

REVENUE AND CAPITAL BUDGETS 2012/13

Submitted by: Executive Director (Resources and Support Services)

Portfolio: Resources and Efficiency

Wards(s) affected: All

Purpose of the Report

To review progress on the completion of the revenue and capital budgets for 2012/13 following agreement of the 5 year Medium Term Financial Strategy.

Recommendations

- (a) That the assumptions set out in the report be approved.
- (b) That the Cabinet recommend to Council that the revised minimum balances requirement be £1,500,000 with the excess of £350,000 above the current levels being transferred to the Contingency Reserve (£80,000), the Insurance Fund (£120,000) and the Provision for Bad Debts (sundry debtors) (£150,000)
- (c) That the Cabinet put forward their views on the level of Council Tax increase to be set for 2012/13.
- (d) That the Transformation and Resources Overview and Scrutiny Committee be asked to consider what comments it wishes to make on the draft Budget and Council Tax proposals before the final proposals are considered at Cabinet in February 2012.

Reasons

To enable the Cabinet to recommend a robust and affordable budget for 2012/13 to the Council meeting on 15 February 2012.

1. Background

- 1.1 The Council is committed to achieving excellence in its service delivery. Integral to this ambition is the need to effectively target its financial resources in line with its stated aims and objectives. The Council has developed a Medium Term Financial Strategy (MTFS) to look at its financial position over the next 5 years. This is aligned to the Corporate Plan and will be the main vehicle in ensuring efficiency in service delivery and targeting resources to its priority areas.
- 1.2 The draft 2012/13 budget is based upon the assumptions made in the MTFS which was approved by the Cabinet at its meeting on 19 October 2011.
- 1.3 The MTFS and the draft 2012/13 Budget have been compiled against a national picture of reduced funding from central government for local authorities, particularly district councils. This topic and the consequences flowing from it are discussed in more detail later in this report.

2. **Revised Budget 2011/12**

- 2.1 Monthly reports monitoring actual spending against budget have shown relatively small adverse variances throughout the first eight months of the year.
- 2.2 A major pressure affecting the current budget is that some sources of income (e.g. land charges fees, planning fees, market stall rents, commercial property rents, car parking fees) are yielding less compared to what would be expected to be received. All of these are areas that we predicted would be affected by the current economic situation when the 2011/12 Budget was set in February 2011 and accordingly an allowance of £200,000 was included in the budget to cover such eventualities. Although this allowance now seems insufficient to cover the likely total income shortfall for the year, there are a number of areas where spending is less than budgeted, which, if the trend continues, should to a large extent offset this.
- 2.3 Operating conditions are similar to those prevailing in 2010/11, when a small deficit of some £87,000 was the final outturn for the year. Taking account of the above factors it appears likely that the outturn for 2011/12 will not differ significantly from the budget.
- 2.4 It is apparent from this that the savings of £2.1m incorporated in the 2011/12 budget have been achieved. This means that altogether over the four years from 2008/09 to 2011/12 some £6.246m of net savings and efficiencies will have been made, as shown in the table below:

	£m
2008/09	0.601
2009/10	1.707
2010/11	1.821
2011/12	2.117

3. **Draft Budget 2012/13**

- 3.1 The MTFS was approved by the Cabinet on 19 October 2011. This illustrated that the Council would have a shortfall of £2.141m in 2012/13 which could be addressed by a combination of actions, such as efficiency measures, reductions in expenditure, increases in income, support from the Budget Support Fund and the Council Tax Freeze Grant.
- 3.2 Local authorities were informed of their allocations of formula grant (comprising Revenue Support Grant and National Non Domestic Rates Grant) for 2012/13 when they received notification of the amount for 2011/12 in January 2011. Formula Grant for 2011/12 was £8.285m, whilst the amount notified for 2012/13 is £7.315m, an 11.7% reduction. However there are no details of the formula grant amounts for the following years, so an assumption needs to be made about further reductions in respect of those years. Accordingly, the MTFS incorporates the known 11.7 per cent reduction in grant for 2012/13 and has assumed that there will be a further 5% reduction in 2013/14 and each of the next three years.
- 3.3 There have been a small number of changes, totalling an additional £480,000, required to the MTFS since its approval in October which means that the “gap” now stands at £2.621m for next year. The “gaps” for the following years remain unchanged. The changes relate to the following items:
- Notification has been received from the Government that the amount of Benefits Administration Subsidy for 2012/13 will be reduced by £60,000
 - There will be costs arising from holding the vacant sites of the former Jubilee Baths

and Knutton Sports Centre. An additional £50,000 has been included for this.

