

PAPER NO.11**REPORT TO THE EXECUTIVE MEETING OF 17th JANUARY 2011**

Status: Decision

Title: Provisional General Fund Budget Estimates: Base 2011/12

Originator: Kamal Mehta, Deputy Chief Executive

Where from: Portfolio Holders and Strategic Team

Where to next: Refer to Resources Development Scrutiny Panel for consideration and comment

1 Purpose Report

1.1 To note the provisional Revenue Support Grant Settlement for 2011/12, 2012/13 and other related grants.

1.2 To consider the provisional General Fund Budget Estimates: Base 2011/12

2 Recommendations:

2.1 This report be referred to the Scrutiny Panel - Resource Development on for its comments and views on the General Fund Budget proposals for 2011/12.

2.2 The Executive notes that the provisional General Fund Budget: Base 2010/11 includes the revenue implications of the recommended capital projects.

2.3 That a further and final report be brought back to the Executive on 14th February 2011:

(a) for consideration of the Executive's Final budget proposals for recommendation to Council on 24th February 2011 and which includes :

(i) the final Revenue Support Grant Settlement for 2011/12; and

(ii) the view and comments of the Scrutiny Panel - Resources Development on the draft proposals.

3 Summary of Reasons for the Recommendations

- 3.1 This report sets out the Executive's provisional General Fund Base Budget proposals for 2011/12 to refer to the Scrutiny Panel - Resources Development for its comment.
- 3.2 The final Revenue Support Grant Settlement for 2011/12 will not be announced until late January/early in February and therefore the provisional grant figures published by the Government in December 2010 are used in determining the amount to be raised from Council Tax.
- 3.3 The Council must statutorily set a budget to discharge its duties and responsibilities. The duty to recommend a budget to Council rests with the Executive.

4 Impact on Communities

- 4.1 The budget proposals include all the functions of the Council and there will be actions and activities within the services that will have implications for the residents or specific sections of the communities within and in some cases beyond the boundary of the District.
- 4.2 Wherever such actions and activities are to be implemented, the Council will ensure that it will satisfy its obligations in respect of undertaking the appropriate assessments and consultation requirements.

5 Key Facts

5.1 The Council's Budget and the Economic Downturn and Other Pressures.

- 5.1.1 The economic climate together with the Coalition Government's actions to manage the national deficit continues to put a strain on the Council's finances and services. The Council had already recognised that it would be faced with a tough grant settlement from the government in a very difficult and fragile economic environment. In fact, the approved Medium Term Financial Strategy set out a number of scenarios. The scenario that Management Board and the Portfolio Holders were basing the work for the budget for 2011/12 was a 10% reduction in government grant with a 2.5% increase in the average Band D Council Tax. The provisional government grant settlement is much worse than the scenario as explained below.
- 5.1.2 The Council has experienced reductions in revenue from its own fees and charges over the last two years and has been taking actions over the past two years to make savings by reducing its size and proactively controlling its expenditure. The base rate of 0.5% continues to impact on interest income alongside the income from fee earning services. On the other hand the Council is continuing to experience an increase in demand in the 'welfare' services such as Housing Benefits and Housing Advice. A particular significant reduction in the fees and charges has come from the ruling that

some of the land charges information that had previously been chargeable falls under the definitions of the Environment Information Act and therefore cannot be charged for. The fee had been set statutorily and was withdrawn by the government as a result of the ruling. The Council will also have to refund the fees already collected over the past years if requested. It is estimated that can amount to around £70,000.

5.1.3 The Council continues to experience inflation that is relatively higher than the rest of the economy. This is due to being locked into specific contractual uplift clauses and the types of services that the Council procures. This is generally the case in local government.

5.2 Revised Budget Estimates 2010/11

5.2.1 During the current financial year to date savings have been identified and implemented through a proactive approach by the Management Board in consultation with the Portfolio Holders. However, there are also a number of areas where costs are higher than had been expected. Work on the revised Budget Estimates for the current financial year has not been fully completed at this stage. It is intended to present the revised estimates to the Executive in February.

