

MEETING:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	16 JANUARY 2012
TITLE OF REPORT:	BUDGET UPDATE 2012/13
REPORT BY:	CHIEF OFFICER – FINANCE AND COMMERCIAL SERVICES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To seek Overview and Scrutiny Committee's view on the budget for 2012/13 and the principles underlying the Medium Term Financial Strategy (MTFS).

The Committee's views will be considered by Cabinet on 19 January 2012, when Cabinet will make recommendations to Council on 3 February 2012 about the budget, including the level of Council Tax for 2012/13 and the Medium Term Financial Strategy for 2012/13 to 2015/16.

Note: This report needs to be read in conjunction with the Budget report to Cabinet, which will be published on 11 January 2012. Copies will be circulated to the Committee.

Recommendation

THAT Overview and Scrutiny Committee comments on the approach to budget setting, so that Cabinet is informed of its views.

Key Points Summary

- Cabinet has recommended that Council accepts the 2012/13 Council Tax freeze grant and does not increase its level of Council Tax.
- The Council will set its Council Tax on 2 March 2012. This must be based on a balanced budget. It cannot budget for a deficit.
- The Council continues to be affected by the reducing level of central government funding.
- The 2012/13 net budget total is £143.183m excluding schools funding.

Alternative Options

- 1 HPS Leadership Team (HPSLT) are in the process of formulating a balanced budget for 2012/13 for consideration by Cabinet on 19 January 2012. It incorporates inflation, service pressures and other spending requirements, the financing of which has been identified from within the Formula Grant, service efficiencies and council tax.

Reasons for Recommendations

- 2 The Council has a legal obligation to set a balanced budget as required by the Local Government Finance Act 1992. Overview and Scrutiny Committee plays an important role in the process and its comments on the approach taken are reflected upon by Cabinet before the budget is put before Council on 3 February 2012..

Introduction and Background

- 3 On 19 January 2012, Cabinet is requested to consider the budget proposals and the Medium Term Financial Strategy (MTFS) in order to make a recommendation to Council for setting the 2012/13 revenue budget based on holding council tax at current levels.
- 4 The provisional local government settlement was announced on 8 December 2011. The key component is the Formula Grant, which includes Revenue Support Grant and redistributed business rates, which is set at £54.462m (£56.615m after including council tax freeze grant). This is a £5.7m cash reduction on the amount received in 2011/12 and it is unlikely this will change when the final settlement is published in late January 2012.

Provisional Local Government Settlement 2012/13

- 5 Local government will enter the 2012/13 financial year without certainty about the funding position for 2013/14 onwards. This is because CSR10 announced in October 2010 only provided a finance settlement for two years (2011/12 and 2012/13). However, the council's assessment of funding for budget planning purposes assumes at least 10% reduction over the 2013/14 to 2015/16 period. A more fundamental review of local government funding is anticipated from 2013/14 so outline assumptions are used at this stage.
- 6 The provisional local government settlement for 2012/13 was announced on 8 December 2011. The formula grant (Revenue Support Grant and redistributed business rates) remains unchanged from the figure previously announced of £54.462m (before the council tax freeze). This compares to £60.191m in 2011/12, a cash reduction of £5.7m (9.5%). Some additional funding is provided for in the provisional 2012/13 settlement:
 - a. £1.5m social care funding within formula grant;
 - b. £2.1m of funding for the 2011/12 council tax freeze. This will cease after 2014/15; and
 - c. £2.3m NHS funding to support social care.
- 7 The New Homes Bonus match funds the additional council tax raised for new homes and empty properties brought back into use. The scheme commenced in April 2011 and is paid for six years. Herefordshire was awarded £591k per annum for 2011/12 and has been provisionally awarded £824k for 2012/13 (paid for six years from 2012/13). The council's financial model now reflects the national top slice expected from 2013/14 that will reduce the allocation.

- 8 The Department for Education has indicated that Dedicated Schools Grant (DSG) remains at £4,723.65 per pupil.

Council Tax Freeze Grant for 2012/13

- 9 On 3 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.
- 10 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 the grant will only fund one year of grant payment at 2.5%.
- 11 The grant covers 2012/13 only and is therefore very different from the funding for the 2011/12 council tax freeze where the government will pay the grant for the four years of the spending review (up to 2014/15).
- 12 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.
- 13 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.
- 14 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 and budget contingency in 2012/13. The approach to the use of the funding will be developed before the end of March but it will be based on supporting transformation to enable sustainable budget reductions to be made, with a particular emphasis on Adult Social Care.

