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| MEETING : | CABINET |
| DATE: | 13 DECEMBER 2012 |
| TITLE OF REPORT: | BUDGET UPDATE 2013/14 |
| REPORT BY: | CHIEF OFFICER: FINANCE & COMMERCIAL |

1. Classification

Open

2. Key Decision

This is not a Key Decision.

3. Wards Affected

County-wide

4. Purpose

To provide an updated budget position for 2013/14 and confirm the current financial planning assumptions as well as the approach being taken around the Root and Branch process for budget setting.

5. Recommendation(s)

THAT CABINET:

- (a) notes the current position; and
- (b) confirms for budget planning that a council tax increase of 1.9% can be assumed and will be ring fenced for Adult Social Care as part of the budget.

6. Key Points Summary

- The Council will set its council tax on 8 March 2013. This must be based on a balanced budget and it cannot budget for a deficit.
- The budget savings are being realised through the “Root and Branch” programme so that we deliver the necessary savings in 2013/14 and beyond. To date £5m has been identified for 2013/14 and work in continuing to identify a further £5m.

- Like other councils Herefordshire has again been affected by a reduction in government funding as part of the national deficit reduction programme. With funding reduced by a further £5.008m in 2013/14.
- We continue to plan for an increase in council tax and our current assumption is that a 1.9% increase will be set for 2013/14.
- A new and additional council tax freeze grant is on offer for 2013/14 and this would be equivalent to a 1% increase in council tax if we decide to freeze council tax. This grant is not in the Council's base funding.
- Residents have not seen an increase in council tax since 2010/11.
- An extensive public engagement exercise took place in the Your Community Your Say process that is shaping the budget decisions. We are now moving to the next phase.
- The Government intends to announce the provisional local government settlement on 19 December 2012.

7. Alternative Options

- 7.1 There are Alternative Options that centre on increasing council tax by more than our current assumption. This would trigger a referendum, with associated costs.

8. Reasons for Recommendations

- 8.1 The recommendations are to note the current position and also indicate the council tax planning assumptions required in order to set the budget.

9. Introduction and Background

- 9.1 On 19th December the provisional local government settlement will give Herefordshire the first official indication of our government funding for 2013/14. We estimate a further reduction in our funding of £5m.

10. Key Considerations

The following headings set out the areas affecting our financial planning and budget setting. Changes to our planning assumptions agreed in the current medium term financial plan are also outlined.

Council Tax Referendums

- 10.1 The Localism Act 2011 introduced binding council tax referendums that would be triggered if a council wishes to exceed a certain level of percentage increase in any year. The system started for the setting of the 2012/13 budgets with a rise above 3.5% triggering a referendum for most principal authorities. The new system replaced the former “capping” regime that saw central government determine council tax rise limits. Referendums can be held at any time.
- 10.2 For the 2013/14 council tax setting process the Secretary of State has determined that the threshold for a referendum to be held is when a 2% and above increase is sought by a council. This has led to an immediate change to our financial planning assumptions as our medium term plan agreed by Council in February modelled an assumed 2.5% increase in 2013/14. Every 1% of council tax increase raises approximately £800k and this has an impact of £400k if we limit an increase to just under 2%.

Council Tax Freeze Grant

- 10.3 The Government has again announced a further council tax freeze grant for 2013/14. The amount on offer is equivalent to 1% of Council Tax and for Herefordshire is worth £800k. This would be payable as an unringfenced grant in 2013/14. The announcement was made by the Chancellor of the Exchequer on 8 October 2012 with a national total of £450m set aside to help freeze council tax. It is a matter for each authority to decide if it accepts the grant.
- 10.4 The grant on offer for 2013/14 is the third such arrangement put in place by government since 2011. The following table outlines the council tax freeze grants since 2011. Herefordshire has accepted both previous grants.

| Year | Equivalent Council Tax Increase | Number of Years Available |
|---------|---------------------------------|---------------------------|
| 2011/12 | 2.5% | 4 |
| 2012/13 | 2.5% | 1 |
| 2013/14 | 1.0% | 2 |

- 10.5 Our financial planning assumptions are that the 2011/12 grant will be provided for four years. However Government is stating this will now be built into the base funding for councils. The second grant (2012/13) was for one year only and we have not used it for recurrent expenditure with a total of £2.16m received; this was allocated as £1.16m to transformation funding and £1.0m as an in year contingency. This has helped deliver transformation activity through the Root and Branch process with the contingency giving additional capacity to meet the 2012/13 financial pressures.
- 10.6 The council tax freeze grants have eased pressure on Herefordshire’s residents and as a result the council has not increased its council tax since 2010/11. However, it has an impact on our “base” funding because of the loss of funding that would have been built into our budget through permanent increases in council tax. This is particularly challenging given the current pressures on adult social care and the projected additional demand for care services from an ageing population profile.

