

CABINET

20 December 2011

Budget 2012/13 and Medium Term Financial Plan

Report of the Strategic Director for Resources

STRATEGIC AIM:	ALL		
KEY DECISION	YES	DATE ITEM FIRST APPEARED ON FORWARD PLAN	September 2011

1. PURPOSE OF THE REPORT

1.1 To agree budget proposals for 2012/13 for consultation.

2. RECOMMENDATIONS

That Cabinet approves for consultation:

- 2.1 the General Fund Budget 2012/13 and MTFP 2012/13 to 2017/18 as per Appendices 1A, 1B, 1C and 1D
- 2.2 the savings target of £600,000
- 2.3 the indicative Directorate budgets per Appendices 2, 3 and 4
- 2.4 the indicative capital programme for 2012/13 shown at Appendix 5

3. REASONS FOR THE RECOMMENDATIONS

3.1 The Council is required to undertake consultation on its budget proposals prior to setting the budget and Council Tax for 2012/13 in February 2012.

4. BACKGROUND

- 4.1 2012/13 will be the second year of the current spending review period, during which Local Government has faced unprecedented reductions in the level of funding it receives from central government.
- 4.2 The settlement for the current financial year was reduced by 14.3%. In response to this and other significant reductions in grant funding the Council developed a savings programme which reduced the 2011/12 budget by £3.3m.
- 4.3 Further savings have been identified in year and form the basis of the budget for 2012/13.

5. GENERAL FUND BUDGET 2012/13

5.1 Budgets have been drawn up for each portfolio and the proposed general fund budget for 2012/13 is shown within **Appendix 1**, with the directorate

summaries at **Appendices 2 to 4**. The structure of the budget fully reflects the One Council structure that has been in place since April 2011.

5.2 The starting point for the budget is the assumption that all existing services continue to be provided to the same standards as in the current year and the costs associated with this form the base budget for 2012/13. This has then been adjusted for known changes as identified as part of the Quarter 2 monitoring process.

5.3 Following the announcement of the local government finance settlement on 8th December, the budget and MTFP has been updated as far as possible with details of known and anticipated grants. There was little change in the settlement figures compared to the indicative figures published in December 2010:

- Formula grant - the settlement figure for 2012/13 represents an **11%** reduction compared with 2011/12.
- Specific non ring-fenced grants - allocations have been announced for the following grants for 2012/13:
 - ✓ Early Intervention Grant
 - ✓ Learning Disability & Health Reform
 - ✓ Preventing Homelessness
 - ✓ Housing Council Tax Benefit Admin
 - ✓ Council Tax Freeze Grant (see section 6 below)
 - ✓ Local Flood Grant
 - ✓ Extended Rights to Free Travel (School Travel)
 - ✓ New Homes Bonus (see paragraph 7.4 below)

5.4 The base budget has been adjusted to reflect a savings target of £600,000 for 2012/13. Detailed proposals will be presented as part of the budget consultation.

5.5 A balanced budget has been produced, assuming the savings target is approved and is delivered.

6 COUNCIL TAX FREEZE GRANT 2012/13

6.1 The Government has recently announced that for the second year running a council tax freeze grant will be paid to those Local Authorities that do not increase council tax for 2012/13. The grant will be equivalent to a 2.5% council tax increase, which for Rutland is £0.520m. The key difference with the offer for 2012/13 is that the grant is payable for one year only. This means that from 2013/14 £0.520m will have been lost from council tax income, and over the life of the MTFP this equates to £2.6m.

6.2 As a result of this offer, the key decision for Rutland County Council in setting its budget for 2012/13 is whether to accept the council tax freeze grant. This report has been prepared on the basis that both options are being explored and this will form the basis of the budget consultation.

7 MEDIUM TERM FINANCIAL PLAN (MTFP)

7.1 The Council approved a MTFP as part of its budget setting process for 2011/12 and this has been updated and reported to Cabinet as part of Quarter 1 and Quarter 2 Financial Monitoring. The plan has been rolled forward to cover the period from 2012/13 to 2016/17.

