

ITEM NO D2(i)

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CABINET - 6 JANUARY 2011	
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Ward Interest:	Nil
Report Track:	Cabinet - 6/1/11 Resources – 20/1/11

**SUBMISSION BY COUNCILLOR K S WILLIAMSON
RESOURCES PORTFOLIO**

General Fund Revenue Budget 2011/12 and Financial Plan 2012/13 – 2014/15

1 Purpose of Report

- 1.1 To outline the Governments provisional Local Government Finance Settlement for the Council for 2011/12 and 2012/13
- present an updated financial forecast for the financial years 2012/13 to 2014/15
 - set the draft Portfolio budget limits for 2011/12
 - set out the draft position for the General Fund Budget for 2011/12.

2 Proposal of Cabinet Member

That:-

- (a) representations be made to the Secretary of State for the Environment on the Councils Local Government Finance Settlement with particular emphasis on the inequitable financial treatment of the transfer of concessionary fares to the County Council;
- (b) the Financial Plan 2012/13 – 2014/15 be approved;
- (c) the General Fund working balance continues to be set at a minimum of £1 million;
- (d) there will be no increase in Council Tax in 2011/12;
- (e) future years Council Tax increases will continue to be within the headline level of inflation;

- (f) the draft budget allocations of net resources for each portfolio be as set below and referred to each Scrutiny Committee for consideration:

	£000s
Environment	4,135,660
Community	453,590
Leisure	2,636,110
Planning and Regeneration	36,930
Resources	6,555,230

3 Key Issues

- 3.1 This report sets out the implications for the Councils General Fund Budget following the announcement of the Government's provisional Revenue Local Government Finance settlement. This announcement sets out the background upon which Councils Budget for 2011/12, the draft portfolio budget limits for the financial year 2011/12 and the Councils Financial Plan for the period to 2014/15 is based. This commences the formal budget process which will continue until the Council Tax is set on 24 February 2011.

4 Relationship to Corporate Priorities

- 4.1 The Portfolio budgets proposed cover all of the Council's priorities – Prosperity for All, Cleaner, Greener, Safer Communities, Health and Well Being and Leading & Delivering for our Communities

5 Background

5.1 The revenue budget for the General Fund covers the day to day services provided by the Council. It is financed from the following sources:

- Central government grant called Formula Grant. Formula Grant is made up of two elements - Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR) which is a share of the central pool for business rates distributed back to local authorities based on population.
- Council Tax income
- Use of reserves – both general and earmarked.

5.2 The position of the public finances have been well publicised over the last few months. The Coalition government held an Emergency Budget on 22nd June in which the public sector was warned that they faced cuts of “around 25% over four years”. The Spending Review was announced on 20th October 2010 and local government received significant reductions to its grant settlements – the headline announcement was that local authorities faced a reduction of 28% in their Government Revenue Support Grant over the 4 year period up to 2014/15. In fact it was suggested that reductions of 7.1% per annum would be made. It soon became apparent, following the Spending Review announcement, that the cuts to local government funding would not be spread evenly over the next four years but would be front loaded into the first two years – 2011/12 and 2012/13.

