Agenda Item No:	**7**	**Report No:**	**13/13**
Report Title:	**2013/2014 Budget**		
Report To:	**Scrutiny**	**Date:**	**17 January 2013**
Cabinet Member:	**Councillor James Page** **Councillor Andy Smith** **Councillor Ron Maskell**		
Ward(s) Affected:	**All**		
Report By:	**Director of Finance**		

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Purpose of Report:

To explain the context in which next year's General Fund and Housing Revenue Account budgets and the capital programme have been prepared so that the Committee can provide its comments to Cabinet as part of the budget setting process.

Officers Recommendation(s):

1 That the Committee provides its views and comments to Cabinet on:

1.1 The proposal to freeze council tax next year.

1.2 Delivery of the savings target.

1.3 The level of the Council's Reserves and Balances.

1.4 The Capital programme outlook.

1.5 The 2013/2014 Housing Revenue Account draft budget.

Reasons for Recommendations

1 At its meeting on 13 February 2013 Cabinet will consider reports containing proposals for the General Fund and Housing Revenue Account budgets for 2013/2014 and a capital programme for the next three years. Cabinet will make final recommendations on the budgets to Council for decision at its meeting on 27 February 2013.

2 The Council's Constitution identifies the Scrutiny Committee as a key consultee to the budget setting process.

3 General Fund Budget 2013/2014 - National Context

3.1 Deficit Reduction

The Chancellor presented his Autumn Budget Statement on 6 December 2012. Key headlines are:

- a further £6.6 billion package of savings to be made across Government departments in 2013/2014 and 2014/2015, £5 billion of which will come from reductions to departmental current spending. This £5 billion in current spending will be switched to capital spending to be invested in infrastructure.

- the Government confirmed that total spending in 2015/2016 and 2016/2017 will continue to fall at the same rate as the Spending Review 2010 period.

- local government will be exempt from the additional reductions to departmental budgets in 2013/2014 on the basis that local authority budgets have already been reduced by a comparable amount through the decision to allow local authorities to hold council tax down in that year and because it provides an opportunity for local authorities to invest in reform in order to deliver further savings by consolidating back-offices and transforming service delivery. However, there is already an additional public sector reduction target of £1bn for 2013/2014 announced in October.

- the Chancellor indicated that local government would be subject to the 2% reduction to departmental budgets planned for 2014/2015. The reduction in the Department for Communities and Local Government budget is expected to amount to £447 million. The impact for local authorities should become evident when the Government produces detailed spending plans early in its next financial year.

3.2 Reforming Local Government Finance

There are two significant structural funding changes to the local authority funding regime from April 2013, which are:

- The Business Rates Retention Scheme.

- Localising Support for Council Tax combined with a 10% reduction in the current government funding stream for this service.

Explanations of these changes have been reported to Cabinet throughout 2012/2013, with the most recent report made having been considered at its meeting on 7 January 2013. Paragraphs 3.2.1 and 3.2.2 give a very brief summary on the impact of these changes for the Council's financial resources.

3.2.1 Business Rates Retention Scheme

(a) Under the new system 50% of business rates collected from within Lewes District will go to the Government. This is known as the Central Share and is re-distributed back to local government through grants, including Revenue Support Grant. The other 50% is known as the Local Share. Of the Local Share 2% will go to the East Sussex Fire Authority, 18% to East Sussex County Council, and 80% retained by Lewes District Council but subject to deduction of a levy at a trigger point.

(b) A system of tariffs and top-ups has been established to allow locally retained business rates to be redistributed from high business rate yield authorities to low-yield authorities when the Scheme commences. The tariff will be annually uprated by inflation and payable for each future year.

(c) The intention of the Rates Retention Scheme is to incentivise local authorities to grow their business rate base, and the scheme has been devised to allow local authorities to benefit from this growth. A safety net will provide protection for local authorities against significant reductions in their income by guaranteeing that no local authority will see its retained business rate income fall below a fixed percentage (92.5%) of its baseline funding level. The safety net will be paid for by a 50% levy on disproportionate growth for those authorities which experience business rate growth.

(d) Lewes District Council's Business Rates Baseline is £9.022m. As this is higher than its baseline funding level of £1.960m it will be due to make a tariff payment of £7.062m to the Government in 2013/2014.

