

**UPDATE - 2013/14 BUDGET AND MTP
(Report by the Head of Financial Services)**

1 PURPOSE

- 1.1 To enable Cabinet to consider those areas where the Council has enough information to make preliminary decisions in relation to the 2013/14 Budget and the updated MTP.
- 1.2 To update Cabinet on the latest position on various issues which will require decision in the February cycle of meetings.

2 BACKGROUND

- 2.1 The Council would normally expect to have enough information by the time this report was prepared in November to consider a final draft of the following year's budget and future MTP. However this year there are a number of very significant changes which have led to a later date for the Government announcement of the key financial data required.
- 2.2 The outlook appears to be bleak because a briefing paper for the LGA Executive Committee refers to additional grant funding cuts for local government of £1bn and that "in some authorities it appears possible that new cuts could amount to more than 10% of core funding from government". The Council's current plan is based on a reduction of 4.9% in cash terms, which is over 7% in real terms.
- 2.3 The Chancellor's "Autumn" statement is programmed for the 5 December and the details of the financial impact for individual local authorities may not be announced until 19 December and there has even been a recent suggestion that some of the information will be issued on 24 December.
- 2.4 This report therefore concentrates on the following topics:

Section 3

Service budgets including new MTP bids and variations to existing bids. This also includes commentary on the significant changes and any areas where further savings proposals are still being considered for this year or future years.

Section 4

Current proposals and the estimated impact of the changes from Council Tax Benefit to Council Tax Subsidy

Section 5

Retention of business rates – latest position

Section 6

New Homes Bonus – latest forecast

Section 7

Council Tax level – Secretary of State’s proposed limitation and reward grant.

Section 8

Inflation and Interest Rates – Current proposals.

3 SERVICE BUDGETS

- 3.1 Annex A shows the current year’s budget together with the proposals for the next 5 years for both capital and revenue items. At the start of each Head of Service’s section there is a commentary highlighting the most significant aspects and referring to any further savings areas being considered.
- 3.2 **It is important to note that there are still many adjustments to be made and so the variations at the bottom line of the annex are NOT a reliable indication of what the final Budget/MTP, to be presented in February, will be.**
- 3.3 The Council has already achieved significant savings and made improvements to its forecasting over the years. In February 2007 the 2013/14 budget was forecast at £31.2M with a savings target of £6.3M to get it down to £24.9M. This report is based on a figure of £22.8M.

4 COUNCIL TAX SUBSIDY

- 4.1 A separate report on your agenda deals with the approval of the scheme which the Council intend to apply for 2013/14. The table below summarises the impact of that proposal for 2013/14.

Impact on the Collection Fund

Benefit Subsidy changes	£737k
Council Tax Reforms	- £814k
Net	-£77k

Impact on Huntingdonshire

Share of above total	£31k
Loss of overpayment subsidy	£100k
Extra collection costs	£40k
Loss of admin subsidy	£30k
Cost of extra payments via post office	£25k
Total HDC Impact	£226k

- 4.2 There is a potential further increase in 2014/15 due to the loss of fraud team funding and extra preparation and software costs this year which will, at least partly, be met from grant.
- 4.3 These figures are still liable to change due to alterations in the basic scheme when it is finalised, the Government's final announcement on grant levels and the level of Council Tax rises for this Council and all precepting authorities.

5. RETENTION OF BUSINESS RATES

- 5.1 The Council agreed to support pooling of business rates subject to a final review once the government's proposed starting data is made available. The critical aspects are whether the starting base appears to a fair and realistic position, whether there might be any significant impact from appeals etc. that are yet to be resolved and, most importantly, what levels of business rates growth (outside the enterprise zone) are anticipated for each authority.
- 5.2 A conference of the relevant planning, economic development and finance staff is planned for early December so that each Council will be better able to respond promptly to whether they wish to stay in the pool when the final Government figures are known later in December.