6 The Provisional Local Government Finance Settlement for 2011/12 and 2012/13-the national position

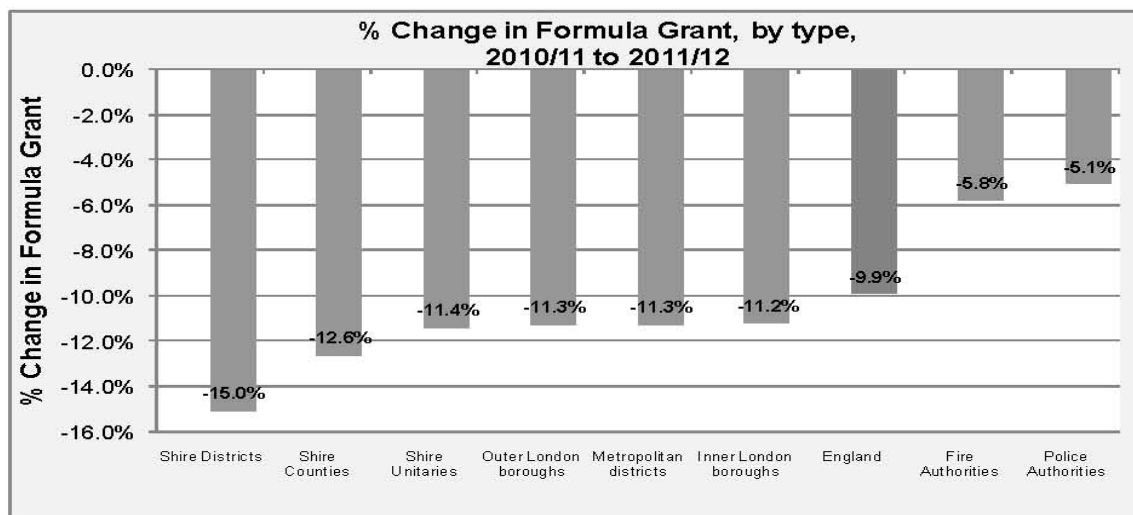
6.1 On 13 December 2010 the Secretary of State for Communities and Local Government released to local authorities details of the provisional Local Government Finance Settlements including their provisional funding allocations for 2011/12 and 2012/13. The final allocations are expected to be confirmed in January 2011. In overall terms the Secretary of State announced that Councils will face an average cut of 4.4% and that no local authority would experience a decrease of more than 8.9% in 2011/12. However these figures are based on a new concept introduced into this settlement which is “revenue spending power” “Revenue spending power” includes:

- Council Tax requirement;
- Formula Grant;
- Specific grants. In Stafford’s case these grants are Housing/Council Tax benefit administration grant and Preventing Homelessness grant.

6.2 As can be seen from the following paragraphs the actual reduction in grant is significantly in excess of that figure.

6.3 The concept of Revenue Spending Power as it relates to this Council is set out in **APPENDIX 1**.

6.4 Nationally the average reduction in Formula Grant between 2010/11 and 2011/12 is 9.9%. However shire district councils, such as Stafford, received the greatest funding reduction of any tier in local government. Grant reductions for shire districts ranged from the lowest at 13.6% to the highest at 16.8%. The graph below illustrates the change in Formula Grant by type of authority.



7 Stafford's grant settlement

7.1 As part of the Spending Review 2010 announcement, a number of specific grants were moved into Formula Grant and therefore the 2011/12 "cash" Formula Grant figure cannot be compared simply to the 2010/11 figure as it includes funding previously received through specific grants. The table below sets out the movement from the Formula Grant that the Council received in 2010/11 of £8.755 million to the notified Formula Grant for 2011/12 of £6.429 million and £5.646 million for 2012/13. The grant reductions for Stafford are 14.8% in 2011/12 and 11.5% in 2012/13 which are significant but exactly in line with the predictions based on the Spending Review announcement in October.

	£'000
Formula Grant (2010/11 Settlement)	8,755
Plus specific grants now included in Formula Grant:	
Economic assessment duty	6
Reductions to grant for transferred functions:	
Concessionary fares-effect of transfer to County Council	(1,161)
Private sewers-effect of transfer to Water Authorities	(53)
Planning inspectorate SUDs appeals costs	(2)
Adjusted baseline Formula Grant 2011/12 before reduction	7,545
Formula Grant 2011/12 after 14.8% reduction	6,429

	£'000
Formula Grant 2011/12	6,429
Reductions to grant for transferred functions:	
Private sewers-effect of transfer to Water Authorities	(50)
Adjusted baseline Formula Grant 2012/13 before reduction	6,379
Formula Grant 2012/13 after 11.5% reduction	5,646

