

MEETING:	CABINET
DATE:	17 JANUARY 2013
TITLE OF REPORT:	DRAFT MEDIUM TERM STRATEGY AND UPDATE ON THE PROVISIONAL LOCAL GOVERNMENT SETTLEMENT 2013/14
REPORT BY:	CHIEF OFFICER FINANCE AND COMMERCIAL

1. Classification

Open

2. Key Decision

This is not a key decision

3. Wards Affected

County-wide

4. Purpose

To update Cabinet on the provisional Local Government Finance Settlement and to seek the views of Cabinet on the draft Medium Term Financial Strategy (MTFS) and the current planning assumptions and emerging proposals in the budget for 2013/14. The comments will then inform the final version to be presented for agreement to Cabinet on 5 February 2013 alongside the views from Overview and Scrutiny as part of the budget.

5. Recommendation(s)

THAT Cabinet:

- (a) **Comments on the draft Medium Term Financial Strategy (MTFS) shown at Appendix A to the report;**
- (b) **Notes the assessment of the Provisional Local Government Finance Settlement announced on 19 December and the impact on Herefordshire; and**
- (c) **Endorses a strict cash limit approach to budget management for future years.**

6. Key Points Summary

- The provisional Local Government Finance Settlement announced on 19 December 2012 reduces Herefordshire's funding from Government by £5.45m (6.9%)

- Cabinet on 13 December confirmed for budget planning that a council tax increase of 1.9% can be assumed and will be ring fenced for funding Adult Social Care demographic pressures as part of the budget process. It also agreed the planning assumptions and these have been built into the Medium Term Financial Strategy (MTFS)
- The Council's MTFS covers the period from 2013/14 to 2015/16. The document is part of an integrated set of policy and delivery documents designed to match available resources to corporate priorities as set out in the Corporate Plan.
- The final settlement is due to be published by February 2013.
- Taking into account the overall service pressures facing Herefordshire, the further cuts in Government grant mean that the Council will have to find additional savings of approximately £10m for 2013/14 and that further significant savings will be required in 2014/15 and 2015/16

7. Alternative Options

- 7.1 The MTFS plays a key role in budget setting as it contains a number of planning assumptions.
- 7.2 The Council can operate without a MTFS but this makes planning beyond an annual cycle more difficult as there would be no overall framework. The MTFS helps support the requirement to set a balanced budget. Cabinet could change the current planning assumptions in the MTFS.

8. Reasons for Recommendations

- 8.1 The Council has a legal obligation to set a balanced budget as required by the Local Government Finance Act 1992. The proposed MTFS provides a framework to help deliver this over the coming years.
- 8.2 The requirement that the cash limits form the overall control on financial expenditure is an important discipline to help control expenditure.

9. Introduction and Background

- 9.1 On 13th December 2012 Cabinet received a report outlining the updated budget position for 2013/14 and confirming the current financial planning assumptions as well as the approach being taken around the Root and Branch process for budget setting. These assumptions have been built into the draft MTFS.
- 9.2 The provisional Local Government Finance Settlement was announced on 19 December 2012. The final settlement will be announced in February 2013.
- 9.3 From 2013/14 local government finance is undergoing a fundamental change with local authorities able to keep a proportion of business rates they generate as an incentive to stimulate economic growth. The MTFS forms part of the overall financial planning and budget setting process and it is important that Cabinet comments on the approach being taken as local government continues to work within a reducing funding envelope as part of central government's deficit reduction programme that is likely to continue for a number of years.

10. Key Considerations

Provisional Local Government Settlement

- 10.1 On 19 December 2012, the 2013/2014 provisional Local Government Finance Settlement was published. It included details of elements of the business rates retention scheme which will be implemented from 1 April 2013. The provisional settlement was announced late and did not include some important elements of the estimated financial position; the key being the amount to be received for the transfer of public health responsibility to local government from the Health Service.
- 10.2 This new rates retention scheme provides a baseline for business rates funding. Authorities can be categorised as tariff or top-up authorities under the new system. Tariff authorities are those that have more business rates than their baseline funding levels. Tariffs will be used to top up payments to authorities whose business rates are less than their baseline funding levels. The system is in place to ensure that those areas with a below average business rates base continue to receive an element of redistribution when the new system commences in April 2013.
- 10.3 Herefordshire has previously received more redistributed rates income from Central Government than it collected locally and is a top-up authority. In 2013/14 we will receive £6.559 million top-up. The opening funding position is known as 'start-up funding' and consists of a formula funding allocation plus allocation of specific grants transferring from April 2013.
- 10.4 For Herefordshire the provisional start-up funding allocation is comprised of the following;