6. NEW HOMES BONUS

- 6.1 The table below shows the funding included in the approved MTP and the current best forecast of the figure for 2013/14 assuming the rate per property is frozen at the 2012/13 level. There could be a small addition if the Government were to allow any inflation. It also shows an increase in later years because experience is showing that, on average, the homes being built are at a higher Council Tax band than originally assumed.
- 6.2 The risk provision includes a sum of £96k per year for the possible non achievement of this year's target. This has therefore been removed.

- 6.3 Forecast numbers built for future years have not been adjusted at this stage because they are based on the planning profile which is currently under review and should be available in early December. There are two risks for the Council. Firstly that growth is slower than forecast and secondly that the Government will have to reduce Formula Grant to fully fund the New Homes Bonus. Some provision for this is included in the current Risk provision which will be reviewed in finalising the February budget report.

NEW HOMES BONUS	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Approved MTP	-2,857	-3,704	-4,845	-6,095	-6,452
Draft Budget	-2,909	-3,791	-4,979	-6,281	-6,686
Removal of 2013/14 risk provision	-96	-96	-96	-96	-96
VARIATION (- = better)	-148	-183	-230	-282	-330

7. COUNCIL TAX LEVEL

- 7.1 The Secretary of State has proposed that the Council Tax level that will be allowed without a positive referendum result will be 2% for 2013/14. He has also offered a 1% reward grant for one year for any authority that makes no increase.
- 7.2 Obviously this is significantly less than the 3.5% per year increase that Council approved in the current plan.
- 7.3 The Leader met with Baroness Hanham at DCLG with a proposal that any limitation be based on the average Council Tax level for that class of authority so as not to benefit those already with a high tax level and disadvantage those with a low level like Huntingdonshire. Until the formal announcement is made it will not be clear whether this proposal was successful.
- 7.4 The table below shows the impact of various options compared with the current planned Council Tax increases of 3.5% per year. Any decision on Council Tax level needs to be left until February when we have all the Government financial data.

EXTRA SPENDING REDUCTIONS REQUIRED	MTP			
	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
VARIATIONS FROM approved 3.5% Council Tax rise per year				
2% in 2013/14 then 3.5% per year	-100	-89	-78	-78
2% for three years and then 3%	-100	-193	-294	-343
2.6% for three years then 3.8% in 2016/17**	-60	-109	-165	-147
No rise in 2013/14 and then 3.5% per	-156	-152	-226	-234

Notes

Changes in Council Tax levels will now have an impact on the cost to the Council of Council Tax benefit support. These have been taken into account in a simplified manner in the table above.

*** Approximates to 2% and then 3% of average District Council.*

7.5 The exemplifications in section 10 of this report are based on 2% for 2013/14 and then reverting to 3.5% per year but this does not preclude other decisions in February.

8. INFLATION AND INTEREST RATES

CURRENT ASSUMPTIONS

(subject to review before February report)

INFLATION	for Apr 2013	for Apr 2014	for Apr 2015	for Apr 2016	for Apr 2017
<i>Pay award and Performance Pay ##</i>	2.0%	2.0%	2.0%	2.0%	2.0%
<i>Prices</i>	2.5%	2.5%	2.5%	2.5%	2.5%
<i>electricity</i>	6.0%	13.0%	6.0%	13%	6%
<i>gas</i>	19.0%	8.0%	11.0%	8.0%	11.0%
<i>fuel</i>	5.0%	5.0%	5.0%	5.0%	5.0%
<i>car park charges \$\$</i>					
<i>planning fees</i>				10%	

see para 8.1 onwards

\$\$ see the Budget Commentary relating to Operations Division.(Annex A)

INTEREST RATES	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
Temporary Borrowing	0.3%	0.4%	0.4%	0.76%	1.2%
Temporary Investments	0.7%	0.6%	0.6%	0.86%	1.3%
PWLB 20 year borrowing	3.63%	3.73%	3.8%	4.05%	4.3%

8.1 Members will be aware that a Pay Review is underway that is ensuring the robustness of the job evaluation system and scores for each post before considering changes to the number of grades and how long each grade will be. The final step will be to link this to pay levels that ensure the Council can continue to retain and attract good employees.