7.2 Concessionary fares

The Government legislated that responsibility for expenditure on concessionary fares will be transferred to Staffordshire County Council on 1 April 2011. The Council budgeted to spend, after specific grant, an amount of £1.159 million in 2010/11. Within this sum this Council provides for a scheme which is in excess of the statutory requirement in the form of bus tokens, rail passes and pre 9.30am travel on local buses. It is estimated that the value of this discretionary element of the concessionary fares scheme is in excess of £250,000. It has always been understood that the discretionary part of the scheme is met from Council Tax and not from Formula Grant. However it is impossible accurately to calculate what amount within Formula Grant relates to the statutory concessionary fares scheme which essentially gives free bus and coach travel before 9.30 to eligible passholders.

- 7.3 There has been concern throughout the last year on the amount of funding that district councils will lose due to the transfer of the concessionary fares function. Earlier in the year the government provided a number of exemplifications of the financial impact for transfer scenarios using different assumptions. However, it was not possible from these exemplifications to accurately model the loss of grant for the Council.
- 7.4 The amount of grant that the Council will lose as a result of the transfer is £1.161 million. It is based on the concessionary fares expenditure for 2009/10 (uplifted by inflation of 2.9% to bring it to 2010/11 prices) The Government have made the assumption that this concessionary fares expenditure is met from Formula Grant. However this does not take into account the discretionary part of the scheme of approximately £250,000 which is not met from government grant but from the Council's resources. Therefore it appears that the Government have taken resources from the Council which are to be transferred to the County Council that have funded discretionary top ups to the national scheme. There is a school of thought that actually what has happened is that not all of the resources from districts will in fact be transferred to the County Council. Currently a piece of work is being undertaken across Staffordshire to ascertain the true position
- 7.5 The consultation period on the provisional settlement closes on the 17 January 2011 and it is recommended that the Council makes strong representations to the Government regarding the loss of its resources through the transfer of concessionary fares to the County.

8 New Homes Grant

8.1 From 2011/12 the government have announced a new scheme to incentivise local authorities to increase housing supply by paying them a New Homes Bonus grant, equal to the national average council tax band on each additional property and paid for the following six years as an unringfenced grant. Therefore for each new home using Band D as an example, the Council will receive £1,439 each year for six years. There will be an enhancement for new affordable homes of £350 per annum which is about 25% of the current average Band D council tax.

9 Looking Forward - The 2011/12 Revenue Budget and The Financial Plan 2012/13 - 2014/15

9.1 The Financial Plan starts in 2012/13 and is based on the draft Budget for 2011/12. It includes known budget changes for future years and is rolled forward to the financial year 2014/15 (**APPENDIX 2**).

9.2 The budget for 2011/12 has been drawn up based the grant settlement for 2011/12. The cash decrease in Formula grant to 2011/12 is £1.116 million but when inflation, unavoidable growth items, reduction in income and investment income were taken into account the difference between the resources available and spending requirements was £1.8 million. The portfolio budgets presented elsewhere on the agenda reflects a balanced budget.

9.3 The following paragraphs set out the assumptions that have been used in setting the 2011/12 Budgets and the Financial Plan 2012/13 - 2014/15.

- Pay awards are assumed at ½% in 2012/13 and 2% for the remainder of the financial years covered by the Financial Plan. The level of pay awards will be influenced by the rate of inflation and any upward increases in inflation could potentially have an impact on pay agreements. However in the Emergency Budget the government has stated that it expects the public sector workforce to have a two year pay freeze, except for public sector workers earning under £21,000 in each year who will receive a flat rate increase of £250. This is broadly equivalent to using the assumption of ½ % on the pay bill and has been used for the assumed pay award in 2011/12. A ½% increase or decrease in the pay award will cost/save £60,000. Local government pay remains a matter for free collective bargaining between the national employers and trade unions through the National Joint Council. Local government pay for 2011/12 will be the subject of negotiations in the NJC between employers and trade unions with a view to reaching agreement before the settlement date of 1st April 2011. It is unlikely that any settlement will go beyond that of the wider public sector. The Plan also includes the likely cost of increments as officers progress through the pay grade.
- Inflation is included primarily for contractual inflation on services and utility costs and has been included at £150,000 for the period covered by the

Financial Plan. An inflation provision is required for the Council's main contracts which include provisions for an inflationary uplift each year. These figures are based on projected rises in the rate of inflation.

