

REPORT TO CABINET

REPORT OF: RESOURCES PORTFOLIO HOLDER

REPORT NO: HOF184

DATE: 9 January 2012

TITLE:	BUDGET REQUIREMENT 2012/13	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	KEY DECISION	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Resources and Assets Portfolio Holder	
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INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required: None
Equality and Diversity		
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS		

1. RECOMMENDATIONS

It is recommended the Cabinet:

General Fund

- 1.1 Notes the provisional settlement for 2012/13.
- 1.2 Agrees a provisional target General Fund Budget Requirement of £13.879m for 2012/13 (inclusive of Special Expenses).

- 1.3 Agrees to review the target at recommendation 2 above, at the Cabinet meeting in February, in light of the outcome of consultation and other updated information.
- 1.4 Agrees to consider the option to freeze the Council tax for 2012/13 and, following the outcome of consultation (and other related information), recommend a Council tax level at its February 2012 meeting.

Housing Revenue Account

- 1.5 Approves an indicative rent increase for consultation purposes with the Tenant consultation forums on options for rent increases. This is an average increase for SKDC tenants of 7.65%.
- 1.6 Agrees to review the proposed rent increase at recommendation 1.5 above, at the February Cabinet Meeting, in light of consultation, and other related information.

Capital Programme

- 1.7 Agrees to receive detailed reports setting out recommendations for the Capital Programme for both the General Fund and Housing Revenue Account, at the February Cabinet meeting.

2. PURPOSE OF THE REPORT

The purpose of this report is to comment upon:

- a. The updated Local Government Finance Settlement for 2012/13.
- b. The budget requirement
- c. Use of reserves.
- d. Housing rent proposals 2012/13

This report sets out the settlement details and provides details for Cabinet to undertake consultation on the budget requirement for the General Fund and the Housing Revenue Account for 2012/13. Further work is ongoing to provide the detailed budget information which will be submitted to Cabinet in February and Council in March 2012.

3. DETAILS OF THE REPORT

3.1 Provisional Local Government Finance Settlement 2012/13 and estimates for 2013/14, 2014/15

On 13 December 2010, the Secretary of State for Communities and Local Government (CLG) made his statement to Parliament concerning the provisional local government finance settlements for 2011/12 and 2012/13. The figures announced are based on the Formula Grant distribution consultation and the spending review cash limits for local government.

Confirmation of the provisional settlement for 2012/13 was issued by CLG on the 8th December 2011 and has been confirmed as £7.526M including £157K in respect of the Council Tax Freeze grant agreed in 2011/12 which runs for a 4 year period (the grant is calculated as revenue support grant £143K and redistributed business rates £7.383M).

The government are also proposing to provide a transition grant of £20m in 2012/13, to ensure that no authority in receipt of formula grant faces a reduction of more than 8.8% in 'revenue spending power' in 2012/13. This encompasses:

- a. Council tax requirement
- b. Formula Grant
- c. Specific grants within the aggregate External finance

The government has made it clear that the transition grant will end in 2013/14.

3.1.1 South Kesteven settlement

The provisional settlement for 2012/13 has remained unchanged from the announcement made last year and incorporating the Council Tax Freeze grant of £157k (from 2011/12) which equates to £7.526m for 2012/13.

The table below details the specific grant allocation for the Council as part of the 2 year settlement and also includes estimates for the following 2 year period:

TABLE 1.

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Formula Grant (excl CT Freeze)	8,350	7,369 (net of CT freeze grant)	7,366*	7,018*
Year on year reduction		0.981m	0.003m	0.348m

*the grant figures for these years have not yet been announced by the Government and the figures provided above are based on initial projections.

The adjusted grant in 2010/11 (excluding concessionary fares) was £9.619m and by the end of the confirmed settlement in 2012/13 this would have reduced by £2.250m / 23.39%. This represents a significant reduction in central government grant support and the Council has responded positively to the financial squeeze through a wide range of cost reduction and efficiency programmes. These include sharing senior officer posts, re-negotiating third party contracts, implementing a transformation efficiency programme and responding to the customer consultation findings undertaken in summer 2010. This programme will continue into 2012/13 in order to prepare the Authority for potential further grant reductions from 2013/14.