- Rules have changed in relation to business rates chargeable in respect of empty properties, which will mean the Council will incur some additional costs. An amount of £100,000 has been included for this, representing the current additional costs although these will fluctuate according to the number of Council owned empty properties, including commercially let premises, at any one time.
- Owing to the ongoing poor economic climate, uncertainties continue about income receivable from customers across various services. As already highlighted in paragraph 2.2, some sources of income continue to yield less than expected. In recognition of this, it is thought prudent to include a further £270,000 adverse movement in the revised MTFS.

The table below shows the factors which give rise to the “gap” for 2012/13:-

CHANGES TO BASE BUDGET	
<u>ADDITIONAL INCOME</u>	£'000
Fees and Charges	260
TOTAL ADDITIONAL INCOME (A)	260
<u>ADDITIONAL EXPENDITURE & LOSS OF INCOME</u>	
Loss of Revenue Support Grant and NNDR Grant	970
Pay Awards (employees earning below £21k)	61
Incremental Rises	65
Superannuation increase in employers contribution	131
Reduced Vacancy Factor allowance	65
Price Increases e.g. energy, fuel, rates, insurances, supplies & services	221
Loss of Investment Interest due to less capital available to invest	34
New pressures, including Ryecroft holding costs	204
Adjustments re One-Off items included in Base	282
Additional Items since MTFS approved in October 2011 (see 3.3 above)	480
TOTAL ADDITIONAL EXPENDITURE AND LOSS OF INCOME (B)	2,513
<u>USE OF BUDGET SUPPORT FUND IN 2010/11 BUDGET (C)</u>	368
NET INCREASE IN BASE BUDGET (B+C-A)	2,621

3.4 A number of proposals have been identified to bridge the £2.621m “Gap”. These comprise further savings arising from the Budget Service Review carried out last year and from The Way We Work Programme and other reviews of service provision carried out by the Executive Management Team. Some consist of savings in expenditure whilst others involve increasing income. These proposals total £2,098,000 and are set out below:

3.4.1 ***Leisure Services – Net effects of the closure of Jubilee 1 and Knutton and the opening of Jubilee 2 (£350,000)***

The net effect from transferring operations from two facilities into one at Jubilee 2 will result in efficiencies through a combination of cost savings and a significant increase in income.

3.4.2 Restructurings (£520,000)

A number of restructurings have recently been undertaken together with a further one that is proposed. These relate to the following sections:

Environmental Health (£80,000). The service has been restructured to enable more efficient working practices.

Operations (£90,000). The Streetscene Neighbourhood Teams have been reorganised into North and South allowing a reduction in management costs and in future more efficient deployment of plant and machinery.

Customer and ICT Services (£250,000). These two sections have been merged to enable more efficient ways of working.

Central Services (£100,000). A restructuring of Land Charges and Members Services Sections is currently being undertaken, enabling savings in staffing costs and related efficiencies.

3.4.3 Vacant Posts Review (£111,000)

A review has been carried out of posts which are currently vacant or will shortly become so and it is considered that the following can be frozen but kept under review:

- Payroll/HR Assistant (Post CC156)
- Audit Technician (Post BB15)
- Secretary/Admin Officer (Post BB2)
- Visiting Officer (Post CC208)
- Clerical Assistant (Post CC20)
- Administrative Assistant (Post DD8)

3.4.4 Housing Advice Contract (£50,000)

As part of the contract review process relating to the Newcastle Housing Advice Service, that enables the current arrangements to be extended by a further two years, Officers are negotiating with the service provider around matters that will reduce the budgetary requirement by £50,000. These will include both efficiency savings and changes to the delivery of the service.

3.4.5 Homelessness Prevention Schemes (£20,000)

Changes are being made to some of the Homelessness Prevention Schemes to ensure that those in greatest need are assisted and to ensure that the schemes are targeted more specifically at preventing homelessness; this has enabled a reduction of £20,000 in the budgeted service cost.

