

# REPORT TO CABINET

REPORT OF: STRATEGIC DIRECTOR – CORPORATE FOCUS

HEAD OF FINANCE

REPORT NO.: HOF 219

DATE: 18th February 2013

|   |  |                                      |
|---|--|--------------------------------------|
| <b>TITLE:</b>                                     | <b>Determination of General Fund Budget 2013/14 and indicative budgets to 2015/16.</b>   |                                      |
| <b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b> | Budget Framework Proposal  |                                      |
| <b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>    | Cllr Mike Taylor<br>Resources and Assets Portfolio Holder  |                                      |
| <b>CONTACT OFFICER:</b>                           | Daren Turner – Strategic Director Corporate Focus<br>Tel: 01476 406301<br>Email: <a href="mailto:d.turner@southkesteven.gov.uk">d.turner@southkesteven.gov.uk</a><br>Richard Wyles – Head of Finance<br>Tel: 01476 406210<br>Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a> |                                      |
| <b>INITIAL IMPACT ASSESSMENT:</b>                 | Stage 1 Equality impact analysis and undertaken  | Full impact assessment Required: N/A |
| <b>Equality and Diversity</b>                     |  |                                      |
| <b>FREEDOM OF INFORMATION ACT:</b>                | This report is publicly available via the Local Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>  |                                      |
| <b>BACKGROUND PAPERS</b>                          | HOF216   |                                      |

## 1. RECOMMENDATIONS

In relation to the General Fund (Revenue)

Make recommendations a. to c. to Council:

- a. to set a General Fund budget requirement of £14.068M for 2013/14 shown at Appendix A (inclusive of special expenses) which will include the additional items listed in Appendix B and the savings listed in Appendix C
- b. to approve a Council Tax increase of £5 (for a Band D equivalent) for 2013/14
- c. to note the indicative base estimates for 2014/15 and 2015/16 as detailed in the summary at Appendix A.;

### In relation to Capital Programme

Make recommendations d. to e. to Council:

- d. approve the General Fund Capital programme for 2013/14 to 2017/18 detailed at Appendix D page 1
- e. approve the Capital Financing statement detailed at Appendix D page 2

### In relation to the Reserves and balances

Make recommendation f. to Council:

- f. To note the movements in Revenue and Capital reserves and balances detailed in Appendix E.

### Treasury Management and prudential indicators

Make recommendation g to Council:

- g. to approve the Treasury Management Strategy provided at Appendix F;

## 2. PURPOSE OF THE REPORT/DECISION REQUIRED

- 2.1 The purpose of this report is to present to Cabinet:-
- 2.2 The Budget estimates for 2013/14, revenue and capital, the level of Council tax and the subsequent Treasury management strategy.
- 2.3 Members are asked to consider the contextual information presented and to recommend to Council approval of the Council's budget for 2013/14.

## 3. Background

- 3.1 Cabinet were presented at the meeting on 21<sup>st</sup> January 2013 a detailed report with respect to the budget requirement which included the following information:

- The setting of a provisional target for the General Fund for 2013/14
- Approval to consult on the council tax setting proposals for 2013/14
- An indicative five year capital programme including details on the financing proposals

3.2 The report also set out details of the grant settlement the Council will receive for 2013/14 including specific grants and provided details on the significant changes introduced by the Government which have impacted on the council tax base setting and the grant funding arrangements.

#### 4. **Budget Process - Estimates for 2013/14**

4.1 The budget has been prepared in line with the Council's priorities and the corporate plan. The budget process has been managed in accordance with the Council's current medium term financial plan and incorporates the budgetary principles of continuing to protect front line services, invest in priorities and the prudent use of reserves and balances.