(e) In 2013/2014 the baseline rates collection target share for Lewes District Council is £9.022m and the funding baseline grant is £1.960m. The implied rates collection target for the whole district is £22.5m. The Council will be keen to know if the implied rates collection target (which has been derived from a national formula and not just Lewes District Council's own data) can be achieved in reality. Work is progressing on establishing this position.

(f) The introduction of the Rates Retention Scheme means that changes in the Business Rate base within the District will have an impact on the resources available to finance General Fund services. Key drivers will be:

- Changes in the number and size of business premises
- Changes in the use of business premises
- Level of appeals
- Level of discounts and reliefs

3.2.2 Localising Support for Council Tax

(a) Until 31 March 2013, Council tax benefit has provided support for groups with low incomes towards the payment of their council tax bills. The benefit was administered by local authorities but funded by central government through subsidy.

(b) From 1 April 2013, the national Council tax benefit scheme will be replaced in each authority by a Local Council Tax Support Scheme. The Government will no longer support the cost by direct subsidy, but has included an amount within the Revenue Support Grant and Business Rate Retention Baseline funding arrangements. This amount has been set at 90% of the cost of the former council tax benefit scheme, with each local authority determining its own approach to 'cover' the residual 10%.

(c) From 1 April 2013, local authorities will also be able to vary the level of certain council tax discounts and exemptions, and to charge a premium for properties left empty and unfurnished for longer than 2 two years. By making changes to these discounts and exemptions, local authorities are able to generate additional council tax income, helping to offset the 10% shortfall referred to above.

(d) At its meeting on 10 January 2013, the Council agreed its Local Council Tax Support Scheme and set the levels of council tax discounts and exemptions to apply from 1 April 2013.

(e) The introduction of the Local Council Tax Support Scheme means that changes in the Council Tax base within the District will have an impact on the resources available to finance General Fund services. Key drivers will be:

- Changes in the number and banding of properties
- Level of empty properties and second homes
- Level of applications for the Local Council Tax Support Scheme.

3.3 Council Tax Referenda

3.3.1 The Localism Act 2012 introduced a requirement for referenda to approve or veto council tax increases that exceed limits set out by the

Secretary of State (and approved by Parliament), in "principles" defined for the following financial year.

3.3.2 Councils will know the principles before they meet to set the Council Tax. The regime therefore enables councils to avoid calling a referendum, if they make a tax within the limits.

3.3.3 The new arrangements provide for councils who believe that they cannot fund their expenditure without breaching the principles to be able to put a case to the Secretary of State before making the tax. If their case is accepted, the referendum rules can be suspended by the Secretary of State, for that council, for that year.

3.3.4 The system applied for the first time to council tax increases for 2012/2013 when a council tax increase of 3.5% was set as the referendum trigger point for district councils. For 2013/2014, the Government is proposing to set 2% as the referendum trigger point for the majority of district councils, including this Council.

3.3.5 There will be implications for Billing Authorities (i.e. councils who collect the Council Tax on behalf of all precepting bodies) if one of the major preceptors is required to conduct a referendum. The implications would include the cost of rebilling, interest on delayed cash flow, recalculation of entitlement to Council Tax Support plus the reissue of Council Tax Support notification letters and the general knock on effect this additional work has on day to day administration and recovery activities.

3.4 Council Tax Freeze

3.4.1 The Government is making available an extra £450 million to help local government freeze council tax bills in England in 2013/2014. The grant is equivalent to a 1% increase in the 2012/2013 council tax and is payable for the two years 2013/2014 and 2014/2015.

3.4.2 The Government 'strongly encourages all authorities to accept the grant on offer for freezing council tax in 2013/2014, and make a real difference to the living costs of hard-working families and those on fixed incomes, such as pensioners.'

3.4.3 Because the council tax freeze grant is not recurring, the impact of accepting the grant on offer and freezing the council tax is either to put in place a starting rise of 1% in the 2015/2016 council tax or to make additional recurring savings equivalent to the value of the grant. For planning purposes, the Government has provisionally calculated the value of this Council's grant to be £75,460.