8.2 This work will not be completed until next year and so it is impossible to forecast any financial implications in relation to future provision for performance pay at this stage.

- 8.3 Although a 2% pay award has been agreed for April 2013 and that there will be no performance pay there will still need to be provision for more than 2% in the budget as it is normal practice to provide an element of protection to any staff who might have their pay reduced whilst immediately paying any increases to those staff affected. The pay assumption has therefore been reduced to 2% but an allowance has been made in the risk section for potential cost of protection, increases for changes to pay scales and future performance pay.
- 8.4 It is important to recognise that the provision of any particular sum in the MTP is not intended to imply or constrain the normal negotiation process for pay awards.
- 8.5 A full review of these figures can be undertaken once the review is completed, consultation has been concluded and the changes implemented next year.

9. TIMETABLE FOR BUDGET APPROVAL

- 9.1 The key dates in the process are shown below:

December	This Update Report
6	Overview & Scrutiny
13	Cabinet
19	Council
February	Final Budget, MTP and Council Tax Level for 2013/14
7	Overview & Scrutiny
14	Cabinet
20	Council

10. CURRENT POSITION

10.1 Starting Point

All of the MTP new items and variations have been identified and included in this paper. Provisional assumptions have been made on inflation and interest rates. The latest assessment of the current year's outturn has been included. **If the need to provide for uncertain risks was totally ignored** the Council would have a very positive position. The drawing on reserves would fall away without any additional savings being necessary. In addition, extra spending and/or reductions in future planned Council Tax increases could be considered. The table below exemplifies such a situation.

WITHOUT RISK PROVISION	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Total Spending	22,013	22,514	22,817	21,899	22,671
Use of Reserves	-1,729	-1,607	-307		
Unidentified Savings	0	0	0		
Available for extra spending or Council Tax reductions				1,206	1,542

10.2 Key Risks

However many risks remain. The biggest ones are:

- Reductions in central government grant funding for 2013/14 (available for February report).
- Reductions in central government grant funding for subsequent years (**may** be some narrowing of uncertainty by February).
- Final information on new Council Tax support scheme and levels of Government Subsidy (details of position for 2013/14 available for February but impact of the economy on applicant growth or reduction far from certain).
- Result of introduction of "Localisation of Business Rates" (a clearer position of some aspects by February but continued uncertainty on business rate variations especially in the light of the Enterprise Zone which is excluded).
- Position on New Homes Bonus will only be confirmed a year at a time plus some uncertainty about the long term continuation of the scheme.
- Implications of Pay Review on need for protection and provision for performance pay (details will emerge during 2013/14). The economic situation will also impact on future levels of pay award needed to ensure the Council can attract and retain good employees.
- Achievement of existing identified savings e.g. car park charge increases in 2015 and 2017.
- Impact of housing growth on the need to increase the volume of services provided.
- Impact of the economic situation particularly on income levels and the costs of homelessness.

10.3 The MTP has been adjusted to reflect some changes consequent on other adjustments or where the picture is clearer but otherwise no revisions have been made particularly on the grant situation. The items currently proposed are as follows:

CURRENT RISK PROVISION	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Reductions in grant	398	501	608	713	713
Business Rates Growth		-86	-177	-272	-372
New Homes – slower completions		85	199	324	360
Demographic Growth		101	203	315	316
Car Park Charges	50	60	150	160	200
MMI Drawdown		140			
Pay – Protection and Performance	320	640	960	1,300	1,600
Total	768	1,441	1,943	2,540	2,817

10.4 Given the likelihood of some significant elements of uncertainty beginning to clarify either by February or during 2013/14 the critical question at this stage is whether the risk provision for 2013/14 is excessive as it will directly influence any decisions on what further savings are required.

10.5 The LGA quote in paragraph 2.2 above suggests that the likelihood is that the risk level shown in the risk table above in relation to Government Grant reductions may well not be sufficient, especially in 2013/14.

