

REPORT TO CABINET

REPORT OF: STRATEGIC DIRECTOR – CORPORATE FOCUS

HEAD OF FINANCE

REPORT NO.: HOF 185

DATE: 6th February 2012

TITLE:	Determination of Budget 2012/13 and indicative budgets to 2014/15.	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Policy Framework Proposal	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Resources and Assets Portfolio Holder	
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INITIAL IMPACT ASSESSMENT:	Carried out and appended to the report	Full impact assessment Required: N/A
Equality and Diversity		
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	HOF184	

1. RECOMMENDATIONS

In relation to the General Fund (Revenue) SECTION B

Make recommendations a. to d. to Council:

- a. to set a General Fund budget requirement of £13.879M for 2012/13 (inclusive of special expenses)
- b. to approve a Council Tax freeze for 2012/13 (including special expense areas)
- c. to approve the original base estimate for 2012/13 and indicative base estimates for 2013/14 and 2014/15 as detailed in the summary at Appendix A page 1;
- d. to approve increases in Fees and Charges for 2012/13 as set out in Appendix D

In relation to the Housing Revenue Account (HRA) SECTION C

Make recommendations e to h. to Council:

- e. to set dwelling rent increases in accordance with Government guideline rent providing an average rent of £71.08 (and an average rental increase of 7.65%)
- f. to set an increase in garage rents of 5.6%
- g. to increase service charges by 5.6%
- h. to approve the Housing Revenue Account for the year 2012/13 and indicative years 2012/13 and 2014/15 shown at Appendix A page 7

In relation to Capital and investment Programmes SECTION D

Make recommendations i. to k. to Council:

- i. approve the General Fund Capital programme for 2012/13 to 2014/15 detailed at Appendix B page 1
- j. approve the indicative Housing Investment programme for 2012/13 to 2014/15 detailed at Appendix B page 2
- k. approve the Capital Financing statement detailed at Appendix B page 3

In relation to the Reserves and balances SECTION E

Make recommendation l to Council:

- l. To note the movements in revenue (HRA and GF) and Capital (HRA and GF) reserves and balances detailed in Appendix C.

Treasury Management and prudential indicators SECTION F

Make recommendation m to Council:

- m. to approve the Treasury Management Strategy provided at Appendix E;

2. PURPOSE OF THE REPORT/DECISION REQUIRED

2.1 The purpose of this report is to present to Cabinet:

2.1.1 The Budget estimates for 2012/13, revenue and capital (including fees and charges), the level of Council tax and the subsequent Treasury management strategy.

2.1.2 To inform members of the changes to the Housing revenue account and the implications and to inform of the likely rent increase for 2012/13. The report provides detail of the process in concluding the budget position and the robustness of the Councils financial position.

2.1.3 Members are asked to consider the contextual information presented and to recommend to Council approval of the Council's budget for 2012/13.

SECTION A

3. Background

3.1 Context

3.1.1 Cabinet will be aware during their work throughout the budget process, that the current financial climate remains very uncertain. Local government is continuing to face reductions in central government grant together with significant changes to the funding mechanisms used to distribute formula grant with the review of the business rates system. Impact will also be felt from the welfare reforms most notably the changes to the Council Tax benefit regime.

3.1.2 The Council set out, during the 2010/11 budget round, a clear action plan to reduce costs and drive out efficiencies. This has continued to be implemented in order to help protect key front line services. The process will carry forward into 2012/13 thus helping to release resources to deliver key priority projects.

On 13 December 2010, the Government announced the second year of the two year settlement announced in December 2010. As previously announced, formula grant to all authorities will fall by a further 7.7% on top of the 9.9% fall in 2011-12. For single tier and county councils and shire districts this means that the total fall over two years will be 19.3%. A transitional grant of £20m for 2012-13, benefiting 12 authorities whose "revenue spending power" would have otherwise have fallen by more than 8.8% has been provided. Damping will continue with the floors as announced in February 2011. There is no change to the amount of top-sliced academies transfer for 2011-12 and 2012-13. The Department for Education have published a separate consultation document which could lead to a separate grant being paid to authorities with low numbers of academies in January 2013 as compensation for too much money having been top-sliced from their budget. Council Tax Referendum thresholds for 2012-13 have been announced as 3.5% for single tier, county councils and shire districts, 4% for police and fire authorities and the GLA and 3.75% for the City of London. These are 1% above the figures for which the one year freeze grant for 12-13 will be paid.

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.

3.2 South Kesteven settlement

3.2.1 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). A further incentive was added to the settlement to allow Councils to freeze council tax for another year. However the grant put in place to support this, in SKDC case a further £159K is only available for one year and not the four offered in the previous settlement.

The details of the grant projections are shown at Table 1.

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	2012/13	2013/14	2014/15
Formula Grant (excl. CT Freeze)	£8.350K	£7.369K (net of CT freeze grant)	£7.366K*	£7.018K*
Year on year reduction		0.981m	0.003m	0.348m
%		(11.7%)	0%	(5%)

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

3.2.2 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 Government's proposal regarding Business Rate retention and Localisation of Council tax support (benefits) changes.

3.3 Business Rate Retention Proposals

3.3.1 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).

3.3.2 Under the scheme, those authorities that see increases in their business rates tax base and associated revenues should financially benefit 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. The initial consultation papers contained many permutations and as such it is extremely difficult to get an accurate picture. However the headline response from Government following the consultation exercise is:

'Allocating, in two-tier areas, the greatest share of business rates to district councils' - such a split ensures that no authority loses out at the outset of the scheme, as funds are allocated to all authorities according to their baseline need. It also provides a high degree of income stability for authorities responsible for adult social care and children's services, which would see a major part of their income provided through an index-linked top up. But this also places the strongest incentive on the tier of government responsible for planning decisions, which would receive around 80 percent of growth on the local share, subject to any levy

'The incentive effect' - From the outset of the business rates retention scheme, all local authorities will be able to benefit from increases in their business rates. The principle of fixing tariffs and top ups ensures that in future years, a significant proportion of additional business rates will be retained by the local authorities in which they were generated. There is also a corresponding disincentive for authorities to see their rates base fall. To maximise this incentive effect, we will not cap the amount of business rate growth an authority can benefit from under the rates retention scheme so that the more an authority grows its business rates base, the better off it will become.