7.2 As outlined above, a balanced budget is proposed for 2012/13, however in producing the budget the MTFP has been used to look beyond next year to ensure that actions taken now will not adversely impact the financial position of the Council over the 5 year period.

7.3 The objectives of the medium term financial plan are:

- a) To ensure that the Council's Strategic Aims and Objectives can be delivered.
- b) To ensure commitments do not exceed forecast resources over the period and for each individual year.
- c) To manage the resources available effectively and to ensure the budget agreed is aligned with the Council's priorities.
- d) To ensure local council tax increases are not excessive and capping is avoided.
- e) To ensure the Council maintains a realistic level of general reserves to meet unforeseen events

7.4 The MTFP, covering the next 5 years, provides a framework against which the budget for 2012/13 and any future decisions can be considered. The current MTFP shows the baseline position, assuming a continuation of existing services with allowances for service pressures, inflation and planned savings for 2012/13 built in:

- Inflation is assumed to increase costs by 2% per annum on average except for pay awards, fuel (8%) and energy (8%)
- Allowance is made for known national insurance and pension costs increases from 2012/13 to 2014/15 and estimates for the years 2015/16 and 2017/18.
- The settlement figures for 2012/13 are included and further reductions in grants have been assumed for the following 2 years at the national level. For the last 3 years of the plan it is estimated that there will be no further reduction in the settlement.
- The New Homes Bonus is based on the net increase in the number of dwellings (additions less demolitions), with extra bonus for affordable homes, empty homes brought back into use and local authority owned and managed gypsy site pitches. The calculation of the bonus receivable uses the projected house completions provided by Planning Services. The MTFP assumes 60% achievement of these numbers to allow for delayed/non-completion. We have made a nil assumption regarding affordable homes. Each additional property attracts a grant of £1,466 per year for 6 years, a total of £8,800 per property from 2011/12. The total impact over for the 2 known years to date on the MTFP is income of £1.423m.
- Fees and charges have been increased each year in line with increases in the previous year's council tax rise (2012/13 based on Council Tax freeze grant equivalent to a 2.5% increase in 2011/12).
- Capital receipts from asset sales are estimated to be £3m over the life of the plan.
- Capital investment in the region of £2m will be required over the life of the plan for the Digital Rutland and Ashwell Business Park projects, if appropriate approval is received. The MTFP assumes that this is funded from prudential borrowing.

- As a result of the previous 2 points, it is assumed that the Council will maintain its external borrowing at current levels throughout the 5-year period of the MTFP and will manage its cash reserves to optimise interest receivable while minimising risk in line with its existing treasury management strategy.

7.5 There are 4 options in respect of the MTFP and the levels of council tax increase. These are set out in the table at **Appendix 6**.

7.7 While the MTFP provides a useful modelling tool that can be used to demonstrate the effect of a range of variables on the Council's financial stability over the medium term, the national economic situation makes this a period of great uncertainty. There remain a number of financial risks that cannot be quantified with a great enough degree of accuracy to include them within the MTFP:

- The increasing number of schools that are choosing to convert to **Academies** remains a risk for the Council. The Government has confirmed it will not be re-opening the 2011/12 settlement but is currently consulting for a second time on how to transfer money from local government to Academies in 2012/13. This means that the final settlement in early 2012 could be reduced.
- The Government have stated that they are committed to ensuring that the **New Homes Bonus** remains a flexible, non-ringfenced fund, for local communities to spend as they see fit – from reinvesting it in housing or infrastructure, support local services or local facilities, or using the funds to keep council tax down. However, there have been several press articles recently which refer to the bonus as 'money for councils to help them build new homes'. There has also been criticism of councils who have used the funding to meet their overall budget requirements. There is a risk that this will put increasing pressure on the council to spend this money on delivering new homes, therefore reducing income available to the revenue budget.
- There is a legal challenge underway in respect of social care **contractual inflation** not awarded in 2011/12. An allowance for inflation has been included from 2012/13 onwards but until the outcome of the challenge is known, the impact cannot be included within the MTFP. The maximum risk is estimated at £100k in 2011/12 but this would then adjust the base budget across the life of the MTFP.
- The Government has recently consulted on the **Localisation of Council Tax Benefit**. The current proposals will see a reduction in funding to RCC of approx £200k (10%). Pension age claimants and vulnerable people need to have their current levels of benefit maintained meaning the 10% reduction will need to be shared amongst a small proportion of claimants. The council may wish to consider funding the benefits gap.
- The Government is currently consulting on a proposal to allow Local Authorities to retain Business Rates from 2013/14 as part of the **Local Government Resource Review**. This review could give local authorities more freedoms over the discounts offered to businesses,

but this will have to be funded by the local authority. It is unclear at this stage what impact this may have on the MTFP. There is also a risk that other funding streams, such as New Homes Bonus are affected by this review.

- The MTFP assumes that all **service pressures** can be contained within the forecast budgets. Historically, the trend has been total annual budgetary growth of £0.5m. There is a risk that if a one off pressure occurs such as a high cost care packages, this will have to be funded from reserves as there will be no capacity within the budget.

7.8 In light of the significant level of uncertainty highlighted in 7.7 above, as part of the formal council tax setting in February 2012, the Council's Section 151 Officer will be recommending that the minimum level of balances is revised to £2m to strengthen the Council's ability to respond to unforeseen circumstances.

7.9 The MTFP for 2012/13 to 2017/18 will continue to be updated during the budget consultation period and presented to Cabinet and Council in February 2011 to provide the background for setting the 2012/13 budget and Council Tax.

8. CAPITAL PROGRAMME

8.1 An indicative three-year capital programme for 2012/13 to 2014/15 is shown at **Appendix 5**. The programme is based on known levels of external funding for capital schemes and an assessment of the resources likely to be available to the Council.

8.2 The level of Government funding to support capital expenditure announced as part of the settlement reduces over the three year period. No supported borrowing allocations have been made, with all capital funding being made as grants. Key points to note are:

- Devolved Formula Capital allocations have been announced for 2011/12 and 2012/13 only. This grant is passed directly to schools.
- No capital allocations have been announced by the DfE yet, this is expected in December.
- It is assumed that the grants for Disabled Facilities and Home Repair Improvement continue however this has not yet been confirmed.
- Highways grants of £1.6m for 2012/13 have been confirmed. These grants are not ring-fenced.

8.3 While the Council will continue to review its asset management plans and monitor market conditions to optimise any potential receipts from asset disposals, it is likely that when existing major schemes are completed the capital programme will be substantially smaller.

8.4 Cabinet is asked to approve the indicative capital programme for 2012/13 to 2014/15 at **Appendix 5** for consultation. Further detail on the Capital Programme and proposed schemes will be brought back to Cabinet at a later date.

9. CONSULTATION

9.1 Consultation on the proposed budget is planned to be held in January 2012 and will include the following elements:

- a) A meeting with representatives of the local business community
- b) A Public consultation meeting
- c) Meetings of each of the Scrutiny Panels

9.2 The outcome of the consultation will be reported to Cabinet in February to enable it to consider the views expressed when making its recommendation to Council on the budget.

10. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	The Council is on course to agree its budget and set its Council Tax for 2012/13 within the timetable required by statute
Viability	Low	The Council is required to set a balanced budget and retain general reserves at a reasonable level
Finance	Medium	The Council's resources are constrained by statutory rules and demands for its services continue to increase.
Profile	High	Service standards and the level of Council Tax attract high interest, both nationally and locally
Equality and Diversity	Low	An equality impact screening has been completed which indicates that a full equality impact assessment is needed. This will be completed following the budget consultation.

Background Papers
None

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