

DRAFT BUDGET 2013/14

Cabinet – 10 January 2013

Report of the: Chief Executive Designate

Status: For Consideration

Key Decision: No

Executive Summary: This report sets out progress made in preparing the 2013/14 budget and updates Members on key financial information recently received.

This report shows that no further savings than those already set out in the four year savings plan are required to balance the budget for 2013/14, albeit this budget recognises some risks including income.

The overall emphasis is on building on the strong framework provided by the 10-year budget, whilst taking into account any new financial burdens and changes in the economy that have an impact on budget assumptions.

The Cabinet will make its final recommendation on the budget at its meeting on 7 February 2013, after taking into account any updated information available at that date.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager – Financial Services – Adrian Rowbotham

Recommendation to Cabinet: Members give consideration to the draft balanced budget and provide officers with any further instructions.

Background

- 1 At the Cabinet meeting on 13 September 2012, Members considered a report setting out the Council's financial prospects for 2013/14 and beyond. That report set out the major financial pressures the Council is likely to face, together with a proposed strategy for setting a balanced and sustainable budget for 2013/14 and beyond.
- 2 As part of the budget process officers put forward their Service Plan Summaries to Select Committees in October and November, which set out their objectives for the coming year. Changes to the four year savings plan together with new growth and savings items were also identified by officers.

- 3 At the Cabinet meeting on 6 December 2012, Members received a report setting out progress made in preparing the 2013/14 budget and considered the comments and recommendations of the Select Committees.

Introduction

- 4 This report sets out the current position for the 2013/14 budget and updates Members on key financial information received on 19 December 2012 through the Local Government Finance Settlement. Included as appendices to this report are:
 - Appendix A – 10 year budget
 - Appendix B – Growth and savings agreed in previous years updated with changes presented to Cabinet on 6 December 2012
 - Appendix C – Risk analysis
- 5 The Cabinet will make its final recommendation on the 2013/14 budget at its meeting on 7 February 2013, after taking account of the latest information available at that date.

Draft Budget 2013/14

- 6 Appendix A to this report sets out the latest 10 year budget. Members will be aware that the approved 2012/13 net budget is £13.443m. The draft budget for 2013/14 for Members' consideration is currently £13.768m based on a number of key assumptions.
- 7 Members are asked to note that the council tax assumption for 2013/14 has been reduced. Government has announced that no rises in council tax levels above 2% will be permissible without a local referendum. Due to the costs associated with this and recognition of the Council's continued commitment to minimise council tax increases the assumption in the latest 10 year budget has been reduced from 3% to 1.99%. Further information is set out from paragraph 17 below.

Updates to the Financial Prospects Report

- 8 The Financial Prospects report considered in September raised a number of financial risk areas for the Council. These are updated below and Members will be aware that this is a rapidly evolving situation, and the Council needs to be prepared to act flexibly in response to changes in economic conditions.
- 9 In order to inform and test budget assumptions, information has been gathered from a variety of sources, including other Kent authorities, Treasury advisers (Sector), Government forecasts and guidance and Heads of Service expertise. In addition, Finance Advisory Group will be reviewing the assumptions as part of the budget process at its meeting on 23 January 2013.
- 10 The 10 year budget at Appendix A has been updated to take account of the changes as set out below. Appendix C quantifies significant financial risks.

Income

- 11 **Government Support.** The basis for allocating Government Support from 2013/14 is changing to the Business Rates Retention Scheme. This scheme initially allows billing authorities, such as this council, to keep 40% of Business Rates received, however tariffs and top ups are applied to ensure that initially each local authority is not significantly affected by this change.
- 12 The Council had assumed that Government support would reduce by 9% in 2013/14 and 10% in 2014/15. However, the fundamental changes being made to the local government funding mechanism has greatly increased the complexity and uncertainty for local authorities to assess their likely financial settlement than in previous years. Therefore projections and forecasts were being made with limited data and in an environment where assumptions were constantly changing as Government refined their approach to the business rates retention system.
- 13 The Government announced provisional figures for 2013/14 and 2014/15 on 19 December 2013. The provisional figures show that the Council is faced with a reduction in funding of 14.2% between 2012/13 and 2013/14 and a reduction of 6.5% between 2013/14 and 2014/15. To put this in context Local Government Futures initial analysis shows that the average reduction for shire districts is 6.8% in 2013/14.
- 14 The table below demonstrates the impact on the 10 year budget in cash terms:

Year	Assumption £000	Actual Settlement £000	Variance £000
2013/14	3,998	3,788	- 210
2014/15	3,598	3,542	- 56

- 15 Since the start of the Spending Review period in 2010/11 the Council will have seen a reduction in its Government grant of 40.3% in 2013/14 and by 44.2% in 2014/15. Per head of population, the Council's grant funding will have reduced from £55.64 in 2010/11 to £30.83 at the end of 2014/15, the lowest level in Kent.
- 16 **New Homes Bonus.** The New Homes Bonus for 2013/14 is higher than previously estimated. The 10-year budget has been updated to take this into account for the confirmed period of the New Homes Bonus scheme which ends in 2016/17.
- 17 **Council Tax.** Government confirmed in the Local Government Finance Settlement that council tax increases would trigger a local referendum if they exceed 2%, or if for District Council's that currently set a council tax that ranks in the lowest quartile nationally a rise of £5. Sevenoaks District Council is above the lowest quartile point of an estimated £143 per annum. Due to the costs associated with referendums and recognising the Council's continued commitment to minimise council tax increases the assumption in the latest 10 year budget has been reduced from 3% to 1.99%.

- 18 The Government has also announced that if a Council freezes its Council Tax in 2013/14 they will receive a 1% grant for two years.
- 19 The table below sets out the budget implications of the most practical options for Members and demonstrates the financial impact from the initial 10 year budget assumption of a 3% increase in 2013/14.

Options	Reduction in income from 3% assumption in 2013/14 £000	Reduction in income from 3% assumption over 10 year budget £000
Council tax increase of 1.99%	86	1,012
Freeze council tax and accept Govt grant	170	2,863

- 20 Members should note that the 10 year budget continues to assume a 3% increase in council tax in 2014/15 and 4% in all future years. The Government are determined to constrain council tax increases for at least the remainder of this Parliament and potentially to the end of 2017/18 when austerity measures are programmed to cease.
- 21 The setting of council tax is clearly a political decision for Members. However, from a practical financial perspective it should be noted that to accept the government grant and freeze the council tax will cost the Council almost £2 million over 10 years and will most likely lead to the reduction in services. This will be further compounded by the review of financial assumptions due to take place in Spring 2013, which is likely to show significant further pressure on our budget through reducing income in a number of our service areas and the need to revise the Council's 4% council tax assumption from 2015/16.
- 22 **Council Tax support grant.** The Finance Settlement confirmed total funding for the local support for council tax scheme of £1.008m for 2013/14. This is a slight reduction on initial Government estimates and Members should note that £274k will be passed on Town and Parish Councils. The remaining £734k will be available to the Council to meet the costs of its local council tax support scheme.
- 23 **Government Support to be passed on to Town and Parish Councils.** As set out above the District Council received a grant of £1.008m to support its local council tax support scheme which includes an amount for Town and Parish Councils. The total value of the grant for Town and Parishes has been announced as £274k in 2013/14. The Council will pass this amount on in full and has informed Town and Parish Council of this intent. However it should be noted that the monies provided by Government do not fully compensate Town and Parish Councils for the change in policy. In 2013/14 the average shortfall is approximately 11%.
- 24 The Government has indicated that, in future years, the council tax support funding will be included in the District Council's overall grant settlement. If this is the case Town and Parish Councils have been made aware that if future years'

grant settlements are lower, this will affect the level of grant that the District Council is able to pass on to Town and Parish councils.

- 25 **Interest receipts.** Projected investment income is based on returns being 0.3% higher than Sector's Bank Rate forecast. The latest assumption is for the following returns: 0.8% in 2013/14 and 2014/15, 1.2% in 2015/16, 1.3% in later years.
- 26 Assumptions remain unchanged in relation to the following income areas:
- Variable income sources;
 - External funding;
 - Discretionary charging; and
 - Partnership working

Expenditure

- 27 There are no changes to assumptions on key expenditure items from the financial prospects report. These include:
- Pay costs;
 - Non-pay costs; and
 - Unavoidable service pressures.