It will also directly link the resources used by local authorities to their actions and their local economies rather than local authorities being assigned a level of funding by central government. This change signifies a paradigm shift for both local authorities and central government.

Discussions will be undertaken with local authorities what levy ratio to set – i.e. what percentage increase in retained income an authority should see for a 1 percent increase in its business rates. In setting the levy percentage, we will need to ensure that the ratio is sufficient to deliver the incentive effect that we want to achieve, but raises sufficient income from which to fund the safety net, which is important for protecting those authorities that might experience sudden and significant, shocks to their business rates income.

3.4 Localisation of Council Tax Support

3.4.1 As part of the spending review 2010, the Government announced it would localise support for council tax (i.e. Council Tax benefit) from 2013/14, and at the same reducing grant 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 consultation response from Government has confirmed further technical consultation will be undertaken in Spring 2012. Through responses to the consultation, the Government has concluded that support for vulnerable pensioners should be delivered through a national framework of criteria and allowance but it does not propose further statutory responsibilities for providing support for vulnerable groups beyond their existing framework of duties and responsibilities. The scheme will be fully integrated into the council tax system and any deficits or surpluses will be shared between the billing and major precepting authorities through the collection fund account. To assist the localised scheme bed in, the Government intends to set grant allocations on an annual basis for the first 2 years. The timescale of implementation from April 2013 remains in place although the Government acknowledge this is challenging.

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. That is the County and Council and the Police Authority. At present the approximate case load in total is 10,769 of which 5,330 would qualify for the protection as pensioners. Therefore, the remaining claimants in the working age category 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 declining collection performance and increasing council tax arrears. Due to the uncertainty around the grant position, groups effected, and contribution from the Police Authority and County no modelling with respect to any reductions has been included in the medium term

financial plan. However, the issue will be raised as a risk to the budget going forward.

3.5 Specific grants

- 3.5.1 Specific grants continue to provide an important source of funding for Local Government, the specific grants notified as payable to South Kesteven District Council are summarised below. Members can see from Table 2 that, in line with other grant reduction, income from these areas will decline in future years.

Table 2

Description	2011/12 £'000	2012/13 £'000
Housing Benefit Administration Grant	845	808
Homelessness	106	106
Total Specific Grants	951	914

3.6 New Homes Bonus

- 3.6.1 Continuation of the NHB scheme has been confirmed by DCLG. Cabinet are minded to see the benefit of the scheme go toward their stated priorities across the district £666K has been received in 2011/12; a further £623K has been provisionally allocated for in 2012/13. This is a six year scheme and the benefits will be factored in to the Medium Term Financial Plan accordingly.

3.7 Housing Revenue Account (HRA) changes

- 3.7.1 Following the general election, the new Government reaffirmed the decision to replace HRA Subsidy with a new regime of self-financed housing authorities. 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.
- 3.7.2 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.
- 3.7.2 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 take account of demolitions that take place during 2011/12 and those planned for future years well as future sales under the RTB regime.

- 3.7.3 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.
- 3.7.4 The valuation of the business plan has modelled the value of the Council housing stock at £136M. Deducting the Council's amount the Council can raise to fund capital investment for its stock of £14M has resulted in the Council debt settlement figure being calculated at circa £122M, with a debt ceiling i.e. the maximum amount the Council can borrow, being the aforementioned £136M.

4. Forecast Outturn of 2011/12 General Fund and Housing Revenue Account

- 4.1 During the course of the financial year regular monthly budget monitoring is undertaken with service budget holders in order to monitor expenditure and income compared with budget prediction. A key element of this monitoring is forecasting the year end outturn position having taken into consideration the actual expenditure and anticipating the future levels of expenditure. This activity enables early indications of potential financial issues and allows remedial action to be implemented to manage the projected outcome. These discussions are further supported by monthly meetings with service heads and strategic directors when there is an opportunity to discuss both the financial and performance position.
- 4.2 The General Fund is currently forecast to be circa £800K under spent at the year end. This represents 5% of the Council's net revenue expenditure and is largely as a result of many variances across income and expenditure budget heads. Discussions are advanced with respect to spending proposals in the current financial year in order that any available resources can be diverted to priority areas and projects. Specifically these spending plans are in respect of the installation of PV panels on a number of Council owned buildings and a number of invest to save initiatives. All of these projects will deliver long term financial benefits to the Authority which can be used for re-investment for other invest to save projects.

The actual under spend will be considered as part of the annual closedown of the accounts during that process a fundamental review of the Council's reserves will be undertaken, again in line with best practice. The amount of the actual under spend may allow set aside at year end to fund future budget pressures.

