

CABINET - 9 NOVEMBER 2011

THE OVERVIEW & SCRUTINY COMMITTEE - 14 NOVEMBER 2011

GENERAL FUND BUDGET CONSULTATION 2012/13

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

[CAB2125: Budget and Council Tax 2011/12, 9 February 2011](#)

[CAB2175: Revenue Outturn 2010/11, 6 July 2011](#)

[CAB2202: Financial Strategy 2012/13 to 2014/15, 6 July 2011](#)

[CAB2211: General Fund Revenue Budget – Revised Estimate 2011/12, 14 September 2011](#)

[CAB2212: Capital Strategy and Programme 2011/12 – 2014/15, 12 October 2011](#)

EXECUTIVE SUMMARY:

In accordance with the Financial Strategy approved in July, this report gives an opportunity to comment on the General Fund Budget for 2012/13. At the current time there is an unprecedented volume of proposed changes being consulted upon by the Government leading to a great amount of uncertainty, although it is already clear that the Council will need to continue to identify substantial efficiencies and savings.

The views of The Overview & Scrutiny Committee and other consultees will be welcomed, as will be any ideas for additional opportunities for increased income and

further savings.

The Budget position should be considered in the context of the Winchester District Sustainable Community Strategy and the consultation draft of Change Plans. Capital budget requirements are also being considered elsewhere on this agenda (CAB2251 refers). At this stage, no firm proposals are being presented, and it is not the intention to present a balanced budget. Rather, Members are asked to consider the position and provide any comments or proposals for achieving a balanced budget for 2012/13.

Consultation will take place alongside the planned consultation on the update of the Change Plans, with The Overview & Scrutiny Committee; with parish and town councils; the Winchester Town Forum; the business community, and the Winchester District Strategic Partnership.

Cabinet will give further consideration to proposals, taking account of this consultation, Government support and other information, as part of finalising next year's budget in the New Year.

RECOMMENDATIONS:

That Cabinet:

Confirms this report to be considered in the context of the Winchester District Sustainable Community Strategy and the Change Plans, to be the basis of budget consultation.

That The Overview & Scrutiny Committee:

Provides comments to Cabinet on the Budget and makes any proposals they think should be considered.

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REPORT OF HEAD OF FINANCE

1. Introduction

- 1.1. The Council's Financial Strategy which was approved in July set out proposals for how it would support the achievement of the Council's priorities and the broader outcomes set out in the Winchester District Sustainable Community Strategy by seeking to match available resources to priorities.
- 1.2. That report also set out the key stages of the timetable to achieve the statutory timescales for the setting of the Council's annual Budget and Council Tax within the statutory timescales, for approval in February 2012.
- 1.3. This report follows the approval of the Financial Strategy in July (CAB2202), the Revised Estimate for 2011/12 in September (CAB2211), and the Capital Strategy and Programme in October (CAB2212), and now provides an update on the emerging Budget issues. This report should be read alongside the Capital Budget Requirements report elsewhere on this agenda (CAB2251) and the consultation draft Change Plans (CAB2249).
- 1.4. This report does not address budget options for the Housing Revenue Account (HRA) which will be considered separately.
- 1.5. The Overview and Scrutiny Committee now has an opportunity to comment on the General Fund Budget for 2012/13. The Cabinet will consider The Overview and Scrutiny Committee's comments along with other comments from business leaders, our partners in the Winchester District Strategic Partnership, the Town Forum and parish councils.
- 1.6. The preferred options, taking account of ongoing discussions and consultation over the coming weeks, will be presented as proposals in due course. Cabinet will consider any comments made alongside its further consideration of budget options, to take account of Government support, Council Tax, the revenue cost implications of the capital programme, and other information, as part of finalising the budget before making recommendations to Council in February.
- 1.7. The Overview and Scrutiny Committee will have a further opportunity to consider the Budget in the January cycle.