4.2 The budget assumptions used in compiling the 2013/14 estimates are set out below:

**Table 1**

| <b>Inflation Factors</b>                          | <b>Assumption (%)</b>  |
|---|------------------------|
| Retail Price Index                                | 2.6                    |
| Salary Inflation                                  | 1                      |
| National Business Rate                            | 2.6                    |
| Utility Cost increase                             | 8.0                    |
| Drainage Board Levies                             | Ranging from 1.2 - 2.6 |
| Fuel costs  | 5.0                    |
| Interest Rates                                    | 1.0                    |
| Salary Vacancy Factor                             | 3.0                    |
| Growth in numbers of Band D equivalent properties | 0.7                    |

4.3. 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 2**

| <b>Financial Year</b>                       | <b>2013/14</b> | <b>2014/15</b> | <b>2015/16</b> |
|---|----------------|----------------|----------------|
| Base Rate                                   | 0.5%           | 1.0%           | 1.5%           |
| Money Market Rate (average mid-term point.) | 1.0%           | 1.8%           | 2.6%           |

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. Forecast interest due to the General fund is shown in table 3 below and

at line 6 in Appendix A. Further details of the Council's investment strategy are contained in Appendix F to this report

- 4.4 The General Fund budget proposes a net service expenditure of £15.619M broken down by directorate focus as follows:

**Table 3**

|    |                                 | Original base<br>2012/13<br>£'000 | Estimated<br>base<br>2013/14<br>£'000 | Indicative<br>base<br>2014/15<br>£'000 | Indicative<br>base<br>2015/16<br>£'000 |
|----|---------------------------------|-----------------------------------|---------------------------------------|--|--|
| 1  | Community and Environment Focus | 9,383                             | 8,744                                 | 8,627                                  | 8,740                                  |
| 2  | Corporate Focus                 | 3,912                             | 4,190                                 | 4,116                                  | 4,343                                  |
| 3  | Development and Growth Focus    | 2,219                             | 2,079                                 | 1,778                                  | 1,680                                  |
| 4  | Special Expense Areas           | 594                               | 606                                   | 620                                    | 632                                    |
| 5  | <b>Net Service Expenditure</b>  | <b>16,108</b>                     | <b>15,619</b>                         | <b>15,141</b>                          | <b>15,395</b>                          |
| 6  | Net Interest                    | (144)                             | (245)                                 | (305)                                  | (383)                                  |
| 7  | Minimum Revenue Provision       | 186                               | 179                                   | 172                                    | 165                                    |
| 8  | Capital Charges                 | (2,566)                           | (2,734)                               | (2,623)                                | (2,596)                                |
| 9  | Revenue contribution to capital | 659                               | 1,400                                 | 500                                    | 500                                    |
| 10 | Net movement on reserves        | (216)                             | (258)                                 | 168                                    | (454)                                  |
| 11 | Local CT support grant          | 0                                 | 107                                   | 108                                    | 104                                    |
| 12 | <b>Budget Requirement</b>       | <b>14,027</b>                     | <b>14,068</b>                         | <b>13,161</b>                          | <b>12,731</b>                          |

- 4.5 The overall General Fund position for 2013/14 is shown at Appendix A. The total service expenditure (net of direct income) for 2013/14 is estimated at £15.619M. The Revenue contribution to the capital programme is increasing to £1.4M as shown at line 10 of the General Fund position. This additional one-off contribution is to accelerate strategic asset acquisitions during 2013/14 which will further contribute to the delivery of the 'Grow the economy' priority.
- 4.6 The proposed budgets include a number of additional items that are cost pressures, investment in assets and a continuation of allocating resources to deliver key priority outcomes. The Council commitment to fund key front line services continues throughout the duration of the Medium Term Financial Plan. (Details of these additions are provided at Appendix B.)
- 4.7 In order to respond to declining government support the Council has also continued to identify and deliver a number of efficiencies and savings the detail of these are at Appendix C. Those listed are enabling the council to protect front line services, respond to extra burdens and continue to invest in priority areas. This is despite the loss of in excess of £2.4M in government grant in the same period.