Grants for 2012/13

- 15 In 2010 the government announced a significant reduction in grants. The allocations for 2011/12 and 2012/13 (excluding Council Tax Grant and Dedicated Schools Grant) are as follows:

List of Grants	2011/12	2012/13
	£000	£000
Early Intervention Grant	6,501	7,097
HCTB Admin	1,228	1,177
Music grant	263	236
Community Safety	158	80
Hone to school transport	435	540
Lead Local Flood Authorities	130	200
Learning Disability	3,657	3,738
Preventing Homelessness	225	225
TOTAL	12,597	13,293

- 16 In 2011/12 £13.5m of specific grants and Area Based Grant were moved into formula grant, but reduced to an estimated £10.8m, leaving a funding shortfall of £2.7m. A further £932k reduction in these grants is estimated to be included in the Formula Grant reduction in 2012/13.
- 17 The Council Tax and Dedicated Schools Grants are the only ring fenced grants. This gives greater flexibility when using the grants outlined above.
- 18 In 2012/13 the Early Intervention Grant increases by £596k but the additional amount is to cover the responsibilities to provide pre-school places for vulnerable two year olds.

Budget and Policy Process

- 19 The 2012/13 budget process has seen greater alignment between policy and budget setting. This builds on the process that commenced in the previous year and led to a series of star chambers in late 2011. The star chambers had the following aims:
- a. To sign off the savings agreed in 2010 as part of the two year process;
 - b. To seek additional savings to meet the emerging gap resulting from the Council Tax freeze grant for 2012/13; and
 - c. To test the requirement for additional funding built into the current financial model.
- 20 As part of the overall process the following core principles set out what the council stands for and what residents can expect of it.

PRINCIPLE	IMPACT
Valued Services	<ul style="list-style-type: none"> • <i>Focusing on our priorities & what matters to people, stopping things we don't need to do</i>
Reducing Bureaucracy	<ul style="list-style-type: none"> • <i>Less regulation and red tape, smaller local government; right first time delivery</i>
Supporting the Vulnerable	<ul style="list-style-type: none"> • <i>Targeting resources on individuals, families, communities at risk or disadvantaged; early intervention & prevention; a shift in social care provision</i>
Value for Money	<ul style="list-style-type: none"> • <i>Reducing the pay bill; third party spend savings; smarter delivery; cutting costs</i>
Local Delivery	<ul style="list-style-type: none"> • <i>Devolution to parishes and the VCS, local decision making; working through 9 localities</i>
Personal Responsibility	<ul style="list-style-type: none"> • <i>Self reliance, people and communities helping themselves, behavioural change; increase in personalisation</i>

- 21 It is important to note that Cabinet of 15 December 2011 agreed to recommend to Council that the 2012/13 Council Tax Freeze Grant announced on 3 October 2011 by the Secretary of State be accepted, which means, subject to Council approval, there will not be an increase in council tax in 2012/13. However, the one year nature of the funding means the permanent ongoing increase that would have occurred from the assumed 2.5% increase in Council Tax is foregone. As a result the Cabinet's policy is to use this as "one off" funding split between transformation (£1.2m) and budget contingency (£1.0m).

- 22 By using this to support the above activity an additional pressure of £2.2m is added to a gap of £750k. The proposals to close the gap are being finalised and will be available when the Cabinet agenda is published on 11 January.

Income Generation

- 23 During 2009/10, the Council generated £18.1m through fees, charges and sales during 2009/10, which was 4.7% of total gross revenue expenditure.
- 24 According to benchmarking analysis undertaken by the council and Price Waterhouse Cooper, in a number of specific expenditure areas (e.g. pest control, highways planning, water safety), the council performs well on recovery relative to nearest neighbour authorities. Overall, though, the council has the lowest recovery rate out of 15 comparators.
- 25 The intention is to become a median performer in terms of income recovery, which would mean generating approximately £2.78m of additional net income per year. A 'stretch' target of £12.43m has also been identified, representing average upper quartile performance.
- 26 The 2011/12 budget includes £712k to be delivered through increases in existing income and the development of new income streams within directorates.
- 27 A set of Charging Principles for the council has been agreed by Cabinet, and a process for approving new income proposals has been put in place by the Commercial Board in response to these.
- 28 Cabinet approved three 'quick win' income proposals in June 2011. These covered car parking, pre-application planning advice and school transport. There are a number of further income projects at varying stages of development across the authority.
- 29 The Overview and Scrutiny Committee have also been tasked with "undertaking a review to identify options for the development of budgetary policy to support further income generation". This will influence the outcome of the PwC work and the council's medium term plan.