2. Setting the Baseline

- 2.1. Although a 3 year balanced budget was set in February, in year monitoring identified budget pressures that led to revisions, necessary to maintain a balanced budget for the current year. A Revised Estimate was approved in September although there still remain cost pressures that are being monitored (CAB2211 refers).
- 2.2. The rate of Consumer Prices Index (CPI) inflation was 5.2% in September (the highest since September 2008) and the Retail Prices Index (RPI), which includes mortgage interest payments, was 5.6%, the highest annual rate since June 1991. The Office for National Statistics explained the increases in CPI were largely caused by increases in gas and electricity charges and transport. The Council's Financial Strategy stipulates, as in previous years, no inflationary increases will be added to any expenditure budgets other than contractual commitments. The estimated cost of contract inflation for 2012/13 is between £400,000 and £500,000.
- 2.3. Employee pay has been frozen at the pay scales effective at 1 April 2009, although there are some increases in relation to incremental progression. The unions have requested a "substantial increase on all pay points" in a meeting of the National Joint Council held in October. A 1% increase would cost circa £130,000.
- 2.4. No increases to Employer's National Insurance Contributions or Employer's Pension contributions are currently anticipated.

3. External Factors

- 3.1. The Financial Strategy in July (para. 2.4) identified a number of external factors that will affect the Budget for next year that were not quantifiable at that time. These are considered below:
 - 3.1.1. The Government's progression of the **Localism Bill** - This had its 3rd reading in the House of Lords on 31 October and will progress through amendments to Royal Assent in the coming months.
 - 3.1.2. The Government's **Resource Review** and any changes to the local government distributional system from 2013/14 – the consultation period for phase 1 ended on 24 October. Proposals are designed to allow councils to retain growth in business rates over and above a fixed starting point which could also be reset if deemed necessary. The effect of this is difficult to quantify at present and will not be in place for 2012/13 although there could be some set up preparatory costs during that year.
 - 3.1.3. The **Reform of Council Housing Finance** – DCLG plans for self financing to "go live" on 1st April 2012, although debt settlement will be required on 28 March 2012. It is stipulated that there should be "no detriment to the General Fund" although there will be additional accounting, treasury management and administrative costs that will need to be planned and recharged to the Housing Revenue Account.

- 3.1.4. The amount of **Formula Grant** to be received from the Government - The provisional allocation of Formula Grant for 2012/13 was published in February this year (£4.165m compared with £4.638m in 2011/12). The Secretary of State expects to announce the proposed Formula Grant in late November or early December which will then be the basis of consultation before the final settlement is approved by Parliament. The Comprehensive Spending Review announced overall resources savings to Local Government of 28% over the 4 year period to 2014/15.
- 3.1.5. The amount of **New Homes Bonus** and **Affordable Homes Bonus** – the New Home Bonus commenced in April 2011 to match fund the additional council tax raised for new homes and properties brought back into use, with an additional amount for affordable homes, for the following 6 years. The Department has set aside £200m in 2011/12 and £250m for each of the following 3 years. Funding beyond those levels will come from Formula Grant. In 2011/12 the Council received £495,220 New Homes Bonus Scheme Grant. For 2012/13 a further £606,682 is expected to be receivable although the affect this will have on the Formula Grant to be received is currently unknown. The amount of Affordable Homes Bonus receivable is yet to be notified.
- 3.1.6. Updated Government position on setting **Planning fees locally** – Government Fee regulations were initially planned to be set in time for new charges to commence in October 2011. These regulations are still to be published so this timescale has been delayed by a minimum of 12 months to October 2012 (with national fees planned to be abolished by April 2013). Given the current economic outlook there is every likelihood that this could be delayed even further with local fees introduced from April 2013.
- 3.1.7. **Interest rates** – are forecast to remain low for some time with a slight risk of increases from the latter half of 2012. However, the impact of interest rates on investment income to support the overall budget is now only marginal because of the combined effect of declining balances and low interest rates. The Council will expect to incur interest costs over the medium term period as the need to borrow externally, to fund the capital programme, increases.
- 3.1.8. The **deficit on the Pension Fund** - The Pension scheme liability at 31 March 2011 was £42.590m. This represents the present value of the liabilities in the Fund compared to the fair value of the assets in the Fund. However statutory arrangements for funding the deficit are that it will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary (but see below). Following a decision by Cabinet in March 2011 it is also planned that the pension liabilities of the Bishop's Waltham and Winchester Citizens Advice Bureaux are subsumed into the liabilities of the Council, although the amount of this liability has not currently been quantified.
- 3.1.9. Lord Hutton's report on **structural reform of public sector pensions** – Following Lord Hutton's report, the Government is currently consulting