- 4.8 The proposed Council Fees and charges were received by Cabinet in December 2012, the schedules for 2013/14 have been compiled in accordance with the new charges strategy which sets out key principles of the methodology to be used when setting fee structures. The proposals for 2013/14 also include the introduction of new fees in respect of pre-planning advice for householders and businesses. There have been no changes made to those proposed in December 2012 and the fees and charges will be presented to Council on 1<sup>st</sup> March 2013 for approval.

## **5. The District's basic amount of Council Tax 2013/14**

- 5.1 The calculation of the Council's basic amount of Council Tax is made by deducting from the £14.068M budget requirement (including special expense areas, but excluding parishes), the external support that will be received from the Government in the form of projected Formula Grant £8.024M (including all specific grants - council support scheme, council tax freeze grant for 2011/12 and homelessness grant). Government has also announced the provisional settlement for 2014/15 of £6.992M (inclusive of all specific grants). This represents a further reduction of £1.03M compared to 2013/14. However it should be noted that this figure could change depending on the RPI figure prevailing at September 2013.
- 5.2 Following the Government's announcement regarding council tax proposals for 2013/14, South Kesteven has been identified as having a low quartile council tax base charge and therefore has the opportunity to increase its Council Tax by a maximum of £5 for 2013/14 (based on a Band D charge). Therefore, the average band D charge for South Kesteven, should this option be taken, will increase to £127.45 (£139.62 including SEA's). This would represent a 3.7% increase.
- 5.3 Following the Cabinet approval of the target budget in January, consultation has been undertaken through a series of community drop in sessions and online in order to gauge views from residents on the proposals for the increase in order to maintain front line services. Members will be updated at the meeting regarding feedback from stakeholders who took part in the consultation.

## **6. Future outlook**

- 6.1 The forecast opening requirements for 2014/15 and 2015/16 (£13.161M and £12.731M respectively) are included in the attached summary (Appendix A). This shows further forecast decreases of £907K in 14/15 and £430K in 15/16 which will be necessary to meet the reduced levels of funding anticipated from Government. The overall reduction in the four year period is 11%. Future Council Tax increases will be subject to the referendum principles, the Council will seek to continue to drive out savings and efficiencies in order to protect front line services. However given the size and speed of the grant reductions and the risks associated with the business rates retention scheme Cabinet and Council must begin to consider, as part their Financial Strategy refresh, the use (as many Councils have) of New Homes Bonus and balances to supplement the General Fund in the short to medium term.

## **7. Reserves and Balances**

- 7.1 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 and their movements is provided at Appendix E. It is proposed to introduce a new reserve entitled 'Business Rate and Council Tax Support Volatility Reserve' which should be utilised should the Authority not be able to collect its forecast business rates during the year. The amount in the reserve is the equivalent amount between the projected business rates collectable and the level when the Government safety net mechanism will apply.
- 7.2 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.

## **8. Capital Programme 2013/14 - 2017/18**

- 8.1 Cabinet received detail of the likely capital outturn at their meeting in January and indicative programme for 2013/14 onwards. Cabinet understand the importance of their capital programme to the delivery of their stated priorities – particularly in relation to Grow the Economy. Changes to the established programme were detailed in the report to Cabinet in January as well as the proposed financing of the programme. Since that time further revenue support to the overall programme has been proposed, this has been reflected in the revised programme and financing statement laid out at Appendix D. These additional resources will be targeted at strategic purchases around the district which will aid delivery of the stated aims. These will form part of the Councils established and approved Asset Management Strategy and Plan.

## **9. Prudential Code**

- 9.1 The Council complies with the Prudential Code for controlling Local Government capital. 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.

9.2 The Council's current financial planning systems demonstrate the affordability of the capital programme and the 2013/14 estimates have been prepared in the context of these plans and controls.

## **10. Treasury Management and Investment Strategy**

10.1 In accordance with the requirements of Local Government Act 2003 a Treasury Management Strategy is provided within Appendix F outlining the Council's prudential indicators for 2013/14 – 2015/16 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 F Section 1);
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (Appendix F 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 F 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 F Section 3);

10.2 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.