The position after 2012/13 is even more complex due to the Governments proposal regarding Business Rate retention and Localisation of Council tax support (benefits) changes.

3.1.2 Business Rate Retention Proposals

Currently, all business rates (also known as non-domestic rates or NDR) income collected by billing authorities is 'pooled' nationally, with this income being redistributed to individual authorities through the Formula Grant system. The government's stated policy objective is to enable councils to retain business rates income locally, providing a financial incentive for councils to undertake economic development activities and consequently increase the level of business rates collected in their local area.

Local authorities will still need to operate within the existing NDR system. They will not have control over how the level of tax is determined for ratepayers i.e. the rateable value of properties or the national multiplier (the rate of tax).

Under the scheme, those authorities that see increases in their business rates tax base and associated revenues should gain from the scheme, whilst those with declining business rates will lose. The magnitude of these gains and losses will be determined by which options are eventually chosen from those set out in the consultation and technical papers.

The potential impact of this has been modelled and the estimated figures at this time have been included in table 1 above and show a further reduction in grant of £0.351m over the next 2 years. Therefore, since 2010/11 the Council could see a reduction in cash terms of over £2.6m.

3.1.3 Localisation of Council Tax Support

As part of the spending review 2010, the Government announced it would localise support for council tax from 2013/14, reducing expenditure by 10%. This is a key element of both the localism agenda and the welfare reform bill. Principles of the scheme include:

- a. Local authorities to have a duty to run a scheme to provide support for council tax in their area
- b. For pensioners there should be no change in the current levels of awards
- c. Local authorities should also consider ensuring support for other vulnerable groups (not yet defined)
- d. Local schemes should support work incentives and in particular avoid disincentives to move into work.

Localisation of support for council tax will mean a significant change in the role of local authorities. Currently local authorities administer council tax benefit in accordance with national criteria set by DWP (Department of Work and Pensions). In the future local authorities will need to design schemes for working age claimants, taking into account available funding for preserving current levels of pensioner claimants.

The current expenditure is £7.5M so a 10% reduction would result in £750K being removed from the current benefit level. This reduction must be borne by all major precepting authorities. At present the approximate case load in total is 10,769 of which 5330 would qualify for the protection to pensioners. Therefore, the remaining claimants in the working age category (although there will be 'protected vulnerable' claimants which have not been defined) would bear the full impact of the benefit reduction or alternatively the Authority would need to 'top up' the benefit budget

to mitigate the impact. The reduction could result in the claimants facing a number of difficulties, including: fuel poverty, child poverty, homelessness and an increase in council tax arrears.

3.1.4 New Homes Bonus

The scheme provides for every new home built since October 2009 to receive match funding, equivalent to the national average for the council tax band on each additional property, with payments for six years. For the 12 month period to October 2010, the Council was awarded £650,623 NHB and expects to receive this amount again over the next 5 years: a total of £3.9m over the six years. On top of this, the Council should receive further NHB payments calculated on future year's housing growth i.e. new homes built between October 2010 and 2011 would attract NHB in addition to the original £650,623, which would become payable in April 2012. Detailed proposals with respect to NHB will be presented to members as part of the budget preparations.

3.1.5 Housing Benefit Administration Grant

This grant is a Department of Work and Pensions specific grant to help support the cost of housing benefit administration and the funding of anti-fraud measures. The allocation of housing benefit administrative subsidy has been announced and the Council will receive £735,459 in respect of administration subsidy (£768,068 in 2011/12) and an additional subsidy amount of £72,792 (£77,410 in 2011/12). The latter amount is in response to the economic downturn and the acknowledgement that there has been a significant caseload increase for local authorities. The total administration grant is £808,251 which represents a decrease of 4.4% compared to 2011/12.

