

FINANCE, AUDIT AND RISK COMMITTEE
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8 December 2011

To all Members of the Committee

Subsequent to the publication of the above agenda the Accountancy Manager has prepared a more detailed report (with all five appendices) for the meeting of Cabinet on 13 December.

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No.
	11

TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2012 - 2013

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY AND GOVERNANCE

TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2012/13**REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE****1. SUMMARY**

- 1.1 To report the estimated net District expenditure for 2012/13 and provide an update on the key factors and assumptions used for this estimate.
- 1.2 To consider the factors which contribute to the determination of the District Council Tax level and to recommend an indicative budget level.
- 1.3 To consider the known and unknown key factors which could impact on Council finances within the period of the medium term financial strategy (2012 – 2017).

2. FORWARD PLAN

- 2.1 This Report contains a recommendation on a key decision to be taken by Council on 9th February 2012 that was first notified to the public in the Forward Plan on the 1st September 2011.

3. BACKGROUND

- 3.1 The Council's Medium Term Financial Strategy (MTFS) was adopted by Full Council on the 8th September 2011 following recommendation by Cabinet.
- 3.2 The MTFS provides the financial background to the Corporate Business Planning process for 2012-13 and notes that until the outcome of the Local Government Resource review is known, detailed financial planning beyond 2012-13 is based on assumptions. The Committee report acknowledged that it may be necessary to revisit the MTFS once there is greater clarity at the national level.
- 3.3 In identifying the likely Council Tax requirement, the MTFS focussed on the national economic situation and the pressures on expenditure and income streams. The financial strategy was based on the following assumptions:
 - Starting point is the current year base budget;
 - Year on year spend is adjusted to take account of cyclical variations in expenditure;
 - Investment income falls in accordance with the cash flow/investment projections to take account of the reducing balance of capital receipts and assumptions regarding interest rates;
 - Assumed average rate achieved on investment deals in 2012/13 of 2% on long term (*this was assumed to be 1.75% in the MTFS but the Treasury Strategy has been achieving higher rates than originally anticipated*) and 0.9% on short term investments;

- Any approved one-off increase in expenditure or carry-forward budgets for 2011/12 have been removed from the base figures in subsequent years;
- Reduction in Government support of 14.1% in 2012/13 (as per the provisional settlement) and then a further assumed reduction of 1.9% in 2013/14 and 7% in 2014/15;
- Contract inflation in accordance with the individual contract terms;
- Pay inflation at 0% for 2012/13 and 1% per annum for each year thereafter (*this was assumed to be 2% from 2013/14 in the MTFs but has been updated to reflect the Chancellor's announcement albeit Local Government pay negotiations are separate from the general public sector*);
- Pay increments due in 2012/13 and future years have been built in to the model (approximately £100k for 2012/13) Pay increments are part of contractual pay and the calculation is based on those staff due to receive an increment, the remainder having already reached the top of the grade;
- Superannuation contribution of 22.6% until 2014/15 when it is estimated contributions will need to increase by 1% per annum to meet the liability in the pension fund. Any further changes to the Local Government Pension Scheme that might be adopted following the current government consultation will need to be reflected in the MTFs. The Council could apply to make a capital contribution to the fund which would reduce the contribution rate in the future;
- No allowance is made for general inflation on remaining expenditure;
- Discretionary fees and charges income increased by RPI at October (*this was assumed to be 4% at the time of the MTFs and has since been revised to 5.6%*);
- Use of the special general fund reserve will happen on a phased basis to prevent erratic movements in Council Tax increase;
- Some of the New Homes Bonus will be used for investment in Council priorities over the life of the bonus scheme while the remainder is required to continue the delivery of services in the face of other government funding reductions. Any further new investment will require more savings to be made in services;
- The Council tax base figure will rise by 0.5% per annum;
- An assumed 99% collection rate for the purposes of calculating the Council tax base;
- The minimum General Fund balance should be 5% of net expenditure, plus an allowance for identified risks;
- A vacancy savings target set at 3% of salary budget to yield in the region of £300k is included in the base budget in each year. (*this was assumed to yield £400k in the MTFs but has been revised to reflect the decreasing numbers of FTEs and the current employment market*);
- Any investment in Area Committee budgets to reflect additional responsibilities will be offset by reductions in Directorate budget;
- Council tax increase rate of 0% for 2012/13 and onwards (assumed receipt of a further Council tax freeze grant in 2012/13 only).