on proposed increases to employee contribution rates and changes to scheme accrual rates, with a view to achieving short term savings of £900m in the Local Government Pension Scheme by 2014/15. The intention is that amendments will take effect from 1 April 2012. The Government has also accepted the case for long term reform and intends to introduce changes from 2015 with a commitment that all pensions benefits earned up to that point will be protected. The intention is to rebalance the costs of public service pension provision between scheme members on the one hand, and employers and taxpayers on the other. This is achieved when the employers' contributions are reduced as part of the scheme's statutory triennial actuarial valuation process (this would need a technical amendment for Local Authorities to benefit from this change sooner than April 2014).

3.1.10. The **South Downs National Park Authority (SDNPA)** –

Discussions are set to begin with the SDNPA regarding the level of fee to be paid to the Council for providing a Planning Service in 2012/13 (Year two of the current three year agreement). The SDNPA are looking at fee harmonisation, efficiency savings, and a review of workloads when determining the level of fee. On or before the 15th December 2011 the SDNPA will indicate the level of fee payable per application in 2012/13, to be finalised by 31st January 2012.

4. Capital Expenditure

4.1.1. Under the prudential approach to capital investment, local authorities are required to have full regard to affordability when setting the future capital programme. Such consideration must include the level of long term revenue commitments. Indeed, in considering the affordability of its capital plans, the Council is required to consider all of the resources available to it- estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years.

4.1.2. Capital requirements are being considered elsewhere on this agenda. The following potential revenue budget requirements have been identified:

4.1.2.1. Disabled Facilities Grant – The budget for Disabled Facility Grants is proposed to be re-instated to £0.5m in total (£0.122m revenue, £0.378m funded by Government Grant). This is to reflect the forecast minimum total grant requirements. As a recurring annual requirement which does not add to the asset base of the Council it is proposed that the funding is identified by adding a growth requirement to the revenue budget.

4.1.2.2. River Park Leisure Centre – Capital works to the roof are being proposed which may result in some closure with consequential loss of income claims from the operator, which would be a one off revenue cost possibly to be funded from the Major Investment Reserve.

4.1.2.3. Kerbside Glass Collection – This was considered last year and deferred and has both capital and revenue cost implications.

4.1.3. Any other unfunded capital requirements that are considered to be of a high priority would need to be funded from revenue if no other sources of funding can be found.

4.1.4. For those schemes being funded through borrowing or a Capital Financing Requirement it is assumed that costs will be matched by income or cost savings; i.e. that they will be cost neutral to the revenue budget.

4.1.5. The capital programme will be determined before the Budget is finalised, and the revenue consequences of the proposed programme will be quantified and included in the final revenue budget proposals.

5. Key Budget Principles

5.1. The Financial Strategy set out the following Key Budget Principles:

- The revenue budget for the forthcoming year will be balanced
- Reserves will not be used to fund annual, recurring expenditure
- Savings proposals will be sufficient to eliminate any projected deficit and to fund Growth proposals
- Growth proposals will not create a revenue deficit in future financial years without equivalent forward savings also being identified
- Growth and Savings proposals will be considered in relation to the Council's corporate objectives and priorities
- Inflation will be applied only to budgets for staff and external contracts

6. Income

6.1. At the moment local authorities fund their activities from 3 main sources: grants from central government (principally formula grant); council tax; and other locally generated income. The proposals under the Local Government Resource Review referred to above, will affect the funding from central government.