	2013/2014 £000
Formula Funding	50,092
Specific Grants	
11/12 Council Tax Freeze	2,153
Council Tax Support	9,683
Early Intervention Grant	5,271
Homelessness	206
Lead Flood Authority	130
Learning Disability and Public Health Grants	3,842
Start-up Funding Allocation	71,377

- 10.5 The start-up funding allocation is £71.377 million and when added to our estimated education services grant means that when compared with our 2012/2013 funding Herefordshire has £5.452 million (6.9%) estimated reduction in its central government funding allocation.
- 10.6 Included in our overall allocation is an amount in the Government's funding formula to ensure that a lower limit is set to any individual local authority's change in funding allocation year-on-year. This 'guarantee' is designed to provide stability in the financing of local services. In order for those authorities below the minimum to meet the guaranteed amount money is moved around within the first overall pot of funding agreed in the Spending Review. Herefordshire loses money through this system and the provisional settlement includes a reduction of £3.576 million.

- 10.7 Those authorities with a greater than 8.8% reduction in “revenue spending power” in 2013/2014 and/or 2014/2015 will receive a special grant. The revenue spending power measure does not adequately reflect the impact of cuts in central government funding as it seeks to include funding received via transfers for the NHS which cannot be used to support the overall budget and must be spent in a manner specified by an external body.
- 10.8 Local Authorities have until 15 January 2013 to present their views to DCLG on the provisional Local Government Settlement. Herefordshire will send a separate response and is working with the SPARSE Rural Services Network that seeks to raise funding levels for rural authorities.
- 10.9 It appears that DCLS has not considered rural areas explicitly in its determination of the settlement. It remains the case that providing services in rural areas can cost more and this key point will inform our response.

Specific Grants

- 10.10 In recent years the Government has stressed that Councils have greater self-determination for funding decisions. Key to this is the reduction in numbers of specific grants. In 2010/2011 Herefordshire received in excess of 80 specific grants and whilst the greater flexibility available under the new arrangements is welcome we have seen funding formerly associated with these grants cut on transfer to our general funding. However, a number of specific grants remain and their allocations have been published with the provisional settlement.
- 10.11 Our main specific grants are as follows, but we await announcement on our 2013/14 funding levels for some key grants;

Grant	2012/2013 £000	2013/2014 £000	2014/2015 £000
* Social Fund	3	371	366
Local Reform and Community Voices	n/a	154	159
** Lead Local Flood Authority	200	70	70
Housing Benefit Admin Subsidy	1,177	1,075	tbc
Community Right to Bid	5	8	8
Community Right to Challenge	9	9	9
Council Tax Support – new burdens	84	91	98
Community Safety	80	tbc	tbc
Home to School Transport	540	tbc	tbc

* Set up funding only in 2012/13

** In 2013/14 there is also £130k included in the Rates Retention funding

Social Care Funding – NHS Transfer

10.12 On 19 December the Department of Health (DH) confirmed the amount nationally to be transferred from the NHS to local authorities to support adult social care services, which also benefit health, at £859m. Previously these transfers, totalling £648m in 2011/12 and £622m in 2012/13, were made by local Primary Care Trusts to authorities. From April 2013 the funding will be transferred from the NHS Commissioning Board, as PCTs are being abolished.

10.13 As a condition of the transfer, local authorities and clinical commissioning groups must have regard in how the funding is used, to the Joint Strategic Needs Assessment for their local population (Understanding Herefordshire), and existing commissioning plans for both health and social care (overseen by the Health and Wellbeing Board). In addition local authorities must demonstrate 'how the funding transfer will make a positive difference to social care services, and outcomes for service users, compared to service plans in the absence of the funding transfer'.

