

MEETING:	CABINET
DATE:	15 DECEMBER 2011
TITLE OF REPORT:	BUDGET UPDATE 2012/13
PORTFOLIO AREA:	CORPORATE SERVICES AND EDUCATION

CLASSIFICATION: Open

: Open

Wards Affected

County-wide

Purpose

To provide an updated budget position and indicate the current “gap” as well as confirming the approach being taken to produce a balanced budget.

Recommendations

THAT Cabinet:

- (a) **Notes the current position; and**
- (b) **Confirms for budget planning that the 2012/13 Council Tax freeze grant will be used to fund transformation measures.**

Key Points Summary

- The Council will set its council tax on 2nd March 2012 based on a balanced budget. It cannot budget for a deficit.
- The analysis of the provisional local government financial information announced last year has confirmed a number of grants have ceased, others have reduced and are now part of the “general” Formula Grant.
- Herefordshire has been affected by a further reduction in funding of at least £5.7m.
- The 2012/13 net Budget total is £141.03m, assuming that the council sets a nil council tax increase.
- A programme of “root and branch” reviews will be undertaken over the medium term to address the funding challenge.

Introduction and Background

1. The provisional local government finance settlement will be announced in December 2011. It is anticipated that if government does not change the grant total announced last year, the settlement will include a reduction in formula grant funding of £5.7m in 2012/13.

Key Considerations

2. The Leadership Team is reviewing options to close the position.
3. It is proposed that the 2012/13 budget will see the general fund reserve remain at a minimum of 3% of net budget. This means that the general fund reserve equates to at least £4.5m in 2012/13. Current plans do not include using this as a means of balancing the budget.
4. In 2009 Directorates were asked to submit proposals for an anticipated 5% year on year reduction as part of the overall resource allocation framework. This approach used an estimated 15% reduction in government funding over three years that represented a best estimate in 2009. In 2010 it was confirmed that the public finances would be reduced to meet the growing national deficit. As a result the process of preparing for the 2012/13 budget commenced as part of setting the current (2011/12) year's budget. These figures were built into the Medium Term Financial Strategy (MTFS) agreed by full council in early 2011.
5. Given the current settlement only covered two years (2011/12 and 2012/13) detailed financial planning covered this period. However, the settlement was worse in terms of total reduction and phasing and therefore required a further phase that saw Directors work to a further set of principles to help refine the budget proposals. These principles were as follows:
 - Directors to assume that grant reductions and grants that have ceased will not be funded. Their relationship to changes in national government policy will need to be determined and if the case cannot be made that funding delivers a policy requirement then the funding will not be back filled.
 - The outcome of the Star Chamber process saw a level of budget growth request that cannot be funded (and would not have been delivered even in previous years). Growth cannot be supported and directorates must fund these requirements.
 - The additional sums provided for Adult Social Care as part of the settlement and also via Health will be added to the overall control total for Adult Services.
 - Inflation will be applied to budgets. A review of fees as part of the emerging income policy is being undertaken and future level of fees and charges will be adjusted to ensure we eliminate any subsidies. This is a guiding principle of the review.
 - The savings put forward as part of the Star Chamber process will need to be delivered and signed off. Directors will revisit the explanation for any reductions put forward as part of the Star Chamber process so that any decision stands up to any challenge.

Budget Setting Principles 2012/13

6. The overall approach to setting the 2012/13 budget contains the following principles:
 - a. The council will take advantage of government funding for the equivalent of a 2.5% council tax increase. This totals £2.16m;
 - b. The impact of non pay inflation at 2% is included;
 - c. Prior year capital decisions will be fully funded;

- d. Revenue pressures identified in 2010 are funded;
- e. The Shared Services programme is included in the budget;
- f. Updated Shared Services and Organisational Design savings are included;
- g. An additional £1.48m is included as Herefordshire's funding from central government for Adult Services;
- h. An additional 0.7% of pay is included for the outcome of the actuary's revaluation of the pension fund;
- i. An additional £500k is added to the Waste Reserve;
- j. Replenishment of the reserve used to help smooth the setting of the 2011/12 budget..