10.6 Impact on the use of reserves and unidentified savings

The position including the risk proposals in section 10.3 above is shown below:

ILLUSTRATIVE SUMMARY	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Total Spending					
Before risk provision	22,014	21,375	21,689	21,899	22,671
Risk Provision	768	1,441	1,943	2,540	2,817
Total	22,782	22,816	23,632	24,439	25,488
Use of Reserves	-2,498	-1,909	-1,122	0	0
Unidentified Savings (-)					
Approved MTP	-337	-550	-616	-891	-846
Variation (+ = better)	+337	-564	-463	-370	-355
Potential Requirement	0	-1,114	-1,079	-1,261	-1,201

A summary giving further information is attached at Annex B

10.7 If no further savings can be identified in advance for 2013/14 then this table shows £2,498k of reserves being used. This is £544k more than assumed in the current MTP. (The figures for subsequent years have not changed). If the previous assumption were to be retained then this level of savings would need prompt

identification and agreement ready for inclusion in the February report.

10.8 Attempts could be made during 2013/14 to make savings in advance of the 2014/15 target. Members should consider their timetable for determining savings.

10.9 As already referred to earlier in the report, this position will change, possibly significantly, when the final elements of information are received in December. Therefore the figures must be regarded as **PURELY ILLUSTRATIVE** at this stage.

10.4 It is important that the Council focuses on the items that are relevant at this stage. The most significant aspects are:

- Agreement or otherwise of any optional variations in Annex A.
- Confirmation or otherwise of the retained target for car park charges (commentary pages for Operations in Annex A)
- Identification of any further acceptable savings that should be introduced anyway, or if there is any significant worsening of the situation emerging by February.

11.

RECOMMENDATIONS

Cabinet is requested to:

Note the contents of this report

Consider any comments from the Overview & Scrutiny (Economic Well-being) Panel meeting on 6 December.

Determine any recommendations or comments it wishes to make to Council

ACCESS TO INFORMATION ACT 1985

Source Documents:

Working papers in Financial Services

Financial Forecast (September 2012), 2011/12 Outturn, 2012/13 Revenue Budget and the 2013/17 MTP

Project Appraisals

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ANNEXS

A Controllable Budgets by Manager (separate document)

B Illustrative Summary

ILLUSTRATIVE SUMMARY	FORECAST 2012/13	BUDGET 2013/14	MTP			
			2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000	£000
2012/13 BUDGET/MTP	21,722	22,299	22,842	23,611	24,365	25,363
Proposed variations	199	483	-26	21	74	125
NEW FORECAST	21,921	22,782	22,816	23,632	24,439	25,488
FUNDING						
Use of revenue reserves	-2,747	-2,498	-1,909	-1,122	0	0
Remaining revenue reserves EOY	10,902	8,404	6,495	5,373	5,373	5,373
New Homes Grant	-1,913	-2,909	-3,791	-4,979	-6,281	-6,686
Special Council Tax Grant 2011/12	-184	-184	-184			
Formula Grant (RSG)	-9,288	-9,235	-8,630	-8,846	-9,067	-9,294
Collection Fund Deficit	-63					
Council Tax	-7,727	-7,955	-8,302	-8,685	-9,091	-9,508
COUNCIL TAX LEVEL	£128.51	£131.08	£135.67	£140.42	£145.33	£150.42
% increase	3.50%	2.00%	3.50%	3.50%	3.50%	3.50%
£ increase	£4.34	£2.57	£4.59	£4.75	£4.91	£5.09

Unidentified Spending Adjustments still required	0	0	-1,114	-1,079	-1,261	-1,201
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Forecast Capital Spending	7,278	8,720	2,789	3,647	3,866	3,967
Permitted capital borrowing EOY net of MRP	28,056	35,371	36,407	37,934	39,421	40,618
Average net borrowing in year	12,768	22,305	28,684	31,482	33,550	34,891
Net Interest and Borrowing Costs						
- total	827	1,485	2,053	2,431	2,792	3,302
- as % of total net spending	4%	7%	9%	10%	11%	13%