- Provision needs to be made in the budget for items that the Council is aware will impact on future years budgets. These items can be a cost or credit to the Council and are discussed below.
 - Refuse collection contract – provision is required for additional properties requiring the service each year;
 - Fees and charges – the main income streams (parking, leisure centres, bereavement and land charges) all fell as a result of the recession although income at the Stafford leisure centre has improved in the last 12 months. The Plan assumes that income levels continue to decrease until 2014/15 when income levels stabilise;
 - Mercury abatement works – the Council are required to comply with the mercury abatement regulations regarding emissions from the cremators and the Plan includes the revenue costs of leasing the equipment needed to comply with the regulations;
 - The agreement for Biffa to pay the Council for the right to collect trade waste runs out in March 2013 and this income of £100,000 pa will no longer be received after that date;
 - Minimum Revenue Provision – this is a statutory amount the Council is required to set aside annually to cover its debt obligations. This amounts to £100,000 per annum;
 - Shared services – the Plan includes savings for shared services throughout the four year period rising
 - External audit fees – following the changes to the Audit Commission and the demise of Comprehensive Area Assessment external audit fees are expected to decrease by at least £20,000 per annum.

9.4 **Formula Grant, Investment income and Council Tax income**

- Formula Grant has been included in 2011/12 and 2012/13 at the level included in the Provisional Settlement. As regards 2013/14 and 2014/15 no information is available, other than that which has been derived at a national level by commentators. This indicates, that in 2013/14 there will actually be a small increase of 0.6% and in 2014/2015 a further reduction of 6.4%. These figures have been used in the Financial Plan but will of course be reviewed.

- Investment income is assumed to be £690,000 in 2012/13 rising to £940,000 in 2014/5. The amount of investment income depends on the level of cash balances held and on future interest rates. As a result of the recent economic situation base rates are currently at ½ %. We have been advised by Sector, our treasury management advisers, that interest rates are not expected to rise until quarter 3 of 2011 and then to gradually reach 3.25% by quarter 2 of 2013 resulting in the forecast for interest rates being lower than was predicted a year ago. A change in interest rates of ¼% will affect investment income by approximately £60,000.
- Included within the Financial Plan is the assumption that Council Tax income will increase as new properties are built and that the rise in the level of Council Tax will be within the rise in the rate of inflation. In recent years the number of new dwellings built each year has slowed and in addition those that are built tend to be in lower Council Tax bandings. In addition the current condition of the housing market leads to lower expectations of the number of dwellings that are likely to be built. For these reasons an assumption that the Council Tax base will increase by 0.3% each year has been included in the Financial Plan.
- For 2011/12 the government has offered Councils funding to allow them to freeze Council Tax at 2010/11 levels. This funding will be provided to make up for a loss in Council Tax income based on an assumed 2.5% increase equal to £171,000 for this Council and, is payable for four years to 2014/15. There is no indication that a similar grant will be payable from 2012/13 in respect of any Council Tax increase relating to that year.

9.5 The Council must set a balanced budget, which is in line with good financial management and is backed up by a legal requirement. In order to reduce the future budget gap highlighted in the Financial Plan, the Council will consider the following possible financial strategies to reduce the gap:

- Council Tax - a 1% increase in Council tax generates, approximately, an additional £68,000 income to the Council.
- Use of General Fund Balances - the Local Government Finance Act 2002 requires the Chief Financial Officer to make a recommendation to the Council as to the proper level of balances for each financial year. The Council's current policy is to maintain a minimum working balance of £1 million. Balances are discussed in more detail below.
- Other Reserves and Provisions - the Council has a number of earmarked reserves (amount set aside for known future events) and other provisions which can be used to support the budget.
- Fees and Charges - a significant amount of support for the Council's Budget comes from fees and charges. There are seven main sources of income; development control (planning), building control, leisure, land charges, parking, bereavement services and market rents, with the latter five, being locally determined. There is clear steer from the government that local authorities

should maximise income wherever possible particularly where the costs of discretionary services exceed the income received. In addition there is a suggestion that some of the nationally determined fee levels eg Planning fees could in the future be locally determined.

