

CABINET - 18 JANUARY 2012

THE OVERVIEW & SCRUTINY COMMITTEE - 23 JANUARY 2012

GENERAL FUND BUDGET UPDATE 2012/13

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

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

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

[CAB2249](#): Consultation draft: Change Plans 12/13, 9 November 2011

[CAB2254](#): Council Tax Base 2012/13, 7 December 2011

[CAB2250](#): General Fund Budget Consultation 2012/13, 9 November 2011

[CL74](#): Adoption of Change Plans, 11 January 2012

EXECUTIVE SUMMARY:

This report provides an update on the General Fund Revenue Budget. Consultations have been carried out alongside the 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. The outcome to the consultation process was reported to Council on 11 January 2012 for consideration of the updated Change Plans – Report CL74 refers.

A number of the uncertainties identified in the November consultation report have now been clarified including the proposed amount of Government support the Council will receive for next year.

The proposed Capital Programme, following consultation, is being considered elsewhere on this agenda (CAB2283 refers).

The final budget proposals will be considered by Cabinet, The Overview and Scrutiny Committee and Council in February.

RECOMMENDATIONS:

That Cabinet:

That Cabinet notes the update on the budget position as part of its deliberation of the budget.

That The Overview & Scrutiny Committee:

Notes the updated position and considers any further proposals it wishes to make to Cabinet on the Budget.

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1. Introduction

- 1.1. Report [CAB2250](#) (November 2011) identified an unprecedented amount of uncertainty in relation to the Council's future revenue budgets. Consultation alongside the updated Change Plans has been carried out with; The Overview & Scrutiny Committee; with parish and town councils; the Winchester Town Forum; the business community, and the Winchester District Strategic Partnership. Comments arising during the course of consultation are under consideration and participants are thanked for their contributions.
- 1.2. The outcome to the consultation process was reported to Council on 11 January 2012 for consideration of the updated Change Plans – Report CL74 refers.
- 1.3. The Government has now announced the provisional grant settlement and a number of the other unknowns have now been clarified.

2. Setting the Baseline

- 2.1. Since the Revised Estimate for the current year 2011/12 was approved in September, monitoring is identifying some further budget variations; and cost savings are being managed to ensure an overall balanced budget is achieved. The implications of these variations will also be reflected in the forward for projections. This is likely to require a further Revised Estimate for the current year to be brought forward, together with the proposed budget for 2012/13, for approval in February.
- 2.2. The high levels of inflation for September seem to have peaked; latest projections are that inflation is expected to fall sharply within 2012 and should not be too far away from hitting the Monetary Policy Committee's target of 2% by year end. As a consequence the estimated cost of contract inflation for 2012/13, previously estimated at between £400,000 and £500,000, can be reduced by £50,000.
- 2.3. Employee pay has been frozen at the pay scales effective at 1 April 2009. In his Autumn Statement the Chancellor announced that the Government will set public sector pay awards at an average of one per cent for each of the two years after the current pay freeze comes to an end and that Departmental budgets will be adjusted in line with this policy. Therefore, the budget for next year will assume a continued pay freeze.

### 3. External Factors

3.1. The November consultation paper considered a number of external factors affecting the budget but not quantifiable at that time. The updated position is provided below:

3.1.1. The **Localism Act** –The main measures of the Localism Act cover:

- new freedoms and flexibilities for local government
- new rights and powers for communities and individuals
- reform to make the planning system more democratic and more effective
- reform to ensure that decisions about housing are taken locally.

This will inevitably have a number of one-off and recurring resource implications for the Council, which have not yet fully been assessed.

3.1.2. The Government's **Resource Review** and any changes to the local government distributional system from 2013/14. The effect of this will not be in place for 2012/13 although there will be some preparatory costs during that year.

3.1.3. The **Reform of Council Housing Finance** – This is progressing for self financing to “go live” on 1 April with a forecast one-off payment of £157.393m to be made by the Council on 28 March. It is stipulated that there should be “no detriment to the General Fund” although there will be additional treasury management, accounting, and administrative costs albeit to be recharged to the Housing Revenue Account.

3.1.4. The amount of **Formula Grant** to be received from the Government – The provisional allocations for 2012/13 are:

Redistributed Business Rates	£4.256m
Revenue Support Grant	<u>£0.082m</u>
<b>Total Formula Grant*</b>	<b>£4.338m</b>
*Including Council Tax Freeze compensation	<u>£0.173m</u>
<b>Formula Grant before CT freeze compensation</b>	<b><u>£4.165m</u></b>

This is the same amount as was previously notified to the Council in the indicative allocations (February 2011).

3.1.5. The amount of **New Homes Bonus** and **Affordable Homes Bonus** – The New Homes Bonus provisional allocation for Winchester City Council is: the second year 1 instalment of £495,220; the first year 2 instalment of £606,949 (receivable for 6 years); and the first Affordable Homes premium of £37,520. This is in line with our expectations, and Formula Grant for 2012/13 has not been affected. However, the provisional

allocations indicate that the New Homes Bonus scheme has been more successful than anticipated and exceeded, the DCLGs initial budget estimates by around £6m. The Department has said that the additional £6m will be recouped from local government resource in 2013/14.