3.4 The MTFs is an integral part of the Council's Corporate Business Planning process. It complements the Council's Priorities for the District 2012/13 and sets out a clear framework for our financial decision making. Council have confirmed that the high level Council priorities for 2012/13 onwards are:

- Living within our means to deliver cost-effective services;
- Working with local communities; and
- Protecting our environment for our communities.

3.5 There are a number of key risks in the financial assumptions after 2012/13 due to uncertainty around the potential outcome of the Local Government resource review and other significant national policy proposals. The key risks are:

- Implications of the Welfare Reform Bill and the introduction of the Universal Credit. Councils would retain responsibility for the Council tax benefit element of the current Benefits system. Council tax benefits for the District currently total approximately £8.2million. The Department of Work and Pensions has indicated that it would pass on to Councils a significant cut in funding. The proposed reduction of 10% in funding would mean that approximately £820k would need to be found from either a review of benefits paid out or would add to the efficiency target required to balance the budget; Early indications that certain groups are to be protected could mean that others currently in receipt of Council Tax benefit will have to bear the brunt of the reduction;
 - The Government has announced its intention to localise business rates. Although the details of this proposal are not yet clear, it has also been announced that arrangements would be put in place to ensure that the Council would receive as least as much as the base amount in 2012/13. Additional income over and above this could be achieved if the Council attracted new businesses to the District. The technical papers recently released suggest that an as yet unspecified amount will be top-sliced from the total business rate pot to fund, amongst others, the on-going New Homes Bonus and the top-up arrangements for authorities with low business rate income;
 - The closing date for the consultation on the Local Government resource review was 24 October 2011. The net impact on the Council's funding from central government could be different to the 8.9% reduction assumed after 2012/13;
 - A decision on whether to allow the local setting of planning fees has yet to be made. The impact of such a decision will depend on the detail of such a scheme and is not yet known.
- 3.6 The MTFS reflects Member agreement to maintain the general fund balance at 5% plus an allowance for known risks and that the special reserve will be used on a phased basis for invest to save projects and to support unavoidable fluctuations in contract prices as contracts are renewed.
- 3.7 In order to balance the budget and not have an increase in Council Tax, the MTFS suggested it would be necessary to find savings of £0.5million in 2012/13 and at least as much again in each of the subsequent years.
- 3.8 The Council has already identified over £8.7million of savings over the last six years (£1.9million for 2011/12) in the drive to become more efficient and enable investment in Council priorities. Much of this has been achieved without having a serious impact on front line services but it is clear that to achieve further significant savings the Council will need to look for alternative ways of working, such as shared services.
- 3.9 Any major change to the way services are delivered is likely to require a lead in time to fully implement and similarly any reduction in service is likely to need a phased approach. As such, the Council is already working on a detailed business case for shared working with East Herts and Stevenage Councils.
- 3.10 This report outlines the draft budget proposals based on information available to date. **It must be stressed that these are provisional figures and further work remains to be done to refine the estimates before the final budget recommendation in January/February 2012.** There may well be more government announcements made before January which have an impact on Council finances.