3.1.6 Homelessness Grant

The award for 2012/13 is £106k which is the same as in 2011/12 and the government has confirmed they are continuing to 2014/15 with the provision of the Homelessness grant. However, they have not confirmed what the future funding levels will be. This specific grant is used to finance a range of homelessness prevention initiatives including a rent deposit scheme and domestic abuse support. Other current initiatives funded from the homelessness grant award is in respect of a court desk service at Grantham County Court and is available to anyone facing repossession of their home. The advice given ranges from debt advice and homelessness

prevention. This service is provided by South Kesteven Citizens Advice Bureau. Further work will be undertaken to determine the full utilisation of the grant and will be presented to Cabinet as part of the budget framework proposals.

4. General Fund Budget Requirement, Capping and Reserves

4.1 Draft budget requirement

The proposed draft budget requirement for 2012/13 is £13.879m which includes the 2011/12 Council Tax freeze grant of £157K. This grant will continue to be received until 2014/15 in order to mitigate the financial disadvantage of not applying a Council tax increase. The grant is calculated on an assumed increase of 2.5%.

A further one-off council tax freeze for 2012/13 has been proposed by the Government which if taken would result in the Council receiving an additional £159k in grant for 2012/13 only. The following 2 years would revert back to the original £157k as outlined above. The Council will consider this as part of its consultation process

4.1.1 Capping Proposals

The Government is introducing powers (Localism Act 2011, section 72) for residents that will enable excessive increases to be vetoed through a local referendum. For 2012/13 any local authorities increasing council tax by more than 3.5% must consult the public in a referendum. If an authority does not get local support for the increase then it would have to revert to a lower increase in bills. The lower increase level is outlined by local authorities as part of the referendum process and must be below the level set by Government. With the option of a further council tax freeze grant in 2012/13 (equivalent to a 2.5% increase) it is clear the government expects authorities to take up this option as the scope for generating further revenue is minimal. A further 1% for South Kesteven would equate to circa £60k.

Reserves and Balances held by the Council

When considering the Budget requirement, the Cabinet must also have regard to the level of balances held and the purpose for which they are held. The general fund revenue balances, as at 31st March 2011 were £6.035m (adjusted for IFRS accounting standards) and a working balance of £2.370m. The level of the working balance provides adequate cover for any unanticipated expenditure or loss

of income that may occur over the course of the financial year. The Council has a policy that the working balance of the General Fund is maintained at between 4% to 5% of gross turnover or between 10% to 15% of net expenditure. This is in line with good practice and ensures the Council can meet any exceptional unforeseen costs during the course of the financial year. However it is proposed that the policy, together with all reserve policies, are reviewed annually as part of accounts closedown process in order to ensure they are maintained at the appropriate levels to fund the Council's priorities and delivery plans.

Work is underway on the proposed utilisation of reserves and the report to Cabinet in February will provide recommendations on the use of reserves once the full impact of the revised estimates and proposed capital programme for both general fund and housing revenue account have been assessed and financially modelled.

Detailed analysis of their use in the current financial year is undertaken with projections for their proposed use during the next three years. Further details regarding this will be given at the February meeting.

5. Housing Revenue Account - Rent Setting for 2012/13

5.1 HRA Self Financing

Following the general election, the new Government reaffirmed the decision to replace HRA Subsidy with a new regime of self-financed housing authorities where all rent income will be retained by the authorities who, in return, will have to take on varying levels of historical housing debt. In February 2011 the government published *Implementing self-financing for council housing*, which set out the rationale, methodology and financial parameters for the introduction of HRA self-financing in England. Following enactment of the Localism Act on 15th November, self-financing for all authorities will commence on 1st April, 2012.

Self-financing will mean that in future authorities will keep all their rental income but with the proviso that collectively they will have to take on the national HRA debt, with a proportion of this debt allocated to each individual council. Each authority will have its existing level of debt readjusted, according to the valuation of its council housing stock. All things being equal, the higher the valuation the greater will be the amount of debt that will be allocated.

Valuations will be based on stock numbers as at 1 April 2011 and assumed levels of income and need for expenditure over 30 years. Stock numbers will be adjusted where appropriate to account for demolitions that take place during 2011/12 and those planned for future years.