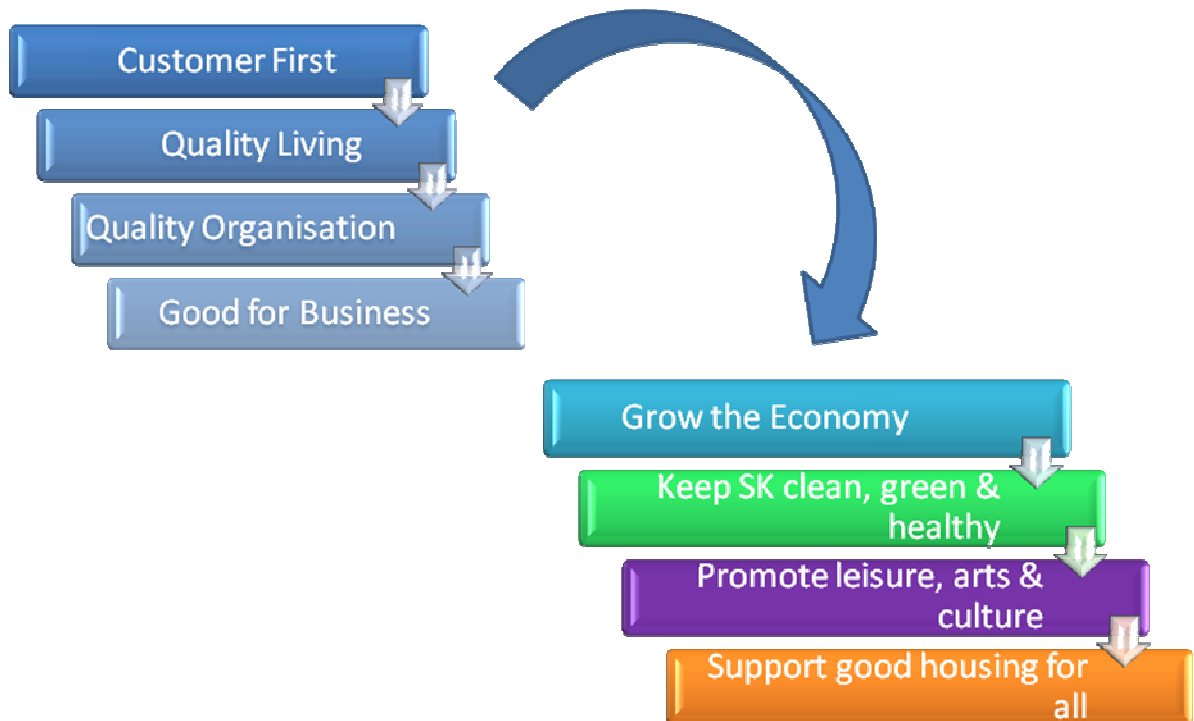
- 4.3 It is anticipated that the forecast outturn of the HRA will be a deficit of £341K which is below the budgeted deficit of £712K. Over the period of the budget proposals, the HRA is showing a budgeted surplus position based on the anticipated levels of income and expenditure. This projection is based on the current HRA business plan which is being re-modelled and updated in readiness for the self financing funding model.

5. Budget Process - Estimates for 2012/13

5.1 2012/13 budget framework

- 5.1.1 The budget has been prepared in conjunction with the development and evolution of the Councils refreshed priorities and the new corporate plan. This will be presented to Council on 1st March 2012 after it has been presented to Engagement PDG and discussed during the district wide consultation process (via the community drop in sessions).

The diagram below demonstrates the evolution of the existing priorities, work is now advanced to determine the scope of a number of priority projects, resources for delivering these will be allocated over the coming period as part of the review of revenue balances and reserves.



Well run council

5.2 The budget assumptions used in compiling the 2012/13 estimates are set out below:

Table 3

Inflation Factors	Assumption (%)
Salary Inflation for 2012/13	Pay freeze except £250 provision for salaries <£21K
Retail Price Index	3.4
National Business Rate	3.1
Utility Cost increase	10
Drainage Board Levies	3.1
Fuel costs	5.0
Interest Rates	1.5
Salary Vacancy Factor	3
Growth in numbers of Band D equivalent properties	1.0

5.2.1 Investment Income - the financial forecasts in respect of investment income over the next four years have been modelled on the following anticipated levels of interest rates (provided by the investment advisors):

Table 4

Financial Year	2012/13	2013/14	2014/15
Base Rate	0.50%	1.25%	2.5%
Money Market Rate (average mid-term point.)	1.5%	1.90%	3.1%

This information has been utilised to anticipate the potential levels of interest income the Council will receive for its investment of the reserve balances. This income will be shared between the General Fund and the Housing Revenue Account. As the spending plans of the reserves progress then there will be a corresponding reduction in the amount of interest income that will be received. Scenario planning in respect of continuing investment, forecast interest rates and potential for borrowing will be a feature of the medium term and will be undertaken within the framework of the Treasury Management Strategy.

SECTION B

6. General Fund

6.1 The budget proposes a net service expenditure of £16.108M broken down by directorate focus as follows:

	Original base 2011/12 £'000	Estimated base 2012/13 £'000	Indicative base 2013/14 £'000	Indicative base 2014/15 £'000
Community and Environment Focus	8,856	9,383	9,350	9,442
Corporate Focus	4,359	3,912	3,936	4,069
Development and Growth Focus	3,170	2,219	1,985	2,004
Special Expense Areas	565	594	609	626
Net Service Expenditure	16,950	16,108	15,880	16,141
Net Interest	(76)	(144)	(169)	(447)
Minimum Revenue Provision	194	186	179	172
Capital Charges	(2,669)	(2,566)	(2,698)	(2,759)
Revenue contribution to capital	500	659	500	500
Net movement on reserves	(71)	(216)	395	357
Budget Requirement	14,828	14,027	14,087	13,964

6.2 The overall General Fund position for 2012/13 is shown at Appendix A page 1. The total service expenditure (net of direct income) for 2012/13 is estimated at £16.108M. Interest and investment income has been estimated at £298K based on the proposed use of capital resources whilst also taking into account expected movements in interest rates. Further details of the Council's investment strategy are contained in Appendix E to this report.