10.14 The figure for Herefordshire is £3.152 million, compared to £2.274 million in 2012/13.

DH Local Reform and Community Voices Grant

10.15 On 19 December a new specific grant was announced. The Local Reform and Community Voices Grant will total £42 million in 2013/14 and £43 million in 2014/15. This grant is comprised of five funding streams:

- additional funding for Deprivation of Liberty Safeguards (DOLS) in Hospitals;
- additional local Healthwatch funding;
- funding for the transfer of Independent Complaints Advocacy Services (ICAS) to local authorities;
- funding for the transfer of Independent Mental Health Advocacy (IMHA) to local authorities; and
- funding for the veterans Guaranteed Income Payments (GIPs) social care charges exemption.

10.16 The provisional allocations for Herefordshire are £154k in 2013/14 and £159k in 2014/15.

Capital Grant Allocations

10.17 Known grant funding allocations for 2013/14 are:

Local Transport Plan	(£11.376m)
Borders Broadband	(£3.0m)
Destination Herefordshire	(£1.055m)
Marches Redundant Building Grant Scheme	(£0.75m)
Disabled Facilities Grant	(£0.674m)
Community Capacity Grant	(£0.474m)
Regional Growth Fund	(£1.3m)

10.18 The Local Transport Plan (LTP) grant funding includes £1.584 million roads maintenance funding announced in the 2012 autumn statement. This additional funding has been allocated for essential maintenance to renew, repair and extend life of the highway network in England. The amount allocated is based on the County's road length. This added to the

original LTP funding allocation represents an increase in funding from 2012/13. However the total funding for 2013/14 is less than 2010/11 funding allocation of £12.489 million.

- 10.19 The Community Capacity Department for Health capital grant represents funding to support development in three key areas: personalisation, reform and efficiency and has been held constant in real terms for 2013/14 with the distribution based on the total adults social care relative needs formulae.
- 10.20 The council is waiting for grant allocations from the Department of Education which are expected in January 2013.

Local Authority Central Services Equivalent Grant (LACSEG)

- 10.21 Government is changing the way it funds the statutory duties that local authorities perform in order to deliver education. The grant reflects the increasing move by central government to reduce the amount spent on central services because of the growth in academy status schools that are independent of local authorities.
- 10.22 Details of the LACSEG transfer to establish the new Education Services Grant from 2013/14 have been announced. This will be allocated to local authorities and academies according to the number of pupils for whom they are responsible. In 2013/14 the national amount transferred out will be £1.04 billion. In 2014/15 the amount is £1.03 billion.
- 10.23 The new grant will be paid for all pupils aged 3 to 19 in state-funded schools, including maintained schools, academies and free schools. In 2013/14 the single, national per-pupil rate will be £116 for local authorities. Local authorities will also receive £15 for every pupil in the local authority area, for the statutory duties which do not transfer to academies. Provisional 2013/14 Education Services Grant allocations for local authorities will be confirmed early in 2013.
- 10.24 The impact on Herefordshire is that £1.043m of central education funding is passported to academies in 2013/14.

Council Tax Freeze Grant

- 10.25 Details of the council tax freeze for 2013/14 for England, first announced by the Chancellor on 8 October 2012, were also published. A local authority will be eligible for the grant providing it does not increase the basic amount of council tax in 2013/14, compared to 2012/13. The grant will be equivalent to a 1% increase in the 2012/13 average Band D amount multiplied by the council tax base for 2013/14.
- 10.26 Providing the 2013/14 council tax is frozen or reduced, the grant will be paid in each of the financial years 2013/14 and 2014/15. DCLG will be writing to local authorities with more details on the way in which the council tax freeze will operate and has publishing indicative allocations. The indicative figure for Herefordshire is £875k. Cabinet has agreed that for planning purposes we assume a Council Tax increase of 1.9%

Council Tax Referendum Principles

- 10.27 In a written ministerial statement DCLG announced details of the proposed principles which will be used to determine whether a council tax increase in England for 2013/14 is excessive and therefore whether a referendum would be triggered. In 2013/14 the Communities Secretary, Eric Pickles MP, proposes to set the threshold at a 2% increase level in the relevant basis amount of council tax for the majority of local authorities.
- 10.28 No referendum principle was set for parishes; however, he intends to revisit this issue next

year.