4 General Fund Budget 2013/2014 – Local Context

4.1 Cabinet has set financial Principles and Objectives in its Medium Term Financial Strategy. These are reproduced in Appendix A.

4.2 As noted by Cabinet in November 2012, the 2013/2014 draft budget has been prepared in accordance with the following framework:

Base budget:

(a) no new items to be added to the estimates except where approved by Cabinet in the year to date.

(b) savings reported to and agreed by Cabinet to date to be incorporated within draft budgets.

Employee budgets:

(c) no provision has been made for cost of living pay movements at individual employee or service level.

(d) provision has been made for annual contractual salary increments.

(e) the Council's budgeted employer's pension contribution rate for 2013/2014 is 21.5%. The next formal actuarial review of the East Sussex Pension Fund will be carried out at 31 March 2013, with the results implemented from 2014/2015.

Energy budgets:

(f) will be adjusted where appropriate to reflect reductions in energy use arising from energy saving initiatives programme

Inflation:

(g) no allowance for general price increases other than where these are unavoidable eg business rates (4.5% including the impact of transitional relief reducing)

(h) agreed cost indices in tendered contracts to be incorporated. Examples of inflation rates applying within the estimates include Cleansing Contract at 2.1%, Grounds Maintenance Contract at 2.3% and the Wave Leisure Trust service fee at 3.0%.

4.3 Should average price inflation (excludes pay) exceed assumptions in the budget outlook by 1%, this would add around £100,000 to the budget deficit reduction target.

4.4 Income from general fees and charges is largely related to usage and activity levels. In aggregate terms the income from fees and charges in 2013/14 is estimated at £2.461m compared with the 2012/2013 estimate of £2.317, an increase of 6.2%.

5 Draft General Fund Budget for 2013/2014

5.1 The draft General Fund Budget Summary for 2013/2014 is shown at Appendix B. In January, all Cabinet Portfolio holders have met with the members of the Council's Corporate Management Team to review in detail the budgets for their service areas.

5.2 At its meeting on 7 January 2013, Cabinet confirmed that the 2013/2014 Council Tax will remain frozen at its 2012/2013 level, £192.48 (Band D). As a result, the gross amount to be raised from Council taxpayers will be

£6,628,241. Because the draft base budget and net contributions to reserves exceed this amount, it will be necessary to achieve this position by making recurring savings. It is possible to utilise some of the Working Balance while these savings are put in place. Indicative amounts for the remaining savings target, £500,000, and the use of the working balance, £143,123, are shown at lines 14 and 25 respectively. However, Cabinet will agree the final position at its meeting on 13 February 2013 when it considers the medium term Budget Outlook.

5.3 Progress on Delivering the Savings Target

5.3.1 Corporate Management Team (CMT) is responsible for delivering the savings target, with regular reports being made to Cabinet through the year, most recently in November 2012. That report noted that 88% of the 2012/2013 recurring savings target had been achieved, with the remainder achievable in the rest of the year.

5.3.2 CMT had been working to deliver a savings target of £586,740 in 2013/2014, and identified a range of specific items with a value of £432,000 which have been incorporated in the service portfolio budgets shown at Appendix B. However, following the announcement in December 2012 of the Local Government Finance Settlement for 2013/2014 and 2014/2015, further savings will be required in both years. The indicative target for 2013/2014 is noted above.

5.3.3 If the savings are not in place by the start of that financial year there will be an additional drain on the General Fund Working Balance until they are delivered. An allowance for this has been made in the budget (line 15).

5.3.4 The targets are achieved only when they have an impact on the recurring base budget. When recurring targets are missed they must be made up by non recurring savings in that year in order to avoid a further drain on the Working Balance. The missed recurring target is then carried forward into the next year.

5.3.5 Programme Nexus is providing the platform to achieve more savings; the critical factors will now be the identification of savings equal to the annual targets and the precise timing for delivering those savings.

5.3.6 At the same time as announcing the Finance Settlement, the Department for Communities and Local Government published a document '50 ways to save – examples of sensible savings in local government'.

6 General Fund Reserves and Balances

6.1 The Council's external auditors, PKF, are required to assess the Council's arrangements to secure financial resilience. In their audit planning letter Which is to be reported to the Audit Committee on 28 January 2013, PKF explain that

‘Government continues to reduce funding for local government over the Spending Review period, and combined with additional pressures arising from demographic and other changes, will have a significant impact on councils.