The Council, as is the case in most years, has also had to accommodate some growth in costs in a number of areas, as well as a loss of income. These costs, in addition to the assumptions laid out in table 3 above include:-

Increase in resources for the utility monitoring and periodic electrical testing to properties.	£50K
One-off funding to facilitate the implementation of civilian parking enforcement in South Kesteven. (This cost will include the necessary infrastructure changes)	£20K
Improvement and maintenance works to the leisure centres	£66K
Investment in public realm works as a key element of the redevelopment of Grantham town centre	£170K
Waste transfer station	£100K
DDA works to commercial properties	£25K
Fire risk assessment works to commercial properties	£20K
Water testing works to commercial properties	£10K
Business Rates increases	£45K

- 6.3 The Council has also continued to identify and deliver a number of efficiencies and savings that assist the ability to include the service delivery pressures listed above. These efficiencies have a positive impact on the financial stability on the Council and enable it to prepare for the financial challenges ahead. These efficiencies include:

Re-negotiation of the grounds maintenance contract	£70K
Cash collection contract for car parking services	£50K
Re-structure of Environmental Health services	£42K
Re- assessment of Authority risk profile resulting in greater in-house insurance cover	£72K
Centralised ICT hardware and software budgets delivering efficiencies	£22K

7 Special Expense Areas (SEA)

- 7.1 Special Expense Areas make use of provisions under the Local Government Finance Act 1992 which provide for different amounts of council tax to be calculated for different parts e.g. parished and unparished areas of the district, depending on what, if any, special items relate to those parts. A special item is an item which relates to only part of the district's area. Treating expenses as special expenses does not affect the overall amount that the council needs to raise through council tax across the whole of the district.
- 7.2 The district seeks to fully recover the net expenditure of the special expense areas and the proposed budget for 2012/13 has been prepared on the basis of full recovery of costs. It should be noted that increases in the special expense precepts count towards the overall council tax capping calculation for the district.

8. Fees and Charges

- 8.1 Resources PDG have been reviewing fees and charges as a key element of their workplan and have commissioned external support to undertake an income review benchmarking study which compared fees and charges across a number of east midlands councils. This review has also given exposure to over 50 local authorities charging regimes outside of the geographical boundaries of the east midlands.

Initial findings showed that the Council was not out of step with other Councils to any great extent. However, some opportunities were noted and will be taken forward for implementation or further investigation.

One clear message evolving from the work was that the Council does not currently have a clear, concise, consistent and coherent strategy around income generation from fees and charges and in relation to concessions etc. In order to ensure the Authority maximises income generation the following is required:-

- A clear corporate charging policy - subsidised service or cost recovery, concessions policy, correlation of charges to wider corporate priorities and impact of completion for similar services provided by the private sector
- Clarity over full cost recovery and subsidy
- A perspective on fairness in charging – impact charges have on specific groups or individuals
- Adopting a commercial approach – trading, flexible pricing structure to stimulate demand
- An approach to premium charging – to reflect either additional demand or an enhanced service
- Charges linked to environmental objectives

These key themes will form the next stage of the work to be undertaken over the coming months (by the Resources PDG) in order to develop a coherent charging strategy that compliments and supports the Council's corporate plan. It is anticipated that the review will be completed by the summer of 2012. The implementation of the strategy will be incorporated into the budget proposals from 2013/14.

Consideration has been given to fees and charges that are currently in place. In order to ensure that the current charges are kept in alignment with service costs Cabinet has recommended that the charges (where not statutorily set) are increased in line with inflation (RPI) from 2012/13.

One of the areas considered for introducing charging, specifically mentioned in the Deloitte's report as noted above, is in respect of the green waste service. This complements existing work taking place in this area which had originally begun

during the public consultation in the summer 2010, a representative sample gave support for the introduction of charging for the collection of green waste of an annual charge of £25. The benchmarking review supports a charging regime and identified that a number of councils have introduced a chargeable service or are considering the introduction of an annual charge from 2012/13. The charge would contribute towards the recovery of the operational costs of the service and would establish the principle that the direct users pay for the service rather than the general taxpayer. The charge of £25 is broadly in line with other councils that have introduced a chargeable green waste service. The proposed budgets have been based on an assumed take up of 50% of the existing customers currently receiving the service which equates to a budgeted income projection of £340,000. This figure has been based on comparative schemes that have been implemented by other councils. If the actual take up is significantly different to the budgeted projection then this will be monitored throughout the financial year.

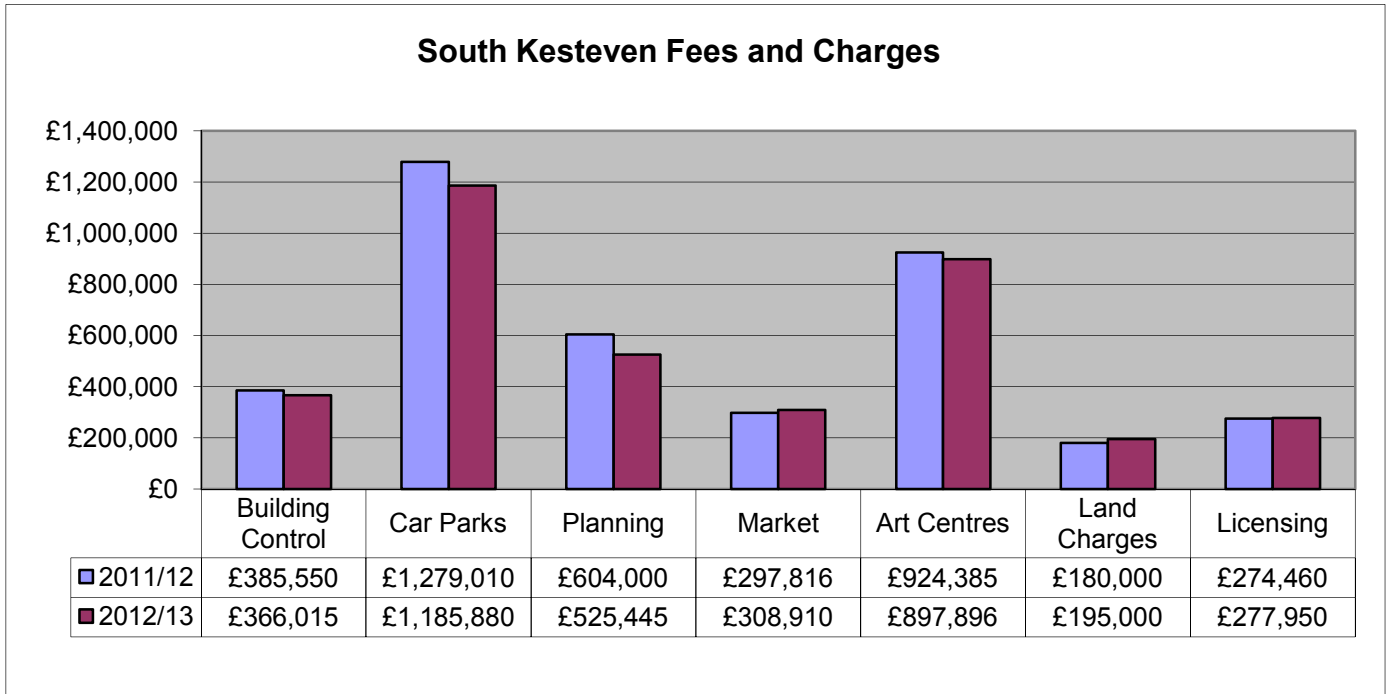
Cabinet has considered this proposal and have supported the introduction of charging from 1 April 2012. The key principles of the proposed charging are:

- Joining fee for a new customer of £35 (includes their first green bin and first year's collection)
- Purchase of additional green bins £26
- An annual charge of £25 per green bin collection
- For householders that have more than one green bin then subsequent bins will be emptied for £10 per annum per bin
- No concessions for householders

The payment period will run from 1 April – 31 March each year.

In summary, fees and charges remains a key element of delivering the Council's stated priority aims whilst supporting a robust medium term financial plan and the proposals underpinning the charging strategy will ensure this focus is maintained. The key areas of income generation are shown in the table below:

TABLE 5



9 The District's basic amount of Council Tax 2012/13

- 9.1 The calculation of the Council's basic amount of Council Tax is made by deducting from the budget requirement £14.027M (including special expense areas, but excluding parishes) referred to at section 5.1, the external support that will be received from the Government from Formula Grant £7.526million (including £157K in respect of Council tax freeze grant agreed in 2011/12) and the additional one-off council tax freeze grant of £159K for 2012/13. Therefore the council tax requirement for 2012/13 is £7.741M (including special expenses and parish precepts) and £6.342M (excluding parish precepts).
- 9.2 The result is divided by the Council Tax Base of 47,105.80. The proposed band D Council Tax is £134.62 (excluding parishes), representing a council tax freeze for 2012/13 in respect of the district council element of the Council tax demand.
- 9.3 Consultation is being undertaken as part of the community forum events that are taking place throughout the district during January. Initial feedback from those events are strongly in support of a council tax freeze for 2012/13 as it will greatly assist council tax payers during these difficult economic times.

SECTION C

10 Housing Revenue Account 2012/2013

- 10.1 As referred to earlier in the report, the HRA is undergoing significant changes in terms of its financing following the introduction of the self-financing model. This has removed the previous subsidy regime and replaced it with a debt repayment based on a calculated level of debt (this is detailed at section 3.7 of the report).
- 10.2 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. The modelling has also incorporated a number of different scenarios of the varying financing options available. It is anticipated the Council will undertake the borrowing from Public Works Loans Board (PWLB). The PWLB is a statutory body operating with the UK Debt Management Office, an executive Agency of HM Treasury. PWLB's function is to lend money to local authorities and other prescribed bodies. To assist authorities with making this payment PWLB has recently announced that it will temporarily reduce the rates available to authorities. These reduced rates will be available on 26th March 2012 only.

There are 3 main types of fixed rate loan available from PWLB:

- Maturity
- Annuity
- Equal Instalment of Principal (EIP)

Modelling is being undertaken with the Council's external treasury advisors to anticipate the most financially advantageous loan arrangement which will enable the Council to consider future service delivery opportunities underpinning the priority of supporting good housing for all.

- 10.3 Budgets were compiled in line with the existing Housing business plan, the updated stock survey information and reflect the changes in the financing from the national subsidy system to the self-financing model. The budgets presented to members show an indicative repayment sum but members will be aware that delegation has been given to the Strategic Director – Corporate Focus (s151 officer) and the Resources Portfolio Holder to authorise the most suitable and financially advantageous method of borrowing to finance the HRA self-financing payment. Therefore the figure shown in the HRA summary will be updated once the financial arrangements have been finalised on 28th March 2012. Members will be provided with an updated financial position after this date together with a 30 year business financial plan.

- 10.4 During the budget process a number of growth bids have been incorporated into the base budgets in order to meet the service requirements of the HRA:

Asbestos surveyor and administration support	£55K
Additional resourcing for the Repairs service	33K
Asbestos assessment work	£20K
Electrical testing rolling programme	£18K
Removal of asbestos in specific properties	£200K
Maintenance of communal doors	£4K
Fire risk assessment at supported housing schemes	£23K
Annual servicing and maintenance of smoke alarms	£35K

There have been a number of previously capitalised schemes that are now being charged directly to the revenue account in order to comply with accounting requirements. These are detailed at section 12.3.

- 10.5 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.
- 10.6 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.
- 10.7 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 have been increased in line with dwelling rents. Consultation has been undertaken with tenants via the District Wide Tenants Panel on 23rd January 2012 with respect to the proposed increases and no specific concerns were raised. All tenants are being contacted and details of their specific rent increase will be provided.

SECTION D

11 Capital Programme 2012/13 - 2014/15 (GF and HRA)

11.1 The recommended Capital Programme (Appendix B pages 1-3) provides a forecast outturn for 2010/11 of £7.747M and an indicative 3 year programme totalling £24.529M for the financial years 2012/13 to 2014/15. This is a significant capital programme in terms of projects and financial investment and the Council will need to ensure it has sufficient capacity to ensure the delivery of the programme in the timescales proposed.