- 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 and the Government has not given any indication as to when the new fee regime will come into effect. There is little prospect of local fees being introduced before October 2012 and there is every likelihood that this could be delayed further and that fees may not even be introduced in 2012/13. The Government may decide to postpone the implementation local fee setting and could, in the mean time, increase the existing fees set at national level (last increase was 2008). However, they have not, to date, advised that this is their intended course of action.
- 3.1.7. **Interest rates** – are now *not expected* to change in 2012 and are forecast to remain low for some time. This will be advantageous to the Council as it is projected to move from a net investor to a borrower in the short to medium term (both for the Housing Revenue Account and the General Fund).
- 3.1.8. The **deficit on the Pension Fund** – The Pension Scheme actuary has approved the transfer of the liabilities for those scheme members of the Bishop's Waltham and Winchester Citizens Advice Bureaux to the City Council. This means that, on the cessation of the existing organisations the pension scheme liabilities will be added to the City Council's capital contribution schedule which will be payable over the recovery period (25 years) as from 2013.
- 3.1.9. Lord Hutton's report on **structural reform of public sector pensions** – it is assumed that the employer's contribution rates will not change in the short term.
- 3.1.10. The **South Downs National Park Authority (SDNPA)** – Discussions are underway 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 and have advised that they intend to reduce the level of funding from £554k (2011/12) to £515 (approx 7% reduction). Officers are considering the implications of this and will ask the SDNPA to explain the basis for this reduction in funding. The figure is set to be finalised by 31<sup>st</sup> January 2012.

#### 4. Capital Expenditure

- 4.1. The proposed Capital Programme is being considered elsewhere on this agenda (CAB 2283). The revenue budget implications will be reflected in the final budget proposals.

## 5. Income

### Locally generated income

- 5.1. Car parking charges were approved in November ([CAB2240](#) refers) and have increased the budgeted income for 2012/13 by £150,000
- 5.2. General Fund Property income - The forecast income will need to be reflective of the current economic conditions both in terms of void periods and rent reviews.
- 5.3. Planning fee income in the current year continues to fall short of budget and this is predicted to impact on future years' projections.
- 5.4. Guildhall income forecasts remain under review and reductions to future years' projections are predicted.
- 5.5. The level of Building control fees are currently under consideration with a possible reduction in fees required to comply with the legislative requirements to breakeven over time.
- 5.6. 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 of c£17k, and to the Supporting People funding for 2012/13 (which has been separately considered in CAB2266 (HSG) of 6 December 2011).

### Council Tax

- 5.7. The Council Tax Base for 2012/13 is to be considered by The Council for approval on 11 January ([CAB2254](#) refers).
- 5.8. As previously notified, compensation for the council tax income foregone in respect of the 2011/12 Council Tax freeze is expected to be received via specific section 31 grants, for the period of the Spending Review.
- 5.9. The Scheme for 2012/13 will comprise a one-off payment of grant payable for one year only and amounts to £0.173m of which £0.022m will be applicable to the Winchester Town Account.
- 5.10. For the future, under the Localism Act, any authority that proposes to raise taxes above the limit determined by the Secretary of State, will have to hold a referendum and present an alternative budget. Local voters would then be able to either approve or to veto the rise.

## 6. Expenditure

- 6.1. The next phase of organisational change was considered by Personnel Committee in November 2011 (PER198 refers) and more detailed proposals will be considered at a meeting in January. The implications on recurring revenue costs and one-off redundancy and pension costs will be reflected in the final budget proposals.

## 7. Members' Allowances

7.1. The Members' Allowances Scheme is being considered elsewhere on this agenda (CAB2277).

## 8. Reserves

8.1. The Council's useable reserves have been depleted in recent years and the forward projections show that they will be almost fully utilised in the financial planning period. Consideration is being given as to how these can be replenished to meet predicted future liabilities.

## 9. Winchester Town Reserve

9.1. The Winchester Town Budget will be considered by the Town Forum at its meetings in January.

## 10. Housing Revenue Account

10.1. Self-financing for the Housing Revenue Account (HRA) will come into effect on 1 April 2012 which will not only have substantial implications for Housing, but wider ranging implications on the General Fund, particularly in respect of Finance (Treasury Management & accounting), Estates and Legal. This will require growth in the General Fund albeit any relevant costs will be re-charged to the HRA.

## OTHER CONSIDERATIONS:

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

11.1. 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. The Change Plans are to be considered by the Council in January.

### 12. RESOURCE IMPLICATIONS:

12.1. As set out in the report.

### 13. EQUALITIES

13.1. 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.

### 14. RISK MANAGEMENT ISSUES

14.1. A risk assessment will be presented with the final budget proposals.

BACKGROUND DOCUMENTS:

Working papers held in the Finance and other teams.

New Homes Bonus – Provisional Allocations:

<http://www.communities.gov.uk/housing/housingsupply/newhomesbonus>

Localism Act – plain English guide:

<http://www.communities.gov.uk/documents/localgovernment/pdf/1896534.pdf>