Council Tax Freeze Grant for 2012/13

- 7. On 3rd October 2011 the Chancellor of the Exchequer announced that the Government will pay a grant to authorities which freeze their council tax for 2012/13. This grant is for one year only.
- 8. By accepting the grant the council will freeze council tax bills for a second successive year. However, a careful approach is needed in order to manage the consequences for council tax and budgets in subsequent years as this will only fund one year of grant payment at 2.5%.
- 9. The grant covers 2012/13 only and is therefore very different from the funding for the 2011/12 council tax freeze where the government has said it will pay the grant for the four years of the spending review.
- 10. The grant on offer covers the equivalent of 2.5% increase in council tax (this equates to £2.16m for Herefordshire Council). The grant for Police and Fire and Rescue Authorities is 3%. The grant does not cover parish and town council precepts.
- 11. Payment to the council will be made by a single amount in March or April 2012 and will be made as soon as the council confirms it will freeze the 2012/13 council tax. For Herefordshire this would follow council tax setting. The grant is not ring fenced and can be used for any purpose. It could also be carried forward if not fully used in 2012/13.
- 12. As indicated accepting the grant rather than increasing council tax by the same amount means losing the "base" effect of a 2.5% council tax increase. Therefore it is proposed, subject to final Council approval, to use the grant as a one off source of funding for transformation in 2012/13. The approach to the use of the funding will be developed as part of the next Budget report to Cabinet but it will be based on supporting transformation to enable sustainable budget reductions to be made, with a particular emphasis on Adult Social Care.

Local Government Finance Settlement

- 13. A key change in last year's local government settlement was that local government has been given flexibility to take decisions locally. Restrictions have been lifted on how local government spends its money by removing "ring fences". The intention is to give councils extra flexibility to make decisions about where savings are found. However, this is subject to the usual rules to ensure that capital funding is used on capital expenditure.
- 14. Last year's local government settlement covered two years unlike CSR10 that covered the

next four years. The shorter time frame is because local government is expected to have the new funding distribution system in place from 2013/14.

15. The number of specific grants has reduced dramatically. The majority of funding is now via the general Formula Grant and this has been subject to a significant reduction of £5.7m. Within the £5.7m reduction it is estimated that £932k relates to specific grants rolled into Formula grant in 2011/12.
16. In December 2010 the Coalition Government outlined plans to provide PCT's with additional funding to support health and social care joint working for 11/12 and 12/13. Both funding streams are transferred via a Section 256 agreement. Joint investment plans are a key element for Herefordshire and led to the following:
 - a) NHS funding to support health and social care. This is aimed at the Council investing in services to benefit health, and to improve overall health gain. These plans should take into account the Joint Strategic Needs Assessment for the local population and the existing commissioning plans for both health and social care. The funding allocation from the Department of Health for 2012/13 is £2,274k.
 - b) Reablement funding to address pressures within the NHS in respect of delayed transfers of care. The allocation is to be used to facilitate seamless care for patients on discharge from hospital and to prevent avoidable readmissions. The funding for both years is £484k.
17. The Council will receive an estimated £1.48m as part of the national allocation for Personal Social Services but this is within the 2012/13 formula grant total of £54.46m. In 2011/12 we received an estimated £1.96m. As in 2011/12 it is proposed that this is passported to Adult Services.

Funding Gap 2012/13

18. As of 28th November the funding gap on the financial model was £2.987m. This is after Directorates have delivered £6.1m of savings identified in 2011/12.
19. The gap arises as a consequence of using the £2.2m council tax freeze grant as a one year "transformational fund". The remainder is mainly due to increasing the insurance reserve.
20. In addition the government has indicated there will be a further reduction of grants rolled into the Formula Grant in 2012/13 of £932k. To date £420k of the total has been identified and a methodology is being assessed to recoup the balance.

Savings proposals

20. Directors framed savings proposals within an agreed set of principles. The following tables provide the summarised information by directorate.

Directorate	2011/12	2012/13	TOTAL
Peoples	4,693	3,500	8,193
Corporate Services	1,577	1,529	3,106
Sustainable Communities	2,200	1,092	3,292
Procurement Savings	1,800	0	1,800
TOTAL	10,270	6,121	16,023

(as of 30th December 2010)