11.2 Housing Investment Programme (HIP) 2011/12 Forecast outturn

The forecast outturn in respect of the housing investment programme is £5.410M compared with the budget of £6.755M which is a variance of £1.345M. A thorough review of the spending profile has been undertaken in order to maximise the contractual arrangements that are in place. This is delivery efficiencies resulting in a reduced amount of slippage from 2011/12 of £200K carrying over into 2012/13.

11.3 General Fund 2011/12 Forecast outturn

The forecast outturn is anticipated to be £2.337M compared with the original budget of £4.582M. Budgets totalling £2.08M has been identified on the 2011/12 General Fund Programme and will be carried over to be included in the 2012/13 Capital Programme.

12 Programme 2012/13 to 2014/15

12.1 The Programme has been compiled based on the Council's priorities, the Council's Asset Management Plan and in accordance with the Council's Capital Strategy. The Programme comprises of both General Fund and Housing Revenue Account (HRA) Schemes. The capital programme for the HRA has been compiled using the data from the 100% stock condition survey which has been analysed in order of priority of need and ensuring the Council meets and maintains the decent homes standard.

12.2. General Fund Programme

12.2.1 The main emphasis of the General Fund 2012/13 capital programme has been the continuation of the major capital projects that are well advanced under the new corporate priority of 'grow the economy'. Funding is made available to complete the delivery of the Bourne town centre development, the progression of the Station approach development in Grantham and the provision of serviced employment land. Within the development and growth agenda some flexibility within capital allocations may be required as whilst the council works hard to deliver to timescale some projects have external influences. The level of certainty on timescale is often affected by the level of control the council has over land ownership and can therefore be influenced by the need to affect statutory processes. Equally new opportunities may arise to attract investment from external funding streams which may need match funding.

12.2.2 The development of a community access point in Bourne which will bring together key public services within one centre providing customers access to a wide range of services and information will continue to be funded through the programme. The continuation of this project underpins the 'Customer First' approach the Council has adopted and will also bring financial benefits to the parties delivering services from the centre.

12.2.3 Appraisals undertaken by the finance team conclude that outright purchasing waste vehicles remains the most financially advantageous under the current climate and, to ensure the continuation of the quality service, budgets have been included for the rolling replacement of three vehicles per annum for the term of the capital programme.

The remaining elements of the capital programme have been developed based on delivery of improvements and investments in Council assets as identified in the Council's Asset Management Plan and other corporate strategies.

12.3 Housing Investment Programme (HIP)

The investment in the Council's housing stock over the period of the capital programme has been formulated utilising the detailed stock condition survey that has been undertaken. The spending profile reflects the desire to achieve and maintain 'decent homes standard' over the period of the capital programme. The programme also includes a number of projects that will enable the Council to deliver quality housing provision and estate management. A number of expenditure headings have been removed from the capital programme and are now included directly to the revenue budgets in order to comply with new accounting requirements. These are:

TABLE 6

Expenditure Heading	2012/13	2013/14	2014/15
Structural Improvements	£100K	£100K	£100K
Property Refurbishments	£30K	£30K	£30K
Communal Doors	£30K	£30K	£30K
Wall Finishes	£250K	£235K	£215K
DDA compliance	£200K	£200K	
Fire Risk Assessment work	£80K		
Sound Insulation	£100K	£100K	£100K
Installation of smoke, heat & carbon monoxide detectors	£150K	£226K	£226K
Disabled adaptations	£100K	£100K	£100K

13 Proposed method of financing the Capital Programme

13.1 The detailed Capital Programme contained within Appendix B also identifies the proposed method of financing the Capital Programme which will be reviewed when preparing the Statement of Accounts for each financial year to enable the most effective form of financing to be adopted by the Council.

13.2 In respect of the capital programme the summary financing statement has been prepared for the General Fund and the Housing Revenue Account. In respect of the General Fund it is proposed to utilise the capital receipts reserve, grant funding and the specific capital reserve together with a contribution of £659K in 2012/13 from revenue. There is no immediate borrowing requirement within the timescale of the capital programme. However this funding proposal fully utilises the General Fund capital reserve and reduces the useable capital receipts reserve from a forecast outturn of £8.280M to £4.555M by March 2015. As part of the review of the Asset Management Plan a thorough review of the Council asset portfolio is being undertaken, this will identify potential future disposal receipts which will be utilised to fund future capital programmes. Indicative figures have been built in for modelling purposes.

In respect of the HRA capital programme the financing of the programme will be met from the Major Repairs Reserve (MRR) without any further need for a contribution from revenue. This is due to amount being made available from the componentisation of the depreciation which is calculated at £5.2M per annum. As this amount exceeds the current capital programme the MRR is projected to increase over the period of the capital programme. This projection will be reviewed once the self-financing arrangements are finalised in order to enhance the opportunities that will be created from the increasing HRA balances.

13.3 The current Council policy in respect of the use of the useable capital receipts reserve is to use the housing capital receipts to contribute towards the financing of both the General Fund and the Housing Revenue Account but the non-housing capital receipts would be used only to finance the General Fund programme. It is proposed to review this policy once the new HRA financing arrangements are in place in order to separately identify the capital receipts from the sale of housing stock assets. This will enable the Council to undertake financial assessments before considering new build schemes and the financial affordability of schemes utilising RTB receipts and internal borrowing.

SECTION E

14 Reserves and Balances

14.1 The Local Government Act 2003 requires the Chief Financial Officer, (section 151 officer), to report on the adequacy of financial reserves when consideration is given to the General Fund budget requirement for the year. Under the Local Government Finance Act 1988, all balances held by the Council are at the direct disposal of the General Fund with the exception of the Housing Revenue Account balance, the Collection Fund or any funds held in trust. A statement showing the forecast balances of revenue and capital reserves is provided at Appendix C.