5.3 Capital Programme and Financing

5.3.1 The revenue costs of capital expenditure up to and including the current financial year 2010/11 have been included in the provisional Base Budget 2011/12. The Capital Programme for 2011/12 has not been finalised at the time of writing the report however in the light of the current financial constraint it is not anticipated that the proposed programme for 2011/12 will include any new significant revenue implications. The final proposed programme and its financing will be presented to the Executive in February.

5.4 Provisional Local Government Finance Settlement 2011/12 and 2012/13.

5.4.1 The Government announced the provisional Revenue Support Grant Settlement for 2011/12 and 2012/13 set out in the table below for consultation in December 2010. The Consultation period ends on 17th January 2011.

2010/11 Actual	2010/11 Adjusted	2011/12 Provisional	% change	2012/13 Provisional	% change
£m	£m	£m	£m	£m	£m
5,450	4,920	4,093	-16.80%	3,514	-14.15%

The Formula Grant Distribution system has seen changes to it. In addition to changes in the formula, a significant change to the grant is for the transfer of the Concessionary Travel function from Shire District Councils' to County Councils in two tier areas.

- 5.4.2 Since the Chancellor of the Exchequer's Comprehensive Spending Review announcement in October 2010, it was known that local government would see a reduction of 28% in government grant support over the period from 2011/12 to 2014/15. The Secretary of State for Communities and Local Government announced that savings from local government would be front loaded meaning that a larger proportion of savings would be made in the first two years of the four year period.
- 5.4.3 The Government continues to operate the floor damping mechanism to scale back the grant increases of authorities above the floor to pay for those authorities that are below the floor to receive grant increases of at least the floor. The Government has continued with its policy of self-financing this mechanism per each class of authority. Harborough had its grant scaled-back or increases in its grant limited since the introduction of the mechanism(s) in 2002/03. Effectively, by 2010/11 (this financial year) this Council's grant had been cumulatively scaled back by £1,892,612 over the years. This equates to £22.16 per head of population as projected by the Government for 2010/11 or equates to £58.61 per Average Band D equivalent Council Tax.
- 5.4.4 However, as a result of changes in the formula and the reduction in the local government grant funding from 2011/12 the Council's formula grant is below the floor. Floor levels have been set by the Government by classifying Shire District Council's into four bands according to the extent to which they rely on formula grant to finance their budget requirement in 2010-11, and a different floor has been set for each band. The highest floor – representing the smallest reduction – applies to the most dependent band of authorities and the lowest floor to the least dependent.

Band		Floor Level
Band 1	Authorities most dependent on formula grant	-13.8%
Band 2		-14.8%
Band 3		-15.8%
Band 4	Authorities least dependent on formula grant	-16.8%

This Council is in Band 4. For the first time since the operation of the floor and ceilings damping mechanism in the system the council's grant on a like for like basis between the current financial year (2010/11) and 2011/12 before the application of the floor damping has fallen below the floor and therefore is subject to a floor damping grant of £264,456. This in effect means that the Council's grant for 2011/12 compared on a like for like basis with 2010/11 will be 16.8 % less i.e. £826,534.

- 5.4.5 The Government is intending to announce the final settlement in early February 2010 and therefore the final budget proposals to be considered by the Executive on 15th February 2011 will be updated with the final settlement for 2010/11.

5.4.6 Council Tax Freeze Grant

The Government has announced that it will pay a grant equivalent to a 2.5% increase in Council Tax to authorities that set a 0% increase in their average Band D Council Tax for 2011/12. The provisional amount for this Council is £138,506. The Council's average Band D Council Tax for 2010/11 is £169.79. Therefore, by setting the same amount for 2011/12 the Council would receive the grant of £138,506 to support its revenue expenditure. The provisional Base Budget Estimates for 2011/12 have been constructed on the basis of a 0% increase in the Council's average Band D Council Tax.

5.5 Fees and Charges for 2011/12

5.5.1 The Fees and Charges for 2011/12 are being compiled for approval at the Executive meeting on 14th February 2011.

5.5.2 The Executive should note that the draft Fees and Charges for 2011/12 are based on the following guidelines:

- *Fees and charges to be increased by the rate of inflation, 3.5%, as a minimum, with the exception of car parking fees..*
- *There should be a direct link between the proposed scale of charges for 2011/12, and the expected level of service provision.*
- *Budget managers have been instructed to consider increasing fees and charges by more than 3.5% to increase revenue as much as possible.*

5.5.3 The provisional Base Budget 2011/12 includes income estimates which take account of statutory fees and charges and statutory limitations on fees and charges and the sensitivity to price changes of the demand for services.