Changes to the arrangements for funding council tax support and the business rate retention scheme, along with the transfer of responsibility for public health, also brings added uncertainty to the medium term financial strategy.

We intend to review the Council’s medium term financial strategy to assess how well it is addressing these pressures and to review financial resilience.’

6.2 Reserves are an important part of good financial management. They help councils cope with unpredictable financial pressures and plan for their future spending commitments. Having the right level of reserves is important. Where councils hold very low reserves, there may be little resilience to financial shocks and sustained financial challenges. Where reserves are high, councils may hold more than they need.

6.3 In December 2012, the Audit Commission (AC) published a paper ‘Striking a balance – Improving councils’ decision making on reserves’. In this document the AC acknowledges that there is no set formula for deciding what level of reserves is appropriate, too low or too high and that councils are free to determine the reserves that they hold. The AC notes that:

the current and future financial challenges pose significant, and increasing, risks for councils and present them with competing priorities in their strategy for reserves. They can:

use their reserves to offset funding reductions and protect services – although, as reserves are a finite resource, this can only be a short-term strategy – or invest in making changes that reduce the cost of providing services in the long term; or

increase reserves to strengthen resilience against future, uncertain cost pressures.

6.4 The AC recommend that councillors should:

request and make use of information that will enable them to assess the adequacy and necessity of reserves; monitor change in reserves over time, relative to spending; and understand how reserves compare with those held by councils facing similar circumstances;

ensure that reserves held to protect against financial risks are set prudently; and are informed by an up-to-date, comprehensive risk assessment, which takes account of other risk mitigation measures, including any contingency within the council’s budget;

review the purpose, level, historic use and planned use of other reserves annually, to ensure they are still necessary to support medium and long-term spending plans;

examine the causes of variation between planned and actual changes in reserves, especially where variations are large, or where in-year budget monitoring has not accurately forecast the year-end position on reserves; and

ensure the council provides clear information about the level of reserves and their purpose in published budget information as well as in their annual statement of accounts.

6.5 Cabinet considers the level of reserves twice a year (at budget time and after the year end) but it is timely for the Scrutiny Committee to carry out a detailed review at this time, in response to the AC's recommendations. Appendix C gives a summary of all the General Fund Reserves along with the Housing Revenue Account's Major Repairs Reserve and Appendix D sets out details of each of them which will enable the Scrutiny Committee to take a view on their adequacy and make comments to Cabinet for consideration at its 13 February meeting as part of the budget setting process.

6.6 The AC recommend that councillors consider how the level of reserves compares with those held by councils facing similar circumstances. Details are shown in the table below, which represents the position at 31 March 2011 (comparative data is not available for 2011/2012).

	Total Reserves £'000	Total Reserves as % of net expend	Unallocated Reserves £'000	Unallocated Reserves as % of net expend
All Districts	1,943,019	72.4	727,081	27.1
East Sussex Districts	51,216	65.6	14,770	18.9
Lewes District Council	10,482	76.5	1,856	13.5

6.7 The General Fund working balance at 31 March 2012 stood at £2,063,000 and the Housing Revenue Account working balance £2,738,000.

6.8 It should be noted that investment income, which supports the General Fund budget, is generated from the investment of Reserves and Balances pending their use.

7 The Capital Programme Outlook

7.1 Funding for statutory General Fund capital services (mainly within the Private Sector Housing Renewal programme) is becoming tighter, and this will impact on how the Council allocates its Earmarked Reserves and the Working Balance. The statutory capital programme needs funding of £0.6m each year. Competing for this resource is the Council's asset maintenance programme for major works to non-housing property assets for example public conveniences, car parks, offices and depots. Apart from "affordable" borrowing to fund the upfront costs of projects which will generate income or enable savings in future years, the main sources of finance for the capital programme are capital receipts (from asset sales); grant funding and revenue contributions to capital from the Revenue Budget.

7.2 Revenue contributions to capital can be made either by the provision of a non recurring contribution in the Revenue budget when circumstances permit or by annual recurring contributions by generating further savings in the revenue budget. With the significant scale of savings already needed to address the Council's deficit reduction plan this leads to a growing tension between the revenue and capital budget position of the Council in terms of which services will have priority access to limited funds.