- The budget will continue to be reviewed to identify efficiencies to ensure that where possible services can be delivered for less resources. This is particularly relevant for the increasing number of services that will be delivered through shared services with Cannock Chase Council. However it is clear that with the background of significant cuts in Government support that this will not always be possible without impacting on service delivery

10 Reserves and Balances

The general strategy for unallocated reserves is that they are used to meet shortfalls in the net budget if they occur during or at the end of the financial year. Earmarked reserves are constantly under review and can be used in support of the Budget.

10.1 The Working Balance

The current policy is to maintain the level of the General Fund balance at a minimum of £1 million which represents 6% of net expenditure on the General Fund. The Chartered Institute of Finance & Accountancy (CIPFA) guidance states that a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves and that, in assessing the level of reserves, Chief Financial officers should take into account the strategic, operational and financial risks facing the authority. A risk assessment has been undertaken and the risks are set out in the table below.

10.2 The General Fund balance at 31 March 2010 was £1.149 million. The difference in this balance and the minimum recommended balance of £1 million is £149,000 which is available to fund one-off revenue bids or to support the implementation of the 2011/12 budget as some of the proposed savings may not be able to be implemented with effect from the start of the financial year.

10.3 The following are the risk areas that need to be taken into consideration when deciding on the minimum level of the General Fund balance:

Area of expenditure	Level of risk	Explanation of risk/justification for Reserve
Inflation	Low	Inflation has been included in the Financial Plan. Inflation is currently running at just below 5% but is expected to fall in the medium term.
Investment interest	Low	A key income source in the Financial Plan. The amount earned depends on the prevailing interest rates and the

Area of expenditure	Level of risk	Explanation of risk/justification for Reserve
		level of cash balances held.
Major income sources:		
• Planning application fees	Medium	Dependent on economic conditions.
• Land charges fees	Medium	Dependent on the housing market.
• Building control fees	Medium	Dependent on economic conditions.
• Car parking income	Medium	Certain amount of volatility based on demand.
• Indoor leisure centres income	Medium	Dependent on economic conditions.
• Borough Markets	Medium	Dependent on occupancy levels.
• Environmental services	Low	Licensing income dependent on renewals.
• Bereavement services	Low	Some risk as it is a main source of income.
Spending pressures:		
• Indoor leisure centres	High	Indoor leisure centres require active budgetary control.
• Parking enforcement contract	Medium	The contract is due for renewal in April 2011 and the costs of a re-tendered contract may be higher than the current contract.
• Waste and recycling targets	Low	The Council will need to reach recycling targets in order to maximise income from recycling credits and avoid penalties.

10.4 Earmarked Reserves

The Council maintains a number of earmarked reserves which have been set aside for specific risks (eg VAT), for known future spending requirement (eg mercury abatement) or for specific projects (eg service reserves). These reserves are discussed later in the report.

Earmarked Reserve	Reason for Earmarked Reserve	Balance at 31.3.10 £'000
VAT Partial Exemption	To protect the Council's revenue finances in the event of the partial exemption limit being exceeded.	195
Invest to Save	This reserve is held to enable additional investment to be made in a service during a financial year that can demonstrate cost efficiencies in future years. This investment is repaid over a number of years to ensure the fund level	159