Budget Setting Principles

- 30 The MTFS includes the council's financial model. This indicates the variations to the budget including amounts to meet pressures as well as compensating savings. The key points are as follows:
- a. Inflation: the model includes net inflation of £2.35m.
 - b. Additional funding for Adult Social Care: the council will passport to Adult Social Care the £1.48m included in the formula grant along with funding from the NHS included in the CSR10 announcement.
 - c. Further savings from the Shared Services programme amounting to £571k are included for 2012/13.
 - d. Change management: the budget includes £1.0m to support costs associated with staff reductions. If the government permits capitalisation of such costs in 2012/13 (as it did in 2011/12) the council will make a case to take advantage of this approach.
 - e. Council Tax: the 2012/13 budget includes use of the one year Council Tax Freeze Grant announced in 2011. This means for the second year council tax will not be increased. Future years assume 2.5% increase.

- f. Council Tax Freeze Grant: the 2012/13 amount on offer from central government will be used to support transformation activity (£1.2m) and the balance of £1.0m will be used as budget contingency.
- g. Pressures: the budget includes £907k for contract inflation; £785k for service and demographic pressures and £544k for statutory changes. In total the budget includes £2.236m of additional funding to support pressures.

Capital Funding

- 31 The Joint Capital and Asset Management Strategy for 2010 to 2013 lists a series of schemes as priorities and it is now appropriate to plan for their delivery.
- 32 A number of key schemes have been included in the strategy. These include Broadband, Hereford Futures and the continuing development of the infrastructure to support the retail quarter. In line with the strategy the Council's MTFS now includes funding to support scheme delivery.

Financial Management and Reserves

- 33 A key part of the budget process is to ensure the council has appropriate levels of reserves especially at a time of continuing financial challenge. Over the medium term it is proposed that the council will put in place a budget contingency.
- 34 The current level of the general reserve is £6.3m representing 4% of the net budget. Whilst the policy is for a general reserve of 3% it is considered prudent to use any amount in excess of 3% to fund a budget contingency.
- 35 The following table provides a summary of the estimated level of corporate reserves which could be available for temporary use:

Corporate Reserves 2012	Estimated 31/3/12 £'000
General Fund Reserve	6,300
Waste Disposal	2,407
Whitecross School PFI	331
Insurance Reserve	135
TOTAL	9,173

- 36 Robust action plans will be required to focus work on delivering service savings agreed as part of the budget process. However, contingency plans will need to form part of overall budget management in order to give further assurance in 2012/13.

2013/14 Onwards

- 37 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.

- 38 The proposed changes give councils 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.
- 39 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.

Financial Implications

- 40 These are set out in the report.

Legal Implications

- 41 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.
- 42 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

- 43 The position outlined in the report indicates the state of public finances means a reducing funding envelope for local government. This creates a number of additional risks in addition to those normally associated with any budget setting process. The following lists specific risks:
- a. Directorate Savings: the loss of funding in 2012/13 requires a significant level of savings. There is a risk of slippage should unforeseen delays occur. The use of the £1.0m budget contingency will assist along with using anything in excess of 3% on the general fund reserve as a budget contingency. Directorates' plans for delivery of savings will need robust management to ensure delivery.
 - b. Local Government Resource Review: 2013/14 will see one of the most significant changes to funding for local government. The proposal to allow councils to retain business rates rather than contribute to the national pool could create risk if the “base”

level is set too low by central government. Central government will continue to control the level of business rate increase.

- c. Treasury Management: the council has significant treasury management activity covering borrowing and investment. The current financial climate means this area plays an important part in resource delivery for the council. The decision to refinance existing borrowing and take on additional requirements will need to be timed to take advantage of opportunities provided by historically low interest rates.
- d. Income: the council's budget is supported by income. The level of income receipt could be affected by factors such as the economic climate. The council's review of income and charging levels will need to play an appropriate part delivering the balanced budget.

Consultees

- 44 Herefordshire Public Services set out to ask local people for their views on funding priorities so that their feedback could help it to begin to plan how its budget should be used in the future. With current pressures on funding being experienced by public services nationwide, it wanted to explore a new way of engaging with the population at an early stage in the process. As a result, a series of 10 public events were held across the range of localities in the county during November and December 2011, attended by over 250 people in total. Alternatively, people could give responses through an on-line questionnaire.
- 45 The consultation included four topic areas, on which people were asked a series of high-level questions about general spending principles on which each could cast their vote using an electronic hand-held device. Each section was first introduced by providing some contextual information. Questions were asked concerning finance, adult social care, clinical commissioning of healthcare, and health and wellbeing. This was followed by an opportunity for people to write further comment for each of the four topic areas, and to ask questions of the presenters. A summary of the views received will be included in the report to Cabinet on 19 January 2012.

Appendices

- 46 None

Background Papers

- 47 None identified.