7.3 The Prudential Code requires local authorities to plan their capital expenditure programme for at least three years ahead. This corresponds with the time scale covered by the Council's Capital Strategy. Understandably, the most detailed information is available for year 1, with the programme for years 2 and 3 liable to variation when more precise forecasting can be undertaken in terms of both the availability of capital resources and spending requirements.

7.4 The following table shows a draft of the indicative three year programme to be considered by Cabinet at its meeting on 13 February (because of the relative timings for the production of papers of this meeting of the Scrutiny Committee and Cabinet, changes to the draft may be made in the interim). The main points to note are:

- Line 1: the HRA Capital Programme is as set out in the 30 year Business Plan and can be financed from the resources available under the 'self-financing' initiative.

- Line 2: the Government has yet to clarify the level of funding which it will make available in respect of mandatory Disabled Facilities Grants. The Government has traditionally provided 60% of the funding and the Council has met the balance from its own resources; the sole source being the retained portion of Right to Buy receipts. This is typical amongst district councils. This is the area where tension arises between the Revenue and Capital budgets when resources become less plentiful.

- Line 3: this is a provision for major repairs to Council-owned property, and can be funded at this level from the REAM Reserve provided that annual contributions remain at their present level.

- Line 4: the vehicle replacement programme is cyclical depending on the life of individual vehicles. The balance on the Vehicle Replacement Reserve is sufficient to fund this programme.

- Line 5: it is assumed that regular replacement of equipment will be needed after the main refresh of the network and desktop hardware in 2013/2014 as part of the Nexus programme.

Line		2013/14 £'000	2014/15 £'000	2015/16 £'000	Total £'000
1	HRA Programme	5,225	5,225	5,225	15,675
2	Private Sector Housing – Mandatory Grants	600	600	600	1,800
	General Fund Programme				
3	- Asset Backlog Repairs	150	150	150	450
4	- Vehicle Replacements	672	243	705	1,620
5	- IT Replacements	0	50	50	100
6	Sub-total	822	443	905	2,170
7	**Total Indicative Capital Programme**	**6,647**	**6,268**	**6,730**	**19,645**

8 Housing Revenue Account Draft Budget 2013/2014

8.1 Appendix E sets out the draft Housing Revenue Account (HRA) budget for 2013/2014. At the time of writing this report, the draft budget was subject to fine-tuning and consultation with the tenants representatives' group, TOLD.

8.2 The draft budget has been prepared in line with the 30 year business plan which can be fully funded under the self-financing arrangements which will enter their second year in 2013/2014 following the national reform which the Government introduced from 1 April 2012.

8.3 In simple terms, HRA expenditure is funded from the resources generated by tenants' rents and service charges. In line with Government policy, the Council introduced 'rent restructuring' in 2003/2004. Subject to the system of "rent limits" and "rent caps" the draft budget assumes that rent structuring continues to be phased in over a transitional period ending in 2015/2016. Following the end of the transitional period, the existing Council policy and the HRA Business Plan provides for rent increase of RPI (September) +½% in each subsequent year. This approach is consistent with that which the Government applied when it introduced self-financing and determined the amount that the Council was required to pay to the Government at that time, £56.7m, funded from long-term borrowing.

8.4 The average rent in 2013/2014 will be £83.90 per week, an increase of £3.43 (4.2%). The table below indicates the rents payable for different types of property along with the 'formula rent'. Where the actual rent is below the formula rent, the rent can be expected to increase above the rate of inflation over future years. Where actual rents exceed the formula rent, below inflationary increases can be expected.