Financial Framework for the 2013/14 Budget

10.7 As part of the overall approach to setting the 2013/14 budget the following financial principles and assumptions are currently included (but remain under review):

- (a) The council will seek to raise council tax in 2013/14. The original assumption was an increase of 2.5% but this has been reduced to 1.9% following the Government's announcement in November. It is worth noting that the Medium Term Financial Strategy (MTFS) agreed by council in February 2012 included an assumption of 2.5% in 2013/14. However our planning assumption for 2014/15 and 2015/16 have now been reduced to zero council tax increase. This may need to be revisited but given the government's reduction to the referendum threshold it is a possibility that the new 2% threshold will be lower in future years.
- (b) We have included inflation as a financial pressure in future years. For 2013/14 pay inflation of £579k and non pay inflation of £2.7m is included along with income inflation of £434k.
- (c) Prior year capital decisions are fully funded and current year capital bids will be included depending on Cabinet's decision about any new schemes.
- (d) Revenue pressures in 2013/14 have been recognised to a total value of £5.18m. These are as follows:

| | £m |
|---|--------------|
| Adult Services Pressures | 2.50 |
| Children's Safeguarding | 0.65 |
| Commissioning Support | 0.40 |
| Corporate Transformation | 0.30 |
| Costs to support procurement activity of major contracts | 0.40 |
| Local Development Framework legal costs | 0.43 |
| Feasibility studies for outer relief road | 0.50 |
| TOTAL PRESSURES | 5.18m |

- (e) There are in addition to these pressures, specific high risks within adult services budgets relating to non-achievement with some cost-reduction schemes carried forward to 2013/14 and beyond (£4.6m); underfunding of demographic growth in previous years (£2.8m) inflationary pressures and high cost provision, particularly for working age adults (c.£3m).
- (f) Reserves: the current year's financial position reported to Cabinet on 18 October indicated an overspend of £2.4m with specific pressure evident in Adult Social Care. Recovery actions are in place to balance the budget but it is prudent to assume we will need to replenish reserves or increase reserves given the financial challenge ahead. As a result a £2m contribution to reserves is included in the 2013/14 budget.
- (g) The Shared Services Partnership (Hoople) will contribute a further £540k of savings in 2013/14. This is in addition to the £981k delivered to date.

- (h) The waste reserve will be increased by £500k in order to prepare for the next stage of the joint arrangement with Worcestershire.

Local Government Finance Settlement

- 10.8 The local government funding and financial model continues to see significant change. The government is pursuing a higher degree of decentralisation of decisions at the same time as significantly reducing funding. This has meant that we continue to see more local responsibility for decision making and service delivery as government transfers areas such as Public Health to councils from the health service but at the same time our funding for these services is cut on point of transfer.
- 10.9 From 2013 councils will see a new model for funding linking financial revenue to decisions taken to support local employment. On 21 November Local Government Minister, Brandon Lewis, confirmed in a statement that local government will retain a 50% local share of business rates and then keep a 50% share of any growth they generate, subject to a levy. This levy will need to be assessed for its impact on councils. The Government believes it could see the delivery of around an extra £10 billion to the wider economy by 2020 and generate more business rate income for councils to help support frontline services.
- 10.10 Herefordshire has already responded to the abolition of Council Tax Benefit at the end of March 2013. We have consulted on a new “Local Council Tax Reduction Scheme” to deal with the 10% (£1.4m) reduction Government is imposing from April 2013. The new scheme was amended so that the recently announced transitional grant scheme can be accessed by Herefordshire in 2013. The grant is worth £259k to the council and by accepting it and amending eh scheme the impact on low income households has been limited. The legislation requires protection for pensioners and incentives for people to find and stay in work. This has been a particular issue for Herefordshire as nearly 50% of claimants are pensioners and this had the potential to increase the impact on working age claimants. Council agreed the new scheme on 23 November but unless the grant is built into our base for 2014/15 we will need to revisit the scheme next year.
- 10.11 The Government will announce the provisional local government finance settlement on 19 December. This is the latest date for the provisional settlement in recent years. It means that all councils continue to use estimates of government funding for planning purposes. Our estimates are based on work carried out by Finance in conjunction with the Society of County Treasurers (SCT) Technical Team. The latest planning assumption for 2013/14 is that our funding from government will reduce by £5.008m. This comes on top of a £3.576m reduction in 2012/13 and an estimated further reduction of £4.654m in 2014/15. Overall this represents a £13.235m reduction over three years from our “base” funding. By comparison our funding rose between 2010/11 and 2011/12 by £2.6m.