Locally generated income

6.2. Of the total external income in the Original Budget for 2011/12: Car parking and enforcement income was 34%; General Fund Property – 16%; Planning 11%; and Guildhall income 7% (*source Budget Book page 27*).

6.3. Proposals for car parking charges are being considered elsewhere on this agenda.

- 6.4. General Fund Property income - The capital programme includes an amount for capital works to enable the letting of Avalon House and the consequential revenue income is assumed in the baseline revenue budget. Any slippage in timescales will have a direct impact on income. With regard to the current economic climate no general increases to rental income are assumed in the baseline. This assumption will be reviewed before the budget is finalised.
- 6.5. Planning fee income is affected by both the number and the size of planning applications, with a significant proportion of the budgeted income being dependant on the receipt of major applications. Planning income in the year to date (2011/12) is falling short of budget and being closely monitored. This may impact on the baseline for next year.
- 6.6. Guildhall income forecasts for 2011/12 were revised downwards in the Revised Budget Estimate approved by Cabinet in September. This is under review and may impact on forecasts for future years.
- 6.7. Building control fees are required by legislation to be set to meet the overall objective to break-even. Local Authorities are required to monitor this and to be able to demonstrate that breakeven is achieved over a rolling 3 year period (or exceptionally 5 years). The Building control unit is continuing to make surpluses and corrective action will be required which will impact on fee income.
- 6.8. All of the public sector is facing reductions to funding and the Council has received notification from Hampshire County Council of proposed reductions to the funding receivable under both the Agency Agreements for Development Control and Traffic Management, and in the Supporting People funding for 2012/13. The implications of this are being considered.

Council Tax

- 6.9. Last year, the Government introduced a new grant scheme, open to all billing and major precepting authorities that decided to freeze or reduce their council tax for 2011/12; providing additional funding in 2011/12, equivalent to raising their 2010-11 council tax by 2.5 per cent. The scheme was voluntary but every council signed up to the scheme for 2011/12 and this provided £173,185 Council Tax freeze grant to Winchester for this year.
- 6.10. Councils were subsequently notified that although the Spending Review concluded that funding could only be provided to support a council tax freeze in 2011/12, the Government intends to provide supplementary funding to Local Authorities in subsequent years of the Spending Review via specific section 31 grants to compensate them for the council tax income foregone during the period of the freeze.
- 6.11. The Government has now announced its intention to support a further council tax freeze for next year – 2012/13. Councils that freeze or reduce their 2012/13 basic council tax level (Band D) will receive an additional grant equivalent to 2.5% increase on their council tax for that year. This also applies to the Winchester Town Account.

6.12. The Council Tax base will be considered by the Cabinet in December and, once approved, will be used as the basis for calculating the Council Tax funding for the Budget.

7. Expenditure

7.1. Although the initial projection for 2012/13 was balanced the budget pressures that have been identified through the monitoring process, the capital requirements and other known pressures are now presenting a forecast budget gap ranging between £1.5m and £2.0m.

7.2. Despite the significant real savings the Council has made to date it will be necessary to make further reductions to expenditure.

7.3. The gross General Fund expenditure (excluding benefit transfer payments) in the Original Budget for 2011/12 comprised: employee costs 43%; third party payments – 21%; supplies and services 15%; and premises 14% (*source Budget Book page 23*).

7.4. The Council's Organisational Development programme has sought to make efficiency improvements and savings through service re-design, increased operational flexibility and collaborative working. Whilst there have been staffing reductions, this approach has minimised the impact of those reductions on services to the public. The Council has taken a phased approach to changes to the organisation's staffing structure, starting in September 2010. The next phase of organisational change will be considered by Personnel Committee in November and the detailed proposals are the subject of consultation with staff, Members and Trades Union representatives. The results of that consultation will be drawn together with the conclusions from consideration of options when the Administration submits its budget proposals in the New Year.