3.4.6 CCTV Shared Services (£10,000)

Officers are currently exploring the potential for alternative service delivery arrangements and anticipate being able to achieve an annual cost saving of around £10,000.

3.4.7 **Energy - Retendering of Contracts (£30,000)**

The Council has undergone a rigorous re-tendering process for the purchasing of energy up to the end of the financial year 2014/15 that is expected to deliver significant savings, despite the volatility of energy prices. At this stage officers are confident that this will achieve a saving of at least £30,000.

3.4.8 **Statutory Inspection Services (£20,000)**

Officers have reviewed the services that are procured relating to the various statutory inspection regimes (e.g. Electrical testing, Lift tests, Gas servicing, etc.) and are confident that a saving of £20,000 is achievable.

3.4.9 **Increases in Income (£409,000)**

- Summons and Distress Costs (£100,000). The proposal is to increase our charges in line with the levels charged by other authorities.
- Charges for use of accommodation (£230,000). Additional space will be occupied in the Civic Offices and Kidsgrove Customer Service Centre by partners of the Council. These include Staffordshire County Council and the Police. As a result there will be additional income from rents and service charges payable by them.
- Introduction of an environmental levy for cremations (£79,000). This is intended to cover the cost of providing and replacing mercury emission abatement equipment required to comply with environmental legislation. Elsewhere, several crematoria are already charging an additional charge to their standard cremation fee.

3.4.10 **Additional Homelessness Grant (£50,000)**

The Government has increased the amount of grant payable for homelessness services by £50,000. The Council has sought to maximise the investment in support services, particularly focussed around statutory homelessness, that are delivered through Third Sector Commissioning and Voluntary Sector Grants. Through planned investment in this approach the additional funding can be used to offset the costs of the Council's current service delivery arrangements.

3.4.11 **New Homes Bonus Grant (£394,000)**

This is a new grant, which over the next six years will provide a new source of funding to the Council. Most of this will not be additional income, however, as it replaces some grants already lost, e.g. Planning Delivery Grant, Local Authority Business Growth Incentive (LABGI) Grant and in future will be paid for by reductions in formula grant receivable by the Council. Payments will be made based on new homes built each year over the six years commencing in 2011/12. It is intended to provide local authorities with real incentives to deliver housing growth, to engender a more positive attitude to growth and create an environment in which new housing is more readily accepted and to enable the natural economic benefits of growth to be returned to the local authorities and communities where growth takes place.

The expected New Homes Bonus grant is around £777,000 in respect of the current and next financial year (2011/12 and 2012/13). It is proposed to use £383,000 of this to support the Housing Investment capital programme in 2012/13 (see separate report elsewhere on the agenda), which leaves £394,000 available to support the revenue budget in respect of housing services.

3.4.12 **Recycling (£119,000)**

Operational savings, as follows:

- Waiver of uplift upon extension of recycling contracts. Through waiving contractual inflationary uplifts over the next 2 years the contract price is in effect fixed over that period) (£74,000).
- Street sweeping recycling - extension of trial. A successful method of recycling street sweepings has been established, allowing savings on the cost of landfill and increased recycling credit income. (£15,000)
- Recycling Bring sites - transfer to recycling contractor. The move away from a range of different providers to a consolidated contract will improve the service provided and make cost efficiencies. (£30,000)

3.4.13 **Communications Service (£15,000)**

Savings will be achieved mainly through renegotiation of contracts in design and print services.

- 3.5 In bringing together all the above, this leaves a deficit on the draft budget of £523,000 as follows: -

	£'000	Report Reference
Changes to Base Budget	2,621	3.3
Savings/Increased Income	(2,098)	3.4
BUDGET SHORTFALL ('GAP')	523	

- 3.6 The government stated that they wished to see no increase in Council Tax for 2011/12 and in order to encourage local authorities to adopt this strategy, introduced a non-specific grant payable to those authorities which did not increase their council tax for 2011/12. It was paid at a rate equivalent to a 2.5 per cent increase in the authority's 2010/11 basic amount of council tax multiplied by its council tax base. For Newcastle, this resulted in a grant of around £171,000 being payable because the Council had no tax increase in 2011/12. This grant will continue to be paid for 2012/13 and the following two years.