14.2 Existing Balances

The **General Fund working balance** is required so that the council has sufficient funds available to meet its cash flow requirements and to protect services against unforeseen events that have a financial consequence and are not included in the budget framework. The forecast of revenue reserves reflects the Council's policy, as set out in the Medium term financial plan and maintains the General Fund balance at just under 15% of net expenditure.

Other reserves currently held include:-

- The **Insurance Reserve** – is available to be utilised during 2011/12 to meet the costs in respect of any planning determination appeals. During the year a review of the risk profile has been undertaken and a shift towards internal self insurance has been agreed with the Council's insurers. This has the advantage of using the internal resources and thereby reducing external insurance premiums. The levels of excess amounts have been reviewed and therefore the level of the reserve has been stabilised to ensure sufficient internal resource is available for any insurance costs that may arise.
- The **Employees Pension Reserve** - is held to protect the Council from large increases in employer's contribution rate following the actuaries triennial valuations and related issues. Any changes in employer contribution rates as a result of the findings of the Public Service Pensions Commission (chaired by Lord Hutton) are likely to see reductions in funding requirements. Although adequate for its current purposes this reserve will be reviewed in lieu of the "Hutton" findings at the end of the financial year.
- Any annual surpluses from the chargeable element of Building Control activities are set aside in the **Building Control reserve** and used to finance service improvements and offset any future deficits. Following a review of the service it is anticipated the modest surplus contributions will be made to the reserve of the period of the budget. However, this will be subject to review following the recent introduction of a new structure of fees and charges.
- The **Priority Themes and service improvement reserve** – The balance on this reserve is forecast to be £3.099M as at 31 March 2012. However this reserve will be undertaking a review in response to the recent updated Council priorities and focus as identified in the proposed new Corporate Plan. This reserve will be fully utilised in order to assist in the delivery of the ambitions of the Council by making available the necessary funding for the projects that are being proposed. **The Working balance of the HRA – The working balance** on the HRA is projected to be £9.578M as at 31st March 2012. The use of the balances will be reviewed following the changes to the financial model of the HRA. These proposals will be incorporated into the updated business plan and the Council's aspirations for the delivery of social housing in the district.
- **Special Expense Reserve** – This reserve (which is made up of individual SEA reserve balances) is utilised to financially support transactions and future spending proposals in respect of the special expense areas. The reserve will be used during 2012/13 to finance specific spending proposals in respect of the Grantham SEA.

SECTION F

15. Prudential Code

15.1 The Council complies with the Prudential Code for controlling Local Government Capital Finance. The key objectives of the code are to ensure that:

- Capital Investment Plans are affordable, prudent and sustainable
- All external borrowings and other long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with good practice and in a manner that supports prudence, affordability and sustainability
- The Local Authority is accountable for decisions made
- It supports local strategic planning, local asset management planning and proper option appraisal.

15.2 The Council's current financial planning systems demonstrate the affordability of the capital programme and the 2012/13 estimates have been prepared in the context of these plans and controls.

16 Treasury Management and Investment Strategy

16.1 In accordance with the requirements of Local Government Act 2003 a Treasury Management Strategy is provided within Appendix E outlining the Council's prudential indicators for 2012/13 – 2014/15 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements as required by the Local Government Act 2003:

- The reporting of the prudential indicators setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix E Section);
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (Appendix E Section 1);
- The treasury management strategy statement which sets out how the Council's treasury service will support the capital decisions taken above in accordance with the CIPFA Code of Practice on Treasury Management (Appendix E Section 2);
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss (in accordance with the CLG investment guidance) (Appendix E Section 3);

- 16.2 A review of the Treasury Management strategy has taken place in conjunction with the Council's treasury management advisors to ensure the strategy provides a framework for effective, efficient treasury management activity and ensure the Council's exposure to risk is minimised. Whilst it is widely acknowledged that exposure to risk cannot be removed, good governance and scrutiny arrangements help to ensure the exposure is minimised. The Council's arrangements in respect of robust monitoring and reporting of treasury management activities are based on best practice. Specifically, Governance and Audit Committee ensure the governance and scrutiny function is undertaken on behalf of the Council and during the past year has received specific treasury management training and receives regular half yearly reporting information.

The strategy has been updated to reflect the impending HRA self-financing payment which required changes to the Operational Boundary and Authorised Limits, which council approved at their meeting on 8th December 2011. As regards the Investment Strategy two changes have been made. The first is to include criteria of allowing investments to be placed with Part-nationalised institutions as these counterparties would fall within the specified investment category to reflect their high credit quality as they are part owned by the government. The second is to remove the group limit on Money Market Funds (whilst maintaining a limit of £5m per fund) to reflect their high credit worthiness and allow the Council more flexibility to utilise these investment options.

17 Collection Fund

- 17.1 All transactions associated with Council Tax are shown in the Collection Fund.
- 17.2 To comply with CIPFA's Best Value Accounting Code of Practice authorities are required to forecast the out-turn on the Collection Fund as at 31st March each year in order to distribute this amount to precepting bodies in the following financial year (together with any remaining unallocated surplus from previous years).
- 17.3 For this financial year SKDC has forecast the out-turn for 2011/12 and in 2012/13 will distribute this forecast together with the remaining surplus from the 2010/11 out-turn. Remaining surplus (or deficit) from previous years occurs when there is a difference between the forecast for that year and the actual out-turn.
- 17.4 Any surplus or deficit arising from Council Tax transactions is shared between South Kesteven District Council, Lincolnshire County Council and Lincolnshire Police (the precepting bodies) in proportion to their demands on the Collection Fund.
- 17.5 The accumulated surplus on the Collection Fund at 31st March 2011 was £261K of which £255K will have been distributed during 2011/12. The forecast out-turn for 2011/12 is a surplus of £6K. This leaves a total of £12K for distribution in 2012/13. This will be distributed as follows:

	£K
Lincolnshire County Council	9
Lincolnshire Police	2
South Kesteven District Council	<u>1</u>
Total Surplus on Collection Fund	12

- 17.6 The amounts due to Lincolnshire County Council and Lincolnshire Police will be distributed on a pro rata basis, utilising the precept mechanism.
- 17.7 The council tax income budget for 2011/12 was produced based on an anticipated increase in tax base of 1.01% - the same increase as in the previous year. This has resulted in a forecast of a very small surplus in 2011/12.
- 17.8 Since 2004/5 Council billing authorities have had the powers to reduce the discount on second homes from 50% to a minimum of 10%, this has the effect of generating additional income for the billing authority and the precepting authorities (the County Council and the Police Authority). In 2005/6 the discount was reduced to the minimum of 10%. The County Council and the Police Authority agreed that the additional income would be spent within the district on agreed schemes of mutual benefit.
- 17.9 The amount due from the County Council for 2011/12 is £93K and from the Police Authority is £16K. It is estimated that the amount for 2012/13 will be £100K, and £17K respectively. This is proposed to be utilised on an equal basis to help fund the work of the CCTV monitoring centre and to provide Disabled Facilities Grants. At the time of compiling the report it is anticipated that Lincolnshire County Council will propose a council tax freeze for 2012/13 and Lincolnshire Police Authority are reviewing a number of potential scenarios. The actual position will be confirmed in readiness for the Budget report to Council on 1st March 2012.

18 Statement by Chief Finance Officer (S151 officer)

- 18.1 The 2012/13 Budget and indicative budgets for 2013/14 to 2014/15 have been drawn up to take account of the Council's various strategies, policies and the financial context, in particular:
- The Corporate Plan
 - The Medium Term Financial Plan (MTFP)
 - Service Strategies and Plans
 - The economic context and recent grant announcements
 - The 2011/12 forecast outturn

The medium term financial plan (MTFP) was reviewed and updated in December 2010 to reflect the current financial climate and the framework in which the Council's budgets are allocated. It sets out how the Council is responding to the significant changes to the financial climate over the next 4 financial years. The budget framework proposals have been prepared within the context of the MTFP, the HRA business plan and the recent national grant settlements.

18.2 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer must report on:

- (a) the robustness of the estimates made for the purposes of the budget calculations and
- (b) the adequacy of the proposed financial reserves

18.3 In recommending the budget to the Council, the Cabinet must take account of the advice of the Chief Finance Officer in respect of the above. For 2012/13 I can advise that the budget presented to the Cabinet is robust in its formulation and the level of reserves is adequate for the organisation.

19 Risks to the budget

19.1 In formulating my opinion the following risks and factors have been taken into account.

- a. The **grant settlement from Government** has been announced for 2012/13 only. Thereafter the grant settlement process is changing with the introduction of the localisation of business rates. Full details of the potential impact this will for the Council are not yet available but preliminary analysis has determined this new financing arrangement could prove challenging. These changes also brings opportunities as future funding will be closely aligned to local economic growth which should be complemented by the Council's ambitions for stimulating the local economy.
- b. The impact of the **economic climate** will place higher demand on particular services in relation to social care and well being, specifically benefit advice and support and homelessness. This may create additional resource pressures in these service areas.
- c. **Fees and Charges income** – The report has identified a continued shortfall in the projected income levels for next year based on the current year's forecasting. The income forecasts will need to be carefully monitored to identify any further reduction in levels and whether there is any identified improvement in the future years. The review of fees and charges that is currently underway is vitally important in order to develop a local charging policy that clearly identifies charges based on cost recovery and where further opportunities for income generation exist.
- d. **Investment Income** – the forecast in respect of investment income is included in the budget proposals and shows an improvement over the three year period. Given the current volatility in respect of the economic market there is a risk of investment income not achieving this level.
- e. The future financial viability of the **Housing Revenue Account** will need to be updated and reviewed following the implementation of the self financing system which will be effective from 1st April 2012. Specifically this will update the repayment schedule that has been implemented which will then demonstrate the financial viability of the HRA over the 30 year plan. This

will also assist strategic decision making in respect of investment and refurbishment of the housing stock.

- f. **Council Tax benefit changes** – With effect from 1st April 2012, the Council will be directly responsible for setting and implementing a local policy with respect to the administration and grant of council tax benefit. These changes are being introduced in the context of a 10% reduction in grant award whilst adhering to the national compliance of protecting prescribed vulnerable groups. Significant work will be required to model different scenarios of the financial impact on those claimants (such as working age claimants) who will be receiving a reduced amount in benefit assistance. The Council will need to consider the potential impact this will have on the claimants themselves and the wider impact this could have including a reduction in collection of rent and council tax and increased pressure on some key front line services.
- g. **Council tax setting levels** – capping powers will be utilised for the setting of the 2012/13 council tax levels and the Council will be exposed to the risk should it decide to set a council tax higher than the 3.5% level that the Government has indicated would be acceptable.

20 **Comments of the Monitoring Officer**

The budget forms part of the Council's Budgetary Framework. Members should have regard to the comments of the Council's Chief Financial Officer which are set out in section 18 above when making their recommendations to Council in accordance with the Local Government Act 2003. Any budget must be set in accordance with the Budget and Policy Framework Procedure Rules as set out at part 4 of the Constitution.

21 **Appendices:**

- Appendix A – Revenue Estimate 2012/13 and indicative budgets 2013/14, and 2014/15
- Appendix B – Capital Estimates 2012/13 to 2014/15
- Appendix C – Reserves Statement
- Appendix D – Fees and charges 2012/13
- Appendix E – Treasury Management Strategy