7.5. In some cases the implementation lead time may result in only a partial year effect being achieved in 2012/13. There will also be some associated one-off costs, including some redundancy costs. Where appropriate, this will be adjusted for in the final budget proposals.

8. Members' Allowances

8.1. The Members' Allowances Scheme was reviewed last year by an Independent Remuneration Panel, in accordance with the legislative requirement for independent review at least every 4 years (CAB2106 and CL68 refer). Not all of the recommendations of the Panel were accepted by the Council. The Cabinet recommended that it was not appropriate for Members' Allowances to be increased at a time when Council services were facing efficiency measures. The Band rates for the Basic Allowance and Special Responsibility Allowances were not increased; the reduction of 5% previously applied from 1 April 2010 remained. The remaining recommendations of the Panel, which made minor adjustments to the Scheme, were broadly supported.

8.2. The Panel will meet in November to consider whether any changes should be made to the Scheme to take account of the impact of the changes in the Member-decision making arrangements introduced in May 2011. These include the strengthened role of the Leader required under the Local Government and Public Involvement in Health Act 2007; changes to Scrutiny arrangements and the introduction of the Audit Committee. The Panel is required to consider these changes under the legislation which applies to the Scheme. However, it is unlikely that any changes proposed will have a significant impact and changes are likely to be contained within the existing budget provision.

8.3. The Council will also need to consider whether the inflation index should be applied to all the allowance, travelling and subsistence rates within the Scheme. This decision has to be made before the start of the 2012/13 municipal year and will be considered as a part of the budget process – at the same time as the report of the Independent Remuneration Panel is received.

9. Reserves

9.1. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

9.2. CIPFA guidance stipulates:

“When reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.”

9.3. The first 2 items are provided for by the Council’s General Fund Working Balance which stands at £2m. It is proposed that this is maintained at this level, which is considered appropriate in the context of the strategic, operational and financial risks facing the Council.

9.4. The Council’s earmarked reserves have been substantially depleted in recent years and consideration should be given to any requirements for building up funds to meet known or predicted future liabilities.

9.5. The External Auditor’s Annual Governance Report (AUD012) drew attention to this issue and identified that it is important that the Council “replenish the reserves that have been utilised”.

10. Winchester Town Reserve

10.1. The Winchester Town Account will be considered by the Town Forum at its meetings in November and January.

10.2. Some of the General Fund budget decisions will impact on the Town Account. The Council Tax freeze and any additional funding to offset this will also apply to the Town Account, as will any relevant increases to the Council Tax base.

11. Housing Revenue Account

11.1. Whilst the Housing Revenue Account (HRA) is a ring fenced account, housing capital schemes can impact on the General Fund through loss of interest. Conversely changes initiated in the General Fund can impact on the HRA in the form of overhead charges.

11.2. For 2012/13, assuming that housing self financing is implemented, there will be significant changes to the accounting between the two accounts, for which the guidance is currently being consulted upon. The final budget proposals will bring together the implications of both accounts; General Fund and Housing Revenue Account.

OTHER CONSIDERATIONS:

12. SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

12.1. In order that limited resources are matched most appropriately to the Council's priorities the Budget should be considered in the context of the Sustainable Community Strategy and the Change Plans.

13. RESOURCE IMPLICATIONS:

13.1. As set out in the report.

14. EQUALITIES

14.1. The Financial Strategy supports the Council's Change Plans which in turn support the Winchester District Sustainable Community Strategy (WDSCS). The WDSCS was subjected to an equalities impact assessment and it is expected that the Council's new integrated equality impact assessment model will be used for Change Plan projects and revenue changes as they are developed.

15. RISK/UNCERTAINTY/SENSITIVITY

15.1. The budget for next year and the forward projections will be influenced significantly by various factors that cannot be quantified or assessed fully at this stage; some external and outside of the control of the Council; and others that relate to factors and aspirations within the Council's control. As in previous years it is planned that a risk assessment will be undertaken

alongside the development of the budget to be presented with the final budget proposals.

BACKGROUND DOCUMENTS:

Working papers held in the Finance and other teams.