proposed freedoms to extend	The policy for 2013/14 has now been set.

		discretionary NNDR relief. Any awards now directly impact on the Councils funding	
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 = £160k A 5% shortfall in other income = £76k
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 of total planned savings to 16/17 = £140k
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 UK economy	The £10m structured deposit has a floor rate of 3.7%. Other fixed rate deposits range from 2-3%. With varying terms to August 2014. The

		will respond to public sector spending cuts and increased taxes. The MTFP anticipates investment returns consistent with OBR forecasts.	balabce of funds (c £30m) are anticipated to return between 0-75% and 2.7% over the period of the MTFP. A 0.5% variance on overall investments equates to around £300k.
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 £120k
Pay and inflation	Medium	A 1% pay award has been assumed ref 1.4.13 with further increases of 1%, 2.5% and 2.5% from April 14, 15 and 16 respectively	A 1% equates to circa £120k per year
Pension costs	Low	Pension contributions reflect the provisional outcome of the 2010 revaluation and so rates for the	Pension costs are not variable in 2013/14. A 1% increase represents £97k p.a.

		next 3 years are unlikely to be further revised. A 1% increase each year from 2014 to 2016 is anticipated further to the 2013 actuarial revaluation.	
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

2.35 The estimates are considered sufficiently robust for the Council to set a budget and council tax for 2013/14.

2.36 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 2012.

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