DRAFT MEDIUM TERM FINANCIAL STRATEGY

- 10.29 The Council's Medium Term Financial Strategy (MTFS) covers the period from 2013/14 to 2015/16. The document is part of an integrated set of policy and delivery documents designed to match available resources to corporate priorities as set out in the Corporate Plan.
- 10.30 The draft MTFS sets out the specific Herefordshire context that includes our corporate funding position as well as changes to local government funding that have a greater than usual impact from April 2013 with the introduction of the new local government funding model based on business rates retention.
- 10.31 It includes a financial model covering estimates of future funding levels from central government along with the Council tax income.
- 10.32 The MTFS also contains the statutory statement that is required by the Local Government Act 2003. There is a duty placed on a Council's Chief Finance Officer to report to the Council when it is setting the budget. The Council is required to take this statement into account. The report must deal with the robustness of the estimates included as part of budget setting and the adequacy of reserves.
- 10.33 For 2013/14 the Council will need to make savings of nearly £10m in order to set a balanced budget. These are being delivered through the Root and Branch process agreed by Cabinet in April 2012 and will form part of the budget paper to Cabinet on 5 February 2013 prior to budget setting at Council on 18th February.
- 10.34 The Council Tax base will be set prior to cabinet receiving the draft budget on 5 February. The calculation of the base is complex for 2013/14 because of the new Council Tax reduction scheme that replaces Council Tax Benefit.

Financial Management and Reserves

- 10.35 A key part of the budget process is to ensure the Council has appropriate levels of reserves. This has taken on a greater significance because of the reduced level of government funding and the increased level of pressure on the Council's finances.
- 10.36 The current level of general reserve is £6.1m following the requirement to fund a small (£230k) overspend in 2011/12. This was the first time the Council has overspent in recent years and was evidence of the pressure on the revenue budget.
- 10.37 At £6.1m the reserve is approximately 4% of the revenue budget compared with the current policy to maintain a general reserve of at least 3% of net revenue budget (£4.5 million). However given the pressures outlined elsewhere in the agenda the MTFS proposes that over the next two years the minimum level should be increased to 4%. In order to support this an additional £2 million contribution to the general reserve is included in 2013/14. However this may be used to replenish the projected overspend in 2012/13.
- 10.38 The Council has other reserves some of which relate to schools. The overall level of reserves is not excessive and the only other significant revenue reserve is £2.4m for the joint waste contract with Worcestershire. This indicates the Council must ensure it maintains an adequate level of reserve to meet any future financial challenge.

Cash Limits

- 10.39 In order to ensure there is clarity about budget management going forward it is proposed that a strict cash limit approach to budget management is adopted. This will see Directorates given an overall cash limit that is then broken down into detailed budgets. Directorates will be required to manage within the cash limits that will be agreed as part of the budget setting process. If an overspend is projected in the financial year they will submit detailed plans for sign off to demonstrate how they will adjust their budgets to ensure they remain within the cash limit.

11. Community Impact

- 11.1 The decision arising from the requirement to set a balanced budget within a reduced funding envelope means there is likely to be an impact on the community.

12. Equality and Human Rights

- 12.1 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

13. Financial Implications

- 13.1 The report covers the Provisional Local Government Funding Settlement that will determine our overall funding levels.

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 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 to those normally associated with any budget setting process. The following lists specific risks:
- a. Directorate Savings: the loss of funding requires a significant level of savings. There is a risk of slippage should unforeseen delays occur. Directorates' plans for

delivery of savings will need robust management, and action plans to ensure delivery. Contingency plans will form part of the process with regular monitoring by Directors and through the Leadership Team

- b. Local Government Resource Review: 2013/14 sees one of the most significant changes to funding for local government. The proposal to allow councils to retain a proportion of business rates rather than contribute to all rates the national pool creates risk if the level of rates income reduces. 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 with regular monitoring by Directors and through the Leadership Team.
- e. Council Tax Base: the level of council tax income is directly related to the number of properties that are required to pay council tax. The number of properties will be monitored over the year along with levels of payment.

16. Consultees

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

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. The survey was a postal survey to 4,125 households in the county; 1,346 responses were received, giving a response rate of 33%. 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. In total 21 events were held and 1427 people were engaged through the whole process. A report on Your Community Your Say has been published on the Council's Website and circulated to all Members.

It is following this up with a consultation on its budget principles and the service changes arising out of the reduction in funding.

Further information about the feedback and how this has influenced the budget process will be included in the report to Cabinet on 5 February 2013.

17. Appendices

- 17.1 Medium Term Financial Strategy (Appendix A)

18. Background Papers

None identified.