Dwelling Type		Average Weekly Target Formula Rent 2013/14	Actual Rent 2013/14	Actual/ Target Difference 2013/14
		£	£	£
	Bedsits	58.35	57.87	0.48
1	Bedroom Flat	70.29	68.67	1.62
2	Bedroom Flat	78.98	77.84	1.14
3	Bedroom Flat	84.23	83.75	0.48
4	Bedroom Flat	94.03	94.28	(0..26)
1	Bedroom House	81.34	76.14	5.20
2	Bedroom House	94.00	88.99	5.01
3	Bedroom House	103.14	99.49	3.65
4	Bedroom House	111.06	107.69	3.37
5	Bedroom House	125.29	110.14	15.15
6	Bedroom House	134.63	122.70	11.93

Dwelling Type	Average Weekly Target Formula Rent 2013/14	Actual Rent 2013/14	Actual/ Target Difference 2013/14
	£	£	£
All Bedsits	58.35	57.87	0.48
All Flats	74.44	73.06	1.38
All Houses	97.75	93.44	4.31
All Dwellings	**86.90**	**83.90**	**3.00**

8.5 The draft budget assumes the continuing progression, for a third and final year, to full market rents for garages, effective from 1 April 2013. This is in line with the Business Plan and current Council policy on garage rentals.

Sustainabilty Implications

9 I have not completed the Sustainability Implications Questionnaire as this Report is exempt from the requirement because it is a budget monitoring report.

Risk Management Implications

10 The Council maintains an overview of its policy programme, its medium term financial strategy and the external factors that affect them. Without this constant analysis and review there is a risk that the underlying recurring revenue budgets will grow at a faster rate than the resources available to fund them. This risk is mitigated through regular reports to Cabinet on the Council's overall revenue and capital position and Cabinet's correcting actions taken in accordance with the objectives and principles it set for management of the Council's finances.

11 An additional risk in the current climate is that reserves and balances will be drawn upon sooner than is necessary unless an assessment is made of resource implications where activity levels have fallen or risen to any significant degree. This risk is mitigated by identifying such areas, making an assessment covering the short and medium term and taking corrective action.

Equality Screening

12 The Equality Screening process for the topics explained in this report will take place when the final budget reports are prepared for the Cabinet meeting in February 2013.

Background Papers

13 Department for Communities and Local Government: 50 ways to save – examples of sensible savings in local government
https://www.gov.uk/government/publications/50-ways-to-save-examples-of-sensible-savings-in-local-government

14 Audit Commission: Striking a balance – Improving councils' decision making on reserves http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/Strikingabalance.aspx

Appendices

15 Appendix A - Medium Term Finance Strategy – Principles and Objectives

16 Appendix B – The General Fund Estimates Summary for 2013/2014

17 Appendix C – Schedule of Reserves

18 Appendix D – Review of General Fund Reserves

19 Appendix E – Housing Revenue Account Budget Summary 2013/2014

Appendix A

Extract From the Medium Term Finance Strategy

The Objectives of the Council's MTFS are as follows:

	Objective
1	To provide a robust framework to assist the decision making process.
2	To enable the Council to be proactive rather than reactive.
3	To act as a barometer and give early indication of need to review priorities.
4	To show how resources support the Council Plan over a four year period.
5	To support sustainable services through reserves, equalisation and renewal funds.
6	To hold a working balance at an adequate level to respond to unexpected events and opportunities.
7	To be flexible and responsive to changing needs and legislation.
8	To support the Council's service and core strategies.
9	To provide forward indications of Council Tax levels.

A number of Principles have been established to underpin the financial objectives:

	Key Principles
1	Resources will be prioritised to meet statutory (core service) obligations.
2	We will work with partners and the local community to determine priorities.
3	We will constantly review and reconcile priorities in line with the available resources.
4	Capital receipts will only be used to fund capital programmes, when banked.
5	General Fund capital receipts will be used to improve and replace existing assets.
6	Capital receipts from Council house sales will be reinvested in a housing capital programme or to improve and replace existing assets.
7	The budget for investment income will take account of specific market advice. If investment rates rise or are expected to rise, we will not use the additional income to fund items within the recurring base budget.
8	We will aim to achieve a zero balance on the Collection Fund when estimating the Council Tax collection rate each year.
9	Council Tax amounts will be transparent and sustainable. This means that the budget requirement will not be lowered through the use of one-off balances or reserves without a published intention to realign priorities with the Medium Term Financial Strategy.
10	Changes to the Council's priority programme must be reported to Cabinet and supported by a risk assessment and financial appraisal showing part year and full year costs, including the revenue consequences of any capital investment and lifetime costs.
11	Every request for capital investment must be supported by a Business Case which shows how the cost of that investment will be repaid over time.