

REVENUE AND CAPITAL BUDGETS AND COUNCIL TAX 2012/13

Submitted by: Executive Director (Resources and Support Services)

Portfolio: Resources and Efficiency

Wards(s) affected: All

Purpose of the Report

This report sets out the recommendations of Cabinet for the Revenue and Capital Budgets for 2012/13 and later and sets out the recommendations for setting the 2012/13 Council Tax.

Recommendation

That the Council approve the recommendations set out in Appendix A.

1. Background

1.1 This report is the culmination of the 2012/13 budget process, which started before the current 2011/12 budget was set. The Cabinet and the Transformation and Resources Overview and Scrutiny Committee (TROSC) have already considered the content of the 2012/13 Budget together with detailed reports concerning Council Tax options and the consequential overall budget level and the resultant Council Tax which is recommended. At its meeting on 1 February 2012 the Cabinet considered the comments of the TROSC of 18 January. After considering the various comments made the Cabinet recommend an unchanged Council Tax for this Council in 2012/13 of £176.93 (based on Band D), supporting a net Revenue Budget after use of reserves of £14,260,980.

2. General Fund Budget 2011/12 – Projected Out-turn

2.1 Monthly reports monitoring actual spending against budget have shown only small variances throughout the first nine months of the year.

2.2 Pressures affecting the current budget include:

- Low levels of investment income owing to reduced interest rates obtainable within the current economic climate
- some sources of income (e.g. land charges fees, planning fees, market stall rents, commercial property rents, car parking fees) which are yielding less compared to what would be expected to be received in a more buoyant climate. 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.

2.4 Taking account of the above factors it appears likely that the outturn for 2011/12 will not differ significantly from the budget.

3. **Revenue Budget 2012/13**

- 3.1 Excluding levies for Town and Parish Councils the recommended Borough Council Tax for a 'Band D property' remains at £176.93, the same level as in 2011/12.

	Estimated Expenditure £	Rate of Council Tax (Band D) £ p
Borough Council requirements		
–	14,260,980	364.40
Total Net Expenditure	<u>7,315,910</u>	<u>186.94</u>
Less: External Support	6,945,070	177.46
Collection Fund Surplus 2011/12	<u>20,700</u>	<u>0.53</u>
	<u>£6,924,370</u>	<u>£176.93</u>

Appendix 'B' sets out the budget summarised over services. Copies of detailed budgets are available on request.

In addition to the basic Council Tax we are required to levy additional charges in the following parishes. These are shown below:

<u>Parish</u>	<u>Rate of Council Tax (Band D) £ p</u>
Audley	17.41
Betley, Balterley and Wrinehill	17.65
Chapel and Hill Chorlton	15.23
Keele	19.73
Kidsgrove	14.77
Loggerheads	21.46
Madeley	53.50
Maer	18.64
Silverdale	7.99
Whitmore	21.12

The above levies are based on the requirements supplied by the parishes, all of which have forwarded their official precept demands to the Council.

4. **Medium Term Financial Strategy and Budgets for 2012/13**

- 4.1 Members will recall that the Council's Medium Term Financial Strategy (MTFS), as reported to Cabinet on 18 January 2012, forecast a budget shortfall of £2.621m for 2012/13, with additional shortfalls of £0.709m for 2013/14, £0.696m for 2014/15, £0.673m for 2015/16 and £0.718m for 2016/17. Officers are examining the implications of this for future budgets and will carry out an update of the MTFS and report to Cabinet in the new financial year to enable members to consider a budget strategy to bridge the predicted gap.
- 4.2 The 'gap' between expenditure and resources for 2012/13 of £2.621m arises from the factors set out in the table below:-

<u>CHANGES TO BASE BUDGET</u>	
<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:	
Reduced Housing Benefits Administration Subsidy	60
Holding costs re vacant Jubilee 1 and Knutton Recreation Centre sites	50
Additional Business rates chargeable on empty properties	100
Adverse Income Movements	270
TOTAL ADDITIONAL EXPENDITURE AND LOSS OF INCOME (B)	2,513
<u>USE OF BUDGET SUPPORT FUND IN 2011/12 BUDGET (C)</u>	368
NET INCREASE IN BASE BUDGET (B+C-A)	2,621

4.3 In addition the Council also has a medium term capital programme. Details of this can be found in Appendix E to this report.

4.4 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:

4.4.1 ***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 is forecast to result in an increase in income of around 40% above the current budgeted income for Jubilee 1 and Knutton Recreation Centre.

4.4.2 ***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.

4.4.3 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)

4.4.4 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.

4.4.5 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.

4.4.6 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.

4.4.7 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.

4.4.8 **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.

4.4.9 **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.

4.4.10 **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.

4.4.11 **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, which leaves £394,000 available to support the revenue budget in respect of housing services.