- 3.7 Therefore, the revised Budget Shortfall ("Gap") is £352,000 (Budget shortfall of £0.523m as shown at paragraph 3.6 less the continuation of the council tax freeze grant of £0.171m).

4. **Council Tax Levels**

- 4.1 The "gap" of £371,000 could be met by a combination of council tax increases and a contribution from the budget support fund. To help the Cabinet to consider the options, the following table sets out a range of council tax increases and the money that would be raised with the balance that would be taken from the budget support fund:

Increase	Amount Raised (from Council Tax)	Budget Support Fund
%	£'000	£'000
0	0	352
0.5	34	318
1.0	69	283
1.5	103	249
2.0	138	214
2.5	173	179
3.0	207	145

4.2 The government again wish to see no increase in Council Tax for 2012/13 and are once more offering to pay a non specific grant to those councils which do not increase their council tax for 2012/13. The basis is the same as for the 2011/12 grant in that it will be paid at a rate equivalent to a 2.5 per cent increase in the authority's 2011/12 basic amount of council tax multiplied by its council tax base. For Newcastle, this would result in a grant of around £173,000 being payable. However, this grant will be a one-off grant payable only in 2012/13 and will not continue to be paid after that year, unlike the grant relating to 2011/12 which is payable for three more years after 2011/12.

4.3 If the Council decides to make no increase to Council Tax, the amount required from the Budget Support Fund would be £179,000 (£352,000 gap figure less the grant of £173,000). The balance that will be available in the Budget Support Fund at 1 April 2012 is estimated to be around £725,000.

5. Medium Term Financial Strategy - 2012/13 to 2016/17

5.1 The MTFS is being continually reviewed for 2012/13 to 2016/17. The current anticipated shortfalls need to be addressed by a combination of efficiency measures, better procurement, Council Tax increases and support from the budget support fund. Work is already ongoing by your officers to identify solutions.

5.2 The current shortfalls are estimated as:

- £0.709m in 2013/14
- £0.696m in 2014/15
- £0.673m in 2015/16
- £0.718m in 2016/17

Further to the above, any use of the Budget Support Fund in 2012/13 will also have to be found. In addition, as the council tax freeze grant is only a one-off for 2012/13 a further £173,000 would have to be added to the shortfall for 2013/14.

5.3 There are a number of projects being looked at to ensure the delivery of excellent customer service, to provide greater value for money for citizens and businesses, and to identify the efficiencies required to bridge these financial shortfalls.

5.4 Further reports to address these gaps will be brought to the Cabinet over the next few months as a priority.

6. Capital Programme 2011/12 - 2012/13

6.1 Attached as an Appendix is the updated capital programme 2011/12 to 2012/13 based on current commitments and agreed schemes plus a number of new schemes which are vital to

ensure continued service delivery. There is clearly a direct link with the revenue budget as there may be revenue implications arising from new capital projects and the requirement to spend capital funds will lessen the ability to earn interest on the cash that is invested. It is therefore vital that the revenue and capital budgets are integrated.

- 6.2 Continuation of the capital programme beyond 2012/13 is dependent upon the achievement of a programme of receipts from the disposal of surplus assets. It is essential that sufficient capital receipts are generated from these asset sales to enable essential capital investment to take place.
- 6.3 The Council's overall capital strategy was most recently updated in February 2011. A further updated strategy, covering the period 2012 to 2015, together with an updated asset management strategy, is included elsewhere on your agenda.
- 6.4 The Capital Strategy position is set out in section 11 of the Strategy and it is worth highlighting the points set out in paragraphs 11.1 to 11.5:

"11.1 During the period covered by this Strategy, there will be a need for some items of capital investment to be made in order to ensure continued service delivery or to comply with statutory requirements or to ensure health and safety of staff and public. Examples of these include: operational building repairs and maintenance; replacement of vehicles, plant and equipment required to deliver services; disabled facilities grants.

11.2 Funding for additional projects not essential to operational continuity will depend on capital receipts from asset sales.

11.3 Work is ongoing to compile a basic programme containing those projects which it can be foreseen will be necessary to ensure service delivery or to comply with statutory requirements or ensure health and safety. The programme will also contain projects which are fully funded by external parties and which meet corporate priorities. The overall size of the programme will be determined by the resources estimated to be available to fund it.