Dedicated Schools Grant (DSG)

- 10.12 Schools are funded by a ring fenced grant (DSG) and the estimated funding for Herefordshire in 2013/14 (expected to be confirmed in December) is as follows:

| | £m |
|---------------------------------|------|
| Estimated Schools Block Funding | 90.7 |
| High Needs Block | 12.1 |
| Early Years Block | 4.8 |

| | |
|-----------------------------------|--------------|
| TOTAL DSG | 107.6 |
| LESS Academy recoupment at source | (38.2) |
| DSG received by Council | 69.4 |

Local Authority Central Services Equivalent Grant (LACSEG)

10.13 In 2011/12 and 2012/13 Revenue Support Grant (RSG) funding for central education functions was top sliced for schools converting to academies. However, the top slicing was not consistent with the pattern of academies opening in local authority areas and as a result Government was forced to revisit the methodology. From 2013/14 the funding is going to be taken out of RSG and redistributed back to local authorities and academy schools based on pupil numbers. The following indicates the position over the forthcoming two financial years:

| | 2013/14 £m | 2014/15 £m |
|--|------------|------------|
| RSG top slice for all pupils in Herefordshire | -3.678 | -3.602 |
| Money to be returned to Council for local authority pupils | 2.385 | 2.102 |
| Funding transferred to Academies | -1.293 | -1.500 |

10.14 The above compares with top slices of £650k (2011/12) and a further £500k in 2012/13 giving a cumulative position of £1.15m of which £235k was subsequently refunded.

10.15 Total budgets for central education functions compared to the indicative £2.385m in 2013/14 grant means that there is a shortfall of £900k of which savings of £500k have so far been identified. This is an additional pressure being faced by the council.

10.16 The Government has also reduced the Early Intervention Grant by £1.7m which directly impacts on improvement services and preventative services for children and families.

The Budget and the Root and Branch Process

10.17 The Root and Branch process is reviewing all services in the council through a systematic approach based on twelve thematic areas and its savings are to enable the council to balance its budget going forward. Each review has been set an indicative 20% savings target that will yield a minimum of £24.1m in savings over the next three years.

10.18 For 2013/14 the current position is that Root and Branch savings are making a contribution of £5m with a further £5m being found to close the "gap". The areas being reviewed include bringing forward further Root and Branch savings, looking at funding levels for external bodies, assessing our inflation assumptions and accelerating our disposal of surplus assets to provide revenue savings.

10.19 We have also reviewed our borrowing costs and likely level of income on our cash deposits. This has produced an additional £772k of savings that has been built into the current budget.

2014/15 Onwards

- 10.20 The Council's financial plan now includes the estimated funding from the new local government funding model. It also currently includes an aspiration not to increase council tax in 2014/15 and 2015/16
- 10.21 The emerging picture is one of considerable financial challenge. After increasing Peoples Services funding by £5.6m in 2014/15 and £5.7m in 2015/16 a gap of over £10m is evident in each year. This will require a fundamental review of the Council's service delivery for future years if we are to deliver a sustainable funding model. The Root and Branch Review Programme which concludes with Herefordshire 2020, will set up the Council's priorities for the next decade.

Public Engagement

- 10.22 The Council carried out a public engagement process called "Your Community Your Say" (YCYS) that built on the annual Quality of Life survey consultation in July 2012. YCYS concluded in October and looked in more detail at the results of the Quality of Life Survey.
- 10.23 By further understanding residents' priorities it seeks to make use of the resources available to deliver services and what public services could be stopped or reduced in order to retain those identified as a priority. This has a direct link to the budget setting process and it is a key element of our approach for setting the budget in 2013/14 and our longer term planning.
- 10.24 The report on the outcome will be delivered in December and lead to the final stage of the process that will use a telephone survey and web based questionnaire. These will cover the budget reductions arising out of the process to help close the budget gap. More details will be included in the report to Cabinet in January 2013.

11. Equality and Human Rights

- 11.1 In demonstrating "due regard" in our decision making process, we will ensure that individual directorates and service areas assess the potential impact of any proposed changes that are as a consequence of budgetary constraints, leading to fairer, transparent and informed decisions being made.

12. Community Impact

- 12.1 The "Your Community Your Say" engagement process has brought forward a better understanding of the impact of our services on the community. This will feature in the final budget setting process. The process will also link with the Council's Corporate Plan agreed at full Council on 23 November 2012.

13. Financial Implications

- 13.1 These are set out in the report.

14 Legal Implications

- 14.1 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.

14.2 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.

15. Risk Management

15.1 Collection rates for council tax continue to be good and we anticipate hitting out 98.6% target; this needs to be sustained. The budget also includes a level of known and assumed growth in Council Tax base going forward.

15.2 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.

15.3 The management of the 2012/13 financial position will have an impact on our 2013/14 budget because of the link to the council's reserves. The Leadership Team has a recovery plan in place to mitigate the risk.

16. Consultees

16.1 Overview and Scrutiny will consider the draft Medium Term Financial Strategy and budget proposals.

16.2 The public will be consulted about specific proposals.

16.3 Herefordshire has carried out a Your Community Your Say (YCYS) engagement programme along with a quantitative Quality of Life survey where we added questions about priorities and which areas/services local communities might like to run themselves IF they were willing and if the opportunity arose. It also included what's important and what needs improving.

16.4 The results of this survey informed the qualitative aspect of the YCYS programme that the Council commissioned. A range of methods were used by the commissioned provider: community workshops, locality events (which were focus groups/deliberative), hard-to-reach groups were contacted using community researchers and community workshops as well as social media. Herefordshire sought to reach as residents as possible by various methods.

17. Appendices

17.1 None

18. Background Papers

18.1 None identified.