4.4.12 **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)

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

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

- 4.5 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	4.1
Savings/Increased Income	(2,098)	4.4
BUDGET SHORTFALL ('GAP')	523	

- 4.6 At the time the 2011/12 budget was set, in February 2011, the government stated that they wished to see no increase in Council Tax for 2011/12. In order to encourage local authorities to adopt this strategy, a non-specific grant payable to those authorities which did not increase their council tax for 2011/12 was introduced. 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.
- 4.7 Therefore, the revised Budget Shortfall ("Gap") is £352,000 (Budget shortfall of £0.523m as shown at paragraph 4.5 less the continuation of the council tax freeze grant of £0.171m).
- 4.8 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. 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. No increase in the council tax for 2012/13 is proposed, therefore, the Council will be eligible to receive this £173,000 grant.
- 4.9 The government have now notified the Council of the final amount of its formula grant for 2012/13. This is the same as was notified as the provisional settlement figure, i.e. a decrease of £969,996 compared with 2011/12, which represents an 11.7% reduction.

5 Balances and Reserves

- 5.1 The Council's Balances and Reserves Strategy currently states 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. Appendix C sets out the estimated balances on the Council's reserves as at 31 March 2011.
- 5.2 A review of all the Council's Balances and Reserves together with a risk assessment has been undertaken and indicates 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.
- 5.3 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.
- 5.4 Based on these minimum levels of reserves being sustained the Executive Director (Resources and Support Services) is of the opinion that the Revenue Budget is robust and that the Council's Revenue Reserves are adequate to support it based on the assumptions set out in this report.
- 5.5 It is proposed to use £179,000 from the Budget Support Fund to support the 2012/13 Budget.
- 5.6 Therefore, the total budget shortfall of £2.621m highlighted in paragraph 4.1 will be funded as follows:

	Amount £'000	Report Reference
Savings	2,098	4.4
Use of Budget Support Fund	179	5.5
Council Tax Freeze Grant re 2011/12	171	4.6
Council Tax Freeze Grant re 2012/13	173	4.8
TOTAL	2,621	

6 **Consultation**

- 6.1 The preparation of the budget has continued to be informed by the results of the Simalto survey. It was designed to make the Council aware of the public's view of levels of service and their preferences with regard to the budget provision to be made for different services. This exercise also assisted in the formulation of the Council's corporate priorities. A number of options are actively being considered to engage stakeholders and obtain their views in relation to the 2013/14 budget, including online surveys made available via the Council's website.
- 6.2 The Medium Term Financial Strategy and the budget proposals have also been considered by the Transformation and Resources Overview and Scrutiny Committee at their meetings on 2 November 2011, 18 January 2012 and 25 January 2012. The Chair fed back the Committee's comments to the Cabinet at their meeting on 1 February 2012.

7. **Risks**

- 7.1 Appendix D shows the risk assessment in relation to the 2012/13 General Fund Revenue Budget.

8. **Capital Programme 2011/12 - 2012/13**

- 8.1 The Capital Programme 2011/12 - 2012/13, recommended by Cabinet, is attached at Appendix E, together with a summary of the proposed financing of the Programme. This contains projects directed towards meeting the Council's corporate priorities, as reflected in its Capital Strategy. The revenue consequences of the Capital Programme have been incorporated in the 2012/13 Revenue Budget.
- 8.2 The Chartered Institute for Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance, which the Council has adopted, requires the calculation of a Prudential Indicator in relation to the capital programme. This is to demonstrate the incremental impact of capital investment decisions upon the council tax, in other words what the additional cost to the General Fund Revenue Account will be as a result of carrying out the projects contained in the proposed capital programme, compared to the situation which existed based on the programme approved at last year's council tax setting Council meeting. The Indicator shows that the incremental impact is estimated to be £54,826 (in a full year once the projects are complete and operational), which equates to a council tax levy of £1.40, using the current council tax base for calculation purposes. This is based on reduced capital expenditure of £1.517m (net of grants and contributions), owing to the contribution by Staffordshire County Council of 75% of the cost of the Ryecroft acquisition, which had not been secured when the previous capital programme was approved, and the consequent effect on interest earnings at current rates, resulting from the use of capital receipts or reserves. In addition, the holding costs of £70,000 in relation to the Ryecroft site have been taken account of in the calculation. Provision has been made in the 2012/13 budget for the cost of funding the capital programme in terms of reduced interest as a result of using capital receipts and reserves arising from the profiled capital spend.

9. **List of Appendices**

Appendix A - Recommendations

Appendix B - Revenue Budget 2012/13

Appendix C - Estimated Reserves at 31 March 2012 and 2013

Appendix D - Risk Assessment

Appendix E - Capital Programme 2011/12 to 2012/13, including financing of expenditure