11.4 It will be essential to apply a robust prioritisation process to determine which projects are included in the capital programme and are subsequently proceeded with. No projects should be considered in isolation. They must be required to be measured against all other competing projects to determine which should go forward. This process should also apply to any projects which are proposed subsequent to the approval of the programme, to ensure that only those projects with a high priority are proceeded with and funds are not diverted to projects of a lesser priority.

11.5 Funding for this basic programme is likely to be available to some extent from the following sources:

- *Further capital receipts from asset sales*
- *Right to Buy capital receipts*
- *Government grants*
- *Other external contributions*
- *Internal lease repayments*

The present assumption is that there will be no borrowing.

All of the above funding sources are likely to be limited so the programme can only include affordable basic projects."

6.5 Consideration has been given to requirements for essential plant and equipment replacements, buildings repairs and maintenance and other work which will be needed over the next few years to enable services to be continued at acceptable levels. A number of these schemes have been included in the proposed capital programme and are set out in the Appendix.

7. **Balances and Reserves**

7.1 The Council's Balances and Reserves Strategy for 2011/12 is that there should be a minimum General Fund balance of £1.75m and a Contingency Reserve of £100,000. The Council currently holds these reserves.

7.2 A review of all the Council's Balances and Reserves together with a risk assessment has been undertaken for inclusion in the final report on the budget to the Cabinet on 8 February 2012 and the full Council on 15 February 2012.

7.3 The review and risk assessment indicate the following:

- Reserves balances have reduced from historically high levels. Most of the reserves are still adequate to meet normal levels of expenditure. However, with the exhaustion of the Change Management Fund and the Organisational Development Fund in 2010/11, there is no longer a specific reserve which is available to meet future costs of restructuring, such as redundancy or pensions actuarial strain payments, if the Contingency Reserve is to retain its minimum balance of £100,000 (it was £114,000 at 31 March 2011). Also, the Insurance Fund balance will be insufficient to meet the cost of premiums and claims from 2012/13 onwards, with the shortfall indicated for 2012/13 being around £120,000.
- It would be prudent to increase the Provision for Bad Debts in respect of sundry debtors in view of the current adverse economic climate. The provision currently has a balance of £506,000.
- The level of minimum balances required after considering the risk assessment has reduced to £1.50m. This is due to a number of factors, but chiefly the expiry of the date for single status appeals to be registered and the reduction in the risk relating to loss of interest arising from rate reductions because the amount of interest included in the budget is now much lower than it was and the use of the revised methodology for assessing risks approved by the Audit and Risk Committee on 28 June 2011.

7.4 It is proposed, therefore, to reduce the amount held as a minimum balance by £350,000 and to use this amount to top up the Insurance Fund by £120,000, the Contingency Reserve by £80,000 and the Bad Debts Provision in relation to sundry debtors by £150,000.

8. **Legal and Statutory Implications**

8.1 The Council is required to set its Council Tax for 2012/13 by 11 March 2012. However, it is planned to approve the final budget and council tax rates on the 15 February 2012.

9. **Risk Statement**

9.1 Section 25 of the Local Government Act 2003 places a duty on the Chief Finance Officer to report on the robustness of the budget. The main risks to the budget include:

- Spending in excess of the budget.

- Income falling short of the budget.
- Unforeseen elements e.g. changes to legislation or reductions in government grants.

9.2 Such risks require regular and careful monitoring and it is essential that the Council has sufficient reserves to call on if required (see Section 7 above), for example the Council has a General Fund balance sufficient to cover foreseen risks.

10. **Budget Timetable**

10.1 The current timetable for the setting of the 2012/13 budget and Council Tax levels is:-

Date	Meetings
18 January 2012	Transformation and Resources Overview and Scrutiny Committee to consider this report.
1 February 2012	Final report to Cabinet taking into consideration the views of the Scrutiny Committee
15 February 2012	Full Council to approve Budget and set Council Tax levels

11. **Earlier Cabinet Resolutions**

Medium Term Financial Strategy 2012/13 to 2016/17 - 19 October 2011.

12. **List of Appendices**

Appendix – Capital Programme 2011/12 - 2012/13.