

REPORT TO CABINET

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF144

DATE: 10 January 2011

TITLE:	BUDGET REQUIREMENT 2011/12	
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 that the Cabinet:

General Fund

1. Notes the provisional settlement for 2011/12.
2. agree a provisional target General Fund Budget Requirement of £14.749m (£31k for collection fund surplus)for 2011/12 (inclusive of Special Expenses). This provisional target is based on a Council Tax freeze.

3. agree 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.

Housing Revenue Account

4. Approve an indicative rent increase for consultation purposes with the Tenant consultation forums on options for rent increases.
5. Agree to review the proposed rent increase at recommendation 5 above, at the February Cabinet Meeting, in light of consultation, together with proposals regarding garage rents and other service charges.

Capital Programme

6. Agree 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/DECISION REQUIRED

The purpose of this report is to comment upon:

1. The updated Local Government Finance Settlement for 2011/12.
2. The budget requirement
3. Use of reserves.
4. Housing rent proposals 2011/12

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 2011/12. Further work is ongoing in providing the detailed budget information which will be submitted to Cabinet in February and Council in March 2011.

3. DETAILS OF REPORT

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

On 13 December 2010, the Secretary of State for Communities and Local Government 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.

The Secretary of State announced that councils will face an average cut of 4.4%; and that no local authority would experience a decrease of more than 8.9% in

2011/12, as a result of the grant reductions. It should be noted that these % figures are based on a new basis of 'revenue spending power' which encompasses:

- Council tax requirement
- Formula Grant
- Specific grants within the aggregate External finance

To ensure that no local authority has its 'revenue spending power' reduced by more than 8.9% for 2011/12 and 2012/13 only, the government has created a transition grant which is in addition to any funding floor that an authority may receive. The transition grant is being funded by £85M found from within uncommitted DCLG budgets and will not be funded by other local authorities. The government has made it clear that the grant will end in 2013/14.

The provisional settlement by authority type shows that shire districts have suffered the largest reduction in grant when comparing 2010/11 and 2011/12 of 15%, the shire counties reduction is 12.6%, with police authorities having the smallest reduction of 5.1%.

South Kesteven settlement

The revenue spending power reduction is not a calculation that demonstrates the real financial impact of the grant reductions. The table below details the specific grant allocation for the Council over the 2 year period:

	2010/11	2010/11 (adjusted)	2011/12	2012/13
Formula Grant	£10.147M	£9.619M (after removal of concessionary fares and other minor adjustments)	£8.292M	£7.375M
% reduction in cash terms			-13.80%	-10.50%
£ reduction			-£1.327M	-£917K
Total reduction over 2 year settlement	23.33% or £2.244M			

Scenario planning had been undertaken by the Council for a period of months leading up to the announcement (as detailed in the Medium Term Financial Plan) and the levels of the reductions are broadly within the scenario levels expected. However the scale of the reduction within a 24 month period is extremely challenging and preparatory plans will now be advanced to ensure further financial stability.

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 £768,068 in respect of administration subsidy (£768,068 in 2010/11) and an additional subsidy amount of £77,410 (£118,493 in 2010/11). 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 £845,478 which represents a decrease of 4.63% compared to 2010/11.

Homelessness Grant

The government has confirmed they are continuing from 2011/12 to 2014/15 with the provision of the Homelessness grant and the amount that is to be awarded is £106k for each of the years 2011/12 and 2012/13 (the 2010/11 level for South Kesteven was £55,000). This specific grant is currently used to financially support the rent deposit scheme, Women's Aid support service and a mediation service. 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 and funding is provided to maintain the service. 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.

The Council will not receive any specific grants in respect of area based grants, concessionary fares and Housing and Planning Delivery grant. All other specific grants have been removed from ring-fencing and included in the overall Formula Grant funding mechanism.

General Fund Budget Requirement, Capping and Reserves

Council tax Proposals

The proposed target budget requirement for 2011/12 is £14.749M which is based on a freeze of council tax level but including the indicative Council Tax freeze grant of £157K. This grant will continue to be received in 2012/13 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%.

The proposals in respect of council tax normally include consultation with the community in order to gauge views and opinions but as the proposal is to freeze council tax for next year it will not be necessary to undertake specific council tax consultation at this time. However, as the Council will be making difficult choices in respect of service delivery and prioritising its resources it will continue to maintain an on-going dialogue with the community in order to support the difficult choices that will

be made. This community engagement has already started during the summer of 2010 as part of a prioritisation of resources exercise (SIMALTO).

Capping

The Government is seeking to introduce powers for residents that will enable excessive increases to be vetoed through a local referendum. In the meantime the Government is prepared to take capping action against councils that propose excessive council tax rises. The capping threshold is likely to be set 2.5% for 2011/12. Therefore it is clear that the government fully expects all authorities to take up the offer of a council tax freeze equivalent of 2.5% in order to qualify for the Council Tax freeze grant as any increase over that threshold would appear to be at risk of capping.

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 balances, as at 31st March 2010 were £5.804m (adjusted for IFRS accounting standards) of which £2.236m were non specific and represent 12.9% of the net general fund expenditure. 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 introduced 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 as part of annual 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 detailed 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. However it is clear that although the revenue reserves may be utilised to give short term financial assistance with the significant shortfall in Formula Grant it is accepted this will not be a sustainable option as all reserve have been earmarked for specific purpose and therefore do not allow to be used for general funding purposes.

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

Housing Revenue Account - Rent Setting for 2011/12

Housing Revenue Account – Rent Setting 2011/12

The main element of policy relating to the HRA for 2011/12 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 2011/12.

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. The start of the new system has been delayed until 1st April, 2012, but it is to be enforced by primary legislation which will require all stock-retaining authorities to participate.

Consequently, the draft Subsidy Determination 2011/12, which was published on 5th November, 2010, is to be the last one issued under the old system, and has been constructed using similar parameters to those used 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 2010 inflation figure was 4.6% and the draft determination is based upon convergence within five years, by 2015/16. This has produced an average guideline rent increase of 6.8%. The uplift applied to the allowances is the GDP inflator, currently estimated at 1.9%. However, because of the way the Government's formulae operate, the unit Maintenance and M.R.A. allowances are the same as last year whilst the Management allowance has increased by 2.8%.

Guideline rent is the notional figure used in the HRA Subsidy 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 of 6.67%. At the level of individual dwellings, the percentage increase will depend upon each property's proximity to its target, with increases varying between 4.02% and 9.27%. In cash terms, the average rent will be £66.03 with a minimum of £45.51 and a maximum of £94.87. 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.

4. OTHER OPTIONS CONSIDERED

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

5. RESOURCE IMPLICATIONS

This report details the budget requirement for 2011/12.

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

N/a

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

N/a

8. CRIME AND DISORDER IMPLICATIONS

N/a

9. COMMENTS OF SECTION 151 OFFICER

My comments are included in the report.

10. COMMENTS OF MONITORING OFFICER

The recommendations relate to proposals for the budget which forms part of the budgetary and policy framework. Members should consult with residents on the proposals contained within this report as required in accordance with statutory regulation and constitutional requirements.

11. APPENDIX:

None