Current Budget Gap and Savings Proposals

- 28 Despite greater than assumed reductions in government grant, a previously reported budget shortfall of £160,000 and a council tax increase limited to 2%, the 10 year budget presented to Members for their consideration is balanced for 2013/14 and over the 10 year budget period. This has been achieved through a sensible use of the New Homes Bonus, effective use of the budget stabilisation reserve and the continue effort of Members and Officers to identify and deliver savings and efficiencies.
- 29 The delivery of a balanced budget remains subject to growth and savings items included in Appendix B being achieved in full, and any further adjustments to key sources of income or expenditure before the budget is finalised in February. Members may wish to note the risk items outlined at Appendix C to this report.

Collection Fund and Tax base

- 30 The 2013/14 tax base and an estimate of the Collection Fund balance as at 1 December 2012 will be presented to Members as a separate item on the agenda of this meeting.

2012/13 Outturn

- 31 Supported by the Finance Advisory Group, tight financial monitoring and control has been in place for a number of years and again for 2012/13. Given the constraints being placed on all budgets, and the savings planned for 2013/14 and future years, it is essential that the Council continues to operate on this basis.

- 32 The latest monitoring figures indicate a small favourable variance at the year end. However, it should be recognised that this has been a challenging budget year for a number of reasons, including reduced income streams and the continued impact of the recession. In spite of this, officers, with the support of the Finance Advisory Group, are continuing to ensure the year-end outturn remains within budget.
- 33 Key risk items in the current year include:
- Development Control income (£140,000 forecast shortfall in 2012/13),
 - Building Control income (£129,000),
 - Car Parking income (£100,000),
 - Land Charges income (£35,000).
- 34 Based on these risks it is likely that unless additional income or savings are identified the budget gap will increase by the time Members come to set the budget.

Adequacy of Reserves

- 35 Ensuring the adequacy and sustainability of the Council's reserves continues to be a key part of the budget process. Individual balances will be reviewed and reported to Cabinet on 7 February.

Key dates for the remainder of the 2013/14 budget setting process

- 36 At its meeting on 7 February the Cabinet will make its recommendations to Council, for decision at the Budget Council meeting on 19 February.

Key Implications

Financial

- 37 All financial implications are covered elsewhere in this report.

Community Impact and Outcomes

- 38 A balanced budget that includes the assessment and management of risk provides the Council with the financial stability required to plan and deliver its services to the community.

Legal, Human Rights etc.

- 39 There are no legal or human rights implications.

Equality Impacts

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	Yes	Equalities assessments have been completed for all of the Service Change Impact Assessments (SCIAs).
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Conclusions

- 40 The Council continues to be faced with a climate of reducing income and increasing demand for a number of its services. By continuing to adopt the 10-year budget approach, these pressures can be predicted and more importantly, the Council will be better placed to anticipate and react to such events. This approach also allows the Council more stability and sustainability in delivering its services and dealing with its finances.
- 41 Continuing to deliver the 10 year budget will be a major challenge for a Council that already provides value for money services to a high standard. In making budget proposals, Members have considered equality impacts, the impact on service quality, residents and staff well-being, to ensure that these proposals lead to an achievable Financial Plan that supports the Council's aspirations for customer focussed services.
- 42 The future financial prospects for the public sector are increasingly difficult. However, this budget will ensure the Council is in a financially sustainable position.

Risk Assessment Statement

- 43 The budget risk analysis is attached at Appendix C to this report. The Finance Advisory Group will review these risks as part of the budget process at its meeting on 23 January 2013.
- 44 An effective integrated policy and priority driven long-term financial and business process is required for the Council to deliver on its priorities and maintain a sustainable budget. It is also essential that continuous improvements are identified and implemented in order to take account of the changing climate within

which the Council operates and to meet the expectations of both Government and the public on the quality of service demanded from this Council.

- 45 The risks associated with the 10-year budget approach include uncertainty around the level of shortfall and the timing of key announcements such as future grant settlements. The risk will be mitigated by continuing to review assumptions and estimates and by updating Members throughout the process.
- 46 The Council has in place a number of specific reserves and provisions to address identified risks.

Appendices

Appendix A – 10 year budget

Appendix B – Growth and savings agreed in previous years updated with changes presented to Cabinet on 6 December 2012

Appendix C – Risk analysis

Background Papers:

Report to Cabinet 6 December 2012 – Item 9 – Draft Budget 2013/14

Report to Environment Select Committee 23 October 2012, Social Affairs Select Committee 30 October 2012 and Services Select Committee 1 November 2012 – 2013/14 Budget and Review of Service Plans

Report to Cabinet 13 September 2012 – Item 6 – Financial Prospects & Budget Strategy 2012/13 and Beyond

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