## **11. Collection Fund**

11.1 All relevant transactions associated with Council Tax are shown in the Collection Fund.

11.2 To comply with CIPFA's Best Value Accounting Code of Practice authorities are required to forecast the outturn on the Collection Fund as at 31<sup>st</sup> 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).

- 11.3 For this financial year SKDC has forecast the outturn for 2012/13 and in 2013/14 will distribute this forecast together with the remaining surplus from the 2011/12 outturn. Remaining surplus (or deficit) from previous years occurs when there is a difference between the forecast for that year and the actual outturn.
- 11.4 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.
- 11.5 The accumulated surplus on the Collection Fund at 31<sup>st</sup> March 2012 was £41K of which £12K will have been distributed during 2012/13. The forecast outturn for 2012/13 is a surplus of £317K. A breakdown of the £317K which will be distributed during 2013/14 is:

**Table 4.**

| <b>Precepting Body</b>                  | <b>Distribution (£)</b> |
|---|-------------------------|
| South Kesteven District Council         | 37,000                  |
| Lincolnshire CC                         | 238,000                 |
| Lincolnshire Police                     | 42,000                  |
| <b>Total Surplus on Collection Fund</b> | <b>317,000</b>          |

- 11.6 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. The amount estimated from the County Council for 2013/14 is £100K and from the Police Authority is £17K. It is proposed to spend the allocation on supporting the delivery of disabled facilities grants and community safety.

## **12 Statement by Chief Finance Officer (S151 officer)**

- 12.1 The 2013/14 Budget and indicative budgets for 2014/15 to 2015/16 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
  - Asset Management Strategy
  - The economic context and recent grant announcements
  - The 2012/13 forecast outturn

The MTFP was last reviewed and updated in December 2010. In order to reflect the massively changing environment in which the Council operates which includes; the continuing economic down turn, the rapidly reducing government

grant contribution and the shift to funding from retained business rates the Council will refresh its MTFP and develop a strategy that will lay out how it will manage its resources in the coming five years. The current budget framework proposals have been prepared within the context of the existing MTFP, and the recent national grant settlements.

12.2 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

### 12.3 Comments of Financial Services

12.4 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 2013/14 it can be confirmed that the budget presented to the Cabinet is robust in its formulation and the level of reserves is adequate for the organisation.

## 13. Risks to the budget

13.1 In formulating my opinion a number of risks and factors have been taken into account.

- a. The **grant settlement from Government for future years** has been announced for 2013/14 and an provisional amount for 2014/15. Future grants will be largely dependent on the ability of the Council to increase its business rates base and the associated collection of business rates due. This provides both opportunities and risks to the Authority from a financial perspective.
- 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. **Investment Income and fees and charges** – 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. A number of fee incomes has been included in the proposed budgets which, in themselves, carry a level of risk not being achieved due to the economic climate.
- d. **Council Tax Support scheme** – With effect from 1<sup>st</sup> April 2013, the Council will be directly responsible for the implementation of its local policy with respect to the administration of the Council Tax support scheme. 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. There is a risk that the policy could have a detrimental

impact on particular groups and that demand for support could exceed the allocated grant for the scheme. In this scenario the Council will be financially liable to continue to allocate reductions in accordance with its scheme policy.

- e. **The Actuary review of the Pensions Fund** is due in 2014 which is expected to recommend a number of proposals to reduce the deficit on the fund, one of the anticipated recommendations will be in relation to an increase in employer contribution rates.

#### **14 Comments of Legal and Democratic Services**

The budget forms part of the Council's Budgetary Framework. Members should have regard to the comments of the Strategic Director – Corporate Focus as the Council's Chief Financial Officer which are set out in section 12 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.

#### **15 Appendices:**

- Appendix A – Revenue Estimate 2013/14 and indicative budgets 2014/15, and 2015/16
- Appendix B – Additional Items
- Appendix C – Savings and efficiencies
- Appendix D – Capital Programme
- Appendix E – Reserves and balances
- Appendix F – Treasury Management Strategy