21. The £6.121m of savings agreed in early 2011 and built into the medium term financial strategy has been reviewed. Where appropriate Directorates have identified alternative savings to replace items where delivery cannot be assured.
22. The list of savings has been shared with Cabinet and, if not already carried out, Directors need to confirm the position with their Cabinet Members.
23. The remaining gap of £2.987m needs to be closed in order to set a budget and for the estimates to be signed off. Without doing so the Council Tax cannot be set in March.
24. During December work will conclude to close the gap. However, a number of key areas are likely to feature in the proposals. These include scrutiny of budget pressures, income or trading opportunities as well as the proposed root and branch reviews.
25. The aims and approach for the root and branch review will be agreed by Cabinet in January as part of the budget process. The key features are likely to be:
- ensuring that we focus on the priorities for our residents and Herefordshire
 - reshaping services for the future, working with others
 - improving quality and performance
 - reducing our costs still further, providing value for money
 - consultation and engagement with employees, service users and partners

2013/14 Onwards

26. The funding position for 2013/14 onwards is much less certain. Currently the government is consulting on a proposal that will see councils retain business rates for their area. This is a significant change to the current arrangements where Herefordshire collects business rates on behalf of the government and receives a formula grant in return.
27. The proposed changes give council some local control and provide an additional incentive to support economic growth. However local changes to collection rates can lead to income fluctuations in any year. Herefordshire gains from the current system and currently gets more funding through the formula grant than it collects in business rates. Herefordshire will need to ensure the “base” position supports the current level of funding if it is to avoid additional

financial pressure.

28. In 2013/14 local government will also see a significant change to Housing and Council Tax benefits. Housing Benefit will become part of the new single universal credit. Council Tax benefit will be funded by a specific grant paid to Unitary and District Councils. The amount paid will be subject to a 10% cut compared with 2012/13 levels of funding. Furthermore, those viewed as “vulnerable” by government regulations will receive a greater proportion of the overall grant than at present.

Autumn Statement

- 28 The Chancellor’s Autumn Statement on 29th November indicated a “cap” on public sector pay rises of 1% over the next two years. The council’s financial plan includes this figure for pay rises so there is no change to our position.

Key Dates for Delivery

29. The following confirms the key dates leading to Council Tax Setting on 2nd March 2012.

16 th January 2012	Budget and Medium Term Financial Strategy (MTFS) to Overview and Scrutiny
19 January 2012	Budget and Medium Term Financial Strategy (MTFS) to Cabinet
3 February	Budget and MTFS to Council
16 February 2012	Feedback Council’s comments to Cabinet
2 March 2012	Council Tax setting at Council

Public Engagement

30. In reaching final decisions on the Medium Term Financial Strategy, Cabinet and Council will have regard to the feedback that we have received from residents, employees and partners about future options.. As part of this process, a series of public engagements events have taken place over the past two weeks at the following locations.

14 November	MORTIMER	Wigmore High
15 November	BROMYARD	Queen Elizabeth Humanities College
16 November	GOLDEN VALLEY	Fairfield High School
17 November	LEOMINSTER	Earl Mortimer College
18 November	WEOBLEY	Weobley Village Hall
21 November	HEREFORD CITY	Whitecross Hereford
22 November	KINGTON	Lady Hawkins’ School
23 November	ROSS ON WYE	John Kyrle High School
24 November	LEDBURY	Burgage Hall
2 December	HEREFORD	Kindle Centre

31. The events covered financial issues, Health priorities, charging options for Adult Social Care Services and also Public Health issues. Over 300 people attended the events and as part of the financial section there was engagement about the broad priorities based on the budget principles agreed by Cabinet. The outcome is being analysed and will be reported to the January meeting along with other feedback received.

Legal Implications

32. Local authorities must decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on services. Because they decide on the council tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:
 - making prudent allowance in the estimates for services; and
 - ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
33. Local government legislation requires an authority's chief finance officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so members will have authoritative advice available to them when they make their decisions.

Risk Management

- 5 Collection rates for council tax continue to be good in Herefordshire at 77.97% (to end of November) with a target of 98.75%. This needs to be sustained. The budget also includes a level of known and assumed growth in Council Tax base for 2011/12, 2012/13 and 2013/14. It is still unknown whether the Council Tax Grant awarded for 2011/12 will continue after four years.
- 6 The proposal to allow Local Authorities to retain their business rates could present significant volatility to the Council's funding.
- 7 The current financial climate impacts on our borrowing and investment strategies, which support the revenue budget and capital programmes. We continue to monitor this on a daily basis.

Consultees

- 8 Overview and Scrutiny will consider the draft medium Term Financial Strategy and budget proposals on 16th January 2012.