5.6 Provisional General Fund Base Budget Estimates 2011/12

5.6.1 The provisional General Fund Summary Base Budget for 2011/12 is shown at Appendix 1. As mentioned above in paragraph 5.1.1 the Council was already planning for a difficult financial and operational environment due to the need to reduce public sector expenditure to contribute to the savings to reduce the national debt.

5.6.2 The Council has adopted a process by which to make the strategic choices. This involves identifying the activities and costs involved in delivering its services and constructing the draft budget for 2011/12. Also identified are the corporate and democratic and costs. The total amount thus identified represents the 'need to spend' i.e. the draft budget. The list of proposed savings from activities and the corporate and democratic costs are shown in Appendix 2. A breakdown of corporate and democratic costs is shown in Appendix 3.

5.6.3 Concurrently, also identified is the total amount that the Council can have to deliver its services at a politically set level of council tax increase before any

support from general reserves that is not already identified. This represents the 'resource envelope'. In accordance with the principles set out in the Medium Term Financial Strategy the annual expenditure of the Council should be met from fees and charges, general and specific grants from the government and the amount raised from Council tax (its resource envelope.) The provisional resource envelope for 2011/12 is £9,893,341. This is shown in Appendix 2 At this level, the increase in the Council's element of the average Band D equivalent Council Tax in the District in 2011/12 would be 0% (£0) for the year. The comparative increase for 2010/11 (this financial year) was 2.5% (£4.14) for the year.

- 5.6.4 The difference between the draft budget (paragraph 5.6.2) and the resource envelope (paragraph 5.6.3) is the funding gap that the Council has to manage. This is £1,410m. Management Board and the Portfolio Holders have been engaged on identifying cuts in expenditure through the aforementioned strategic choices process and giving due regard to and informed by the results of the member and public consultations that have been undertaken and reported separately on this agenda.
- 5.6.5 The government have introduced the New homes bonus from next year. An early prudent estimate has been included as income , but pending policy decisions on possible uses for this funding, this has been placed in earmarked reserves.
- 5.6.6 The savings proposals to manage the funding gap are shown in Appendix 2, in the format of the activity costing model.
- 5.6.7 It should be noted that the Parish Precepts in 2011/12 in Appendix 1 are currently showing at the same level as in 2010/11 (current financial year). The figure for 2011/12 will be updated in the final report to the Executive on 14th February once all the parish precepts have been received.
- 5.6.8 The work the compilation of the budget proposals has taken place in the context of the compilation of the 2011/12 Business Plan. The Business Plan for 2011/12 will be reflected in the individual Portfolio Plans and the detailed Service Plans which will be resourced by the budget.
- 5.6.9 There are a number of proposals to generate savings, and efficiencies in some cases, that have been discussed with portfolio holders and these need to be approved in order to meet the requirement of a balanced budget for 2011/12. These are shown in Appendix 2 and covered in more detail in individual portfolio plans.

5.8 Reserves - Revised 2010/11 and Base 2011/12

- 5.8.1 The Council's policy is to hold general reserves which average 8.3% of the total net direct expenditure adjusted for any budget management items that

are not reflected in or been incorporated into total net direct expenditure and any use of earmarked reserves.

- 5.8.2 For both the revised 2010/11 position (current financial year) and 2011/12 the average level of the general reserves will be at or above the policy level due. The position on reserves will be more fully reported in the report to the Executive in February with the completion of the work on the revised budget for the current financial year (2010/11) and the proposed final draft decisions on the savings for 2011/12.

6 Legal Issues

- 6.1 The Constitution of the Council requires the Executive to refer its budget proposals to the Scrutiny Panel - Resources for its comments on the proposals. Any comments made by the Scrutiny Panel will need to be considered by the Executive before making its final budget recommendation to Council. As it stands Resources Scrutiny Panel is meeting on 4th February to receive the budget proposals to comment on. The next meeting of the Executive is on 14th February whilst the Council meeting is scheduled for 24th February.