Authorities are to be required to model a 30-year Business Plan using real, as opposed to subsidy, levels of income and expenditure in order to demonstrate the viability of their self-financed HRA's. The interest rate at which the authority will be able to borrow in March 2012 is, at present, unknown, and rates are currently very volatile, therefore a range of scenarios has been modelled using a selection of rates. Current estimates are between 4 and 5%. Such volatility represents a key risk to the business plan.

The valuation of the business plan has modelled the value of the Council housing stock at £136m. Deducting the Council's capital financing requirement figure of £14m has resulted in the Council debt settlement figure being calculated at £122m.

5.1.2 Housing Revenue Account – Rent Setting 2012/13

The main element of policy relating to the HRA for 2012/13 is, once again, the setting of rents. The Council's current policy is to keep in line with the Government's guidance on rent restructuring and guideline rent increases. The following is an analysis of the Government's proposals for 2012/13.

The draft Self-financing Determinations were published on 21st November, 2011, and they establish the valuations upon which the new system will be based, and the level of new borrowing will be derived. The determinations have been constructed using similar parameters to those used in relation to HRA Subsidy in earlier years. Existing policy is to establish the percentage local authority average guideline rent by applying RPI inflation at the previous September, plus 0.5% "real growth" and a convergence factor to reflect the number of years to rental convergence.

The September 2011 inflation figure was 5.6% and the draft determination is based upon convergence within four years, by 2015/16. This has produced a national average guideline rent increase of 7.8%. The uplift applied to the allowances is the GDP deflator, currently estimated at 2.5%. However, in recognition of the fact that the system was under-funded, the Government have increased the allowances in line with research which they had commissioned.

Guideline rent is a notional figure used in the HRA valuation calculations, whilst actual rent is that which is actually charged to the tenants. The actual rent is calculated on a property by property basis using the same parameters as the Government has used for guideline rent. This has produced an average increase for SKDC tenants of 7.65%. At the level of individual dwellings, the percentage increase will depend upon each property's proximity to its target, with increases varying between 6.10% and 9.92%. In cash terms, the average rent will be £71.08 with a minimum of £48.47 and a maximum of £101.67. Garage rents and service charges are normally increased in line with dwelling rents.

Overall, further analysis is being undertaken on the impact of the draft subsidy determination together with the impact of service budget proposals and this will be reported to Cabinet in February. At the same meeting a review will be undertaken of the proposed rent increase in light of consultation, together with proposals regarding garage rents and other service charges.

6. Capital Programme – 2012/13 and onwards

6.1 General Fund Capital programme

The General fund programme will continue broadly in line with the programme agreed by Council in March 2011. Some slippage has occurred and this will mean that £2.130m will be re profiled into the future. The detail of this and potential new capital schemes will be presented to cabinet in February 2012 and be finalised by Council in March. The programme will still operate within the existing cost envelope.

6.2 Housing investment programme (HIP)

Major re modelling has taken place as a result of the Council preparing for the new HRA financing regime. This is likely to result in some significant changes to the capital investment strategy, with respect to funding the HIP and there are likely to be consequential benefits to the HRA as a whole. In-year slippage of £200k will occur and this will be re profiled over the coming weeks. Further growth bids are also being considered in order to maintain the investment in the housing stock and these will be presented to members at the February meeting.

7. OTHER OPTIONS CONSIDERED

There are no alternative options necessary in respect of this report.

8. RESOURCE IMPLICATIONS

This report details the budget requirement for 2011/12.

9. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

N/a

10. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

N/a

11. CRIME AND DISORDER IMPLICATIONS

N/a

12. COMMENTS OF FINANCIAL SERVICES

These comments are included in the report.

13. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The recommendations relate to proposals for the budget which forms part of the budgetary and policy framework. Members must consult with residents on the proposals contained within this report as required in accordance with statutory regulation and constitutional requirements. All the relevant provisions of the Localism Act 2011 have been taken into account in the proposals detailed in this report.

14. APPENDIX:

None