Earmarked Reserve	Reason for Earmarked Reserve	Balance at 31.3.10 £'000
	is maintained.	
Restructuring	For restructuring of services	437
Environmental levy	For the replacement of the cremators to comply with mercury emissions legislation.	141
Provision for future maintenance	A reserve set up to provide for building maintenance.	388
Local Plan	Production and examination of Local Development Framework	127
Regeneration (LABGI)	Local Authority Business Growth Incentives scheme grant which has been earmarked for regeneration projects	300
Growth Point	Funding received as part of the Growth Point bid.	121
Public Space Action Plan	To cover improvements in public space	137
Stafford Leisure Centre refurbishment	To meet future maintenance costs of the leisure centre.	100
Other Reserves	Earmarked reserves to support specific service schemes	1,409
Insurance Reserve	The council maintains a self insurance reserve for part of the insurance liabilities. The level of the fund is reviewed by external advisors every three years	334
Earmarked Reserves - allocated		3,848
Single Status	This was set up to cover any subsequent financial costs of implementing the single status agreement. It is now available for general use.	1,372
Support to Budget following Spending Review 2010	Non earmarked resources which are identified as available to support future years Budgets	1,897
Housing Planning Delivery grant	Funding received for the Housing Planning Delivery grant	248
Earmarked Reserves - unallocated		3,517
Total Revenue Earmarked Reserves		7,365

11 Fees and charges 2011/12

- 11.1 Fees and charges have been reviewed and reported to the Council meeting on 30 November 2010. Any changes will apply from 4 January 2011.

12 Financial Implications

- 12.1 Included in the report.

13 Risk Management Issues

- 13.1 Included in the report.

14 Equality Issues

- 14.1 The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Race, gender, disability, sexual orientation, religion or belief, age.

This report has been produced having considered the following additional issues Strategic Plan Implications, Sustainability Issues, Human Rights Issues, Crime and Community Safety Issues, Data Protection Act Implications, Legal Implications, Human Resource Implications and Equality Issues.

Previous Consideration

Nil

Background Papers

File available in Corporate Finance

General Fund Revenue Budget 2011/12 and Financial Plan 2012/13 – 2014/15
Stafford's Revenue Spending Power

The "revenue spending power" for Stafford is set out below. It shows a reduction for 2011/12 of 6.3% however this calculation includes the Council Tax requirement which is a matter for local decision.

Revenue Spending Power calculation – 2010/11 baseline	£000	
2010/11 Council Tax requirement	7,576	
Formula Grant 2010/11	7,545	
Housing /Council Tax benefit administration grant	686	
Preventing Homelessness grant	36	
Migration impact fund	26	
Revenue Spending Power 2010/11 - baseline	15,869	
Revenue Spending Power calculation – 2011/12		Change on 2010/11
2010/11 Council Tax requirement	7,576	0
Formula Grant 2011/12	6,429	-14.8%
Housing /Council Tax benefit administration grant	642	-6.4%
Preventing Homelessness grant	50	+38.9%
Council Tax freeze grant	171	New grant
Revenue Spending Power 2011/12	14,868	-6.3%

APPENDIX 2

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General Fund Revenue Budget 2011/12 and Financial Plan 2012/13 – 2014/15

General Fund - Financial Plan to 2014/15

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Portfolio spending				
Base	13,818	13,818	13,408	13,923
Pensions contributions increases	N/A	160	160	160
Increments	N/A	75	75	75
Pay inflation	N/A	55	220	220
Contractual Inflation	N/A	150	150	150
Efficiencies & Service reductions	N/A	(850)	(90)	(590)
	13,818	13,408	13,923	13,938
Unavoidable growth	-	240	305	230
	13,818	13,648	14,228	14,168
Investment interest	(350)	(690)	(940)	(940)
Technical adjustments	120	120	120	120
Net spending	13,588	13,078	13,408	13,348
Financed By				
Formula Grant	(6,429)	(5,646)	(5,678)	(5,314)
New Homes Bonus Grant	(100)	(200)	(300)	(400)
Special grant – Council Tax freeze	(171)	(171)	(171)	(171)
Council Tax Income	(6,888)	(7,061)	(7,259)	(7,463)
	(13,588)	(13,078)	(13,408)	(13,348)