- 6.2 The expenditure proposed for 2011/12 by the Executive has to be within the statutory powers of the Council. The District Auditor as part of his annual audit considers the legality of the Council's transactions.

7 Resource Issues

- 7.1 This is primarily a resource allocation report.
- 7.2 A considerable amount of work has been and continues to be done in shaping the way the Council delivers its services to the users now and in the future. The modernisation and transformational agenda coupled with the need to work more closely, effectively and efficiently with the other local authorities in two tier areas requires new solutions to meet the needs of the user from a holistic perspective.
- 7.3 The business planning framework is contributing to this in terms of financial and service development planning and prioritising the allocations and use of resources.

8 Equality Impact Assessment Implications/Outcomes

- 8.1 Any changes to services included within the proposed budget will have either an initial or a full Equality Impact Assessment completed.

9 Impact on the Organisation

- 9.1 Any decisions Members take to balance the budget and setting Council Tax will impact on the sustainability of the Medium Term Financial Strategy. It is important that the medium term to longer term considerations and decisions

are progressed early during 2011/12 to provide a sustainable position for the future particularly in the context of the further grant reduction of 14.15% in 2012/13.

9.2 Due to the unprecedented financial environment that the Council is now in and the actions it is taking to manage its position in the context of the methodology that it has adopted has meant a significant amount of additional work compared to a normal business and financial planning cycle would entail. As a consequence it has been necessary to concentrate on the expenditure plans for 2011/12 in the first instance with close monitoring and control on current year's expenditure. There are a number of areas that would have progressed concurrently however it has not been possible to do so to the extent of being able to be included in this report. It is intended that the report on the final draft budget in February will reflect the completion of all outstanding work.

10 Community Safety Implications

10.1 The savings proposals in this report may have community safety implications.

11. Carbon Management Implications

11.1 The authority has been working hard to reduce its Carbon footprint. It will continue to do within the overall financial constraints that it is facing.

12. Risk Management Implications

12.1 As has been stated in a number of places in this report, there are a number of actions within the budget proposals which need to be realised in respect of budget savings both in the current and the next financial year.

12.2 A particular risk on the Council is a reduction in the income that it receives not just through its fees and charges but through services that it provides through Service Level Agreements and/or other contractual arrangements.

- Such arrangements would impact on the Council significantly and where this happens the Council will have to undertake a full review of the service concerned to address the loss of the income. The Council needs to be particularly aware of this risk especially in the current economic climate whereby all organisations whether public sector or private will be considering their own positions and scrutinising their own arrangements where they have such arrangements.

13 Consultation

13.1 The Heads of Service have looked at various options for services to identify efficiencies and savings. These options have then been discussed at length in Management Board.

- 13.2 The Chief Executive meets with representatives of Unison to inform, share and discuss issues and actions in respect of business and financial planning for 2011/12.
- 13.3 The budget proposals for 2011/12 have then been taken forward by the Portfolio Holders and Management Board where there has been significant discussion in the context of the results of member and public consultation. The results of these discussions are included in the budget proposals outlined in this report.
- 13.4 The Council briefed staff in Autumn/Winter of 2010 of a number of budget proposals that have an effect on staff. Further details will continue to be shared with staff and consulted upon in order to achieve the proposed balanced budget position.
- 13.5 Staff have responded to the briefings, and all the questions, comments and views have been responded to by the Strategic Management Team which are available on the Intranet.
- 13.6 The Executive has undertaken a wide public consultation to inform its decisions on the savings proposals. The basis and the results of this consultation is reported separately on this agenda.

14 Options Considered

- 14.1 Not applicable to this report. However, the options were considered during the discussions with portfolio holders for both the general fund and the proposed capital programme. The implementation of the budget proposals will require options appraisals to be an essential element of the process.

15 Background Papers

- 15.1 Provisional Local Government Finance Settlement for 2011/12 and 2012/13 as announced by the Government for Consultation in December 2010.
- 15.2 Local Government Finance Act 1999 Sections 30, 32, 33 and 34 and Local Government Finance Act 1988.
- 15.3 Various documents published as part of the announcement in 15.1 above.

Previous report(s): February 2009

Information Issued Under Sensitive Issue Procedure: NO.

No Individual Ward Member issues arise from this report.