4. ISSUES

4.1 Provisional Finance Settlement and Other Funding

- 4.1.1 The Government announced the provisional 2012/13 settlement in January 2011, at the same time as announcing the final 2011/12 settlement. The Secretary of State expects to make an announcement in the House of Commons in early December of the proposed formula grant for 2012/13. This will mark the start of a period of consultation on the proposed formula grant settlement before the final 2012/13 settlement can be approved by Parliament. An update will be provided to Members as soon as possible after the announcement.
- 4.1.2 The Comprehensive Spending Review (CSR) on 20th October 2010 announced a 7.1% reduction in funding available to Local Government in each of the following 4 years. This equated to government support being approximately 26% lower at the end of the 4 year period. The actual reduction in 2011/12 (16.2%) and the provisional reduction for 2012/13 demonstrated that this reduction was front loaded. However, in the absence of any other announcements further reductions in government funding are anticipated in 2013/14 (1.9%) and 2014/15 (7%) in line with the CSR.

Table 1: Assumed Government funding reductions and Efficiencies required

Year	% Reduction in Government Funding	Amount of Reduction £'000	Efficiencies required £'000
2012/13	14.1%	838	500
2013/14	1.9%	97	600
2014/15	7.0%	351	700
2015/16	0%	0	500
Total	23%	1,286	2,300

- 4.1.3 The Local Government Resource Review proposes that from 2013/14 onwards Local Government will no longer receive any non-specific grant funding from central government. The Revenue Support Grant will cease to exist and Councils will keep a proportion of the Business Rates they collect. The change in funding mechanism can be demonstrated as follows:

Current Funding Arrangements:

Resources = Formula Grant + Council Tax (base + local increase)

Future Funding Arrangements:

Resources = Council Tax – Council Tax Benefit + NNDR +/-Top-Up/Tariff

- 4.1.4 The government has announced a further council tax freeze grant for 2012/13 which will be payable to Authorities that choose to freeze their council tax. Officers understand, from the detail released so far, that the grant will be equivalent to a council tax increase of 2.5% and payable for one year only. For NHDC this will be an additional grant of approximately £250k in 2012/13. However, because the grant is only payable for one year it will still be necessary to find savings of £500k in 2012/13 in order to reduce the base budget in future years. Otherwise the challenge in 2013/14 will be even greater.
- 4.1.5 The New Homes Bonus Scheme was announced in 2011/12 and has a significant impact on Council finances. The Council was awarded £552k in 2011/12 which will be payable for six years. It is anticipated the Council will be awarded a further £500k in 2012/13 and an additional £450k in each year thereafter in the medium term financial strategy. The New Homes Bonus has provided the opportunity to have an £150k allowance for growth in 2012/13 with the remaining funds being used to fund the strain on existing general services which additional development brings. There is, however, a significant risk that the Council will see a top-slice off other funding in the future to help pay for the bonus. DCLG allocated nearly £200m to fund the scheme fully in 2011-12. For the following three years of the spending review (2012-13 to 2014-15) they have allocated £250m per annum

but if funding goes beyond these levels they have stated the funds will be coming from Formula Grant.

- 4.1.6 In 2011/12 the Council will receive in total some £47.450 million as specific grant funding. Often the announcements of this type of funding are made after the Council has set its annual budget, making it difficult for Councils to plan ahead e.g.; the New Homes Bonus for 2011/12 was announced on 17th February after most authorities had set their budgets for 2011/12. The total expected revenue and capital grant funding for 2012/13 is not yet known. The expectation for each grant is shown in the table below.

Table 2: analysis of government grants and other contributions:

Revenue Activities	2011/12 £'000	Expectation for 2012/13
Housing and Council Tax Benefit Subsidy	43,036	Initial estimate to be submitted in January 2012
Discretionary Housing Payments	26	51
Additional DWP Grants – Atlas Data Sharing Project	10	0
Benefits Administration and Fraud Initiative	899	Announcement by DWP due to be made in December. They have confirmed we will be getting additional admin grant in anticipation of a growing caseload but will not know how much until the announcement.
Museum Collections Care Grant	1	One-off grant
Biffaward – Wetland Biodiversity at Ivel Springs	36	One-off grant
Waste minimisation – HCC contribution	418	Announcement expected early 2012/13
Waste Service Transport Subsidy	21 (not yet confirmed by HCC)	Announcement not expected before budget setting.
NNDR Administration Grant	184	Announcement by DWP to be made in December.
Council Tax Freeze	247	Est 247
New Homes Bonus	552	Est 500
Community Safety Grant	57	29
Homelessness Prevention Grant	88	63
Rough Sleeper Grant - DCLG	9	One off grant.
Election Administration Grant	123	TBC – no effect on general fund as will receive a grant to cover cost of Police Commissioner election in November 2012
Total Revenue Grants	45,707	
Capital Activities		
Contaminated Land Capital Projects Grant	69	
Disabled Facility Grant	282	TBC in Dec
Heritage Lottery Fund	1,392	0
Total Capital Grants	1,743	
Total Grants	47,450	

- 4.1.7 Often grants are time-limited. Because of this grant funding lifecycles are monitored throughout the year so that consideration can be given of the impact of those grants coming to an end when setting the budget for the following year.

- 4.1.8 In arriving at the final Council Tax precept recommendation, it is also necessary to consider the impact of a number of items on the budget namely, the Collection Fund, position of Balances, other Reserves and Provisions, the efficiency proposals

being suggested by the Challenge Board, the investment options being supported and the base revenue estimates for 2012/13. Further work is continuing with all of these issues and this will be finalised by early February.

4.2 Balances

- 4.2.1 Before setting a draft Council Tax precept for 2012/13, it is necessary to review the position of balances and reserves. In addition to the General Fund balance, the Council keeps specific reserves and provisions for known areas of exposure to potential additional costs (provisions are sums set aside when the Council knows with reasonable precision the likely actual costs).
- 4.2.2 The Council operates with a reserve balance for General Fund activities in order to provide a cushion against unexpected increases in costs, reductions in revenues and expenditure requirements. To achieve a balanced budget net expenditure on the General Fund is anticipated to be approximately £15.390million for 2012/13. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) suggests that the revenue balances should be set at no less than 5% of net revenue expenditure, having taken account of the risks faced by the Authority in any particular year. For NHDC this would mean a minimum balance of about £770k. The minimum figure represents the cushion against totally unforeseen items. When setting the level of balances for any particular year, known risks which are not being budgeted for should be added to this figure and the Council will be criticised for poor financial management by the External Auditor if, having considered the risks it does not budget for a higher balances figure.
- 4.2.3 An assessment of the risks has been compiled for the coming year based on risks identified by each Head of Service/Corporate Manager and where possible, cross referenced to the risk register. The identified areas are where the financial impact is not wholly known and prudence would therefore indicate the need to set the General Fund balance slightly higher than the minimum. The increase in balances is based on percentage proportion of the risks identified. The total risks identified have a total value of £3.3million, however only a proportion of the risk value is taken in to account. For high risk items 50%, medium risk 25% and low risk 0%. The following table 3 summarises the identified risks over the high, medium and low assessment:

Table 3 –Budget risks 2012/13

Category	Number	Value £,000	Proportion £,000
High	12	1,065	533
Medium	23	1,427	357
Low	10	838	0
Total	45	3,330	890

- 4.2.4 Although the total assessment of risk is £3.3million, the level of risk varies from high/medium to low. Taking a proportion of the risks, as outlined in paragraph 4.2.3, would mean it would be prudent to increase balances by £890k above the minimum level. This would seem to suggest that it is advisable to maintain a minimum General Fund balance in the region of £1.660million for 2012/13.
- 4.2.5 This is a well established approach for assessing Financial Risks. It demonstrates the Council has robust systems in place to manage its financial risks and opportunities and to secure a stable financial position that enables it to operate for the foreseeable future. The Council's external auditors, Grant Thornton, recommend in their review of the Council's financial resilience (reported to the Finance Audit and Risk Committee on 8 December 2011) that the Council should

continue to maintain an appropriate level of reserves to ensure financial resilience is maintained.

- 4.2.6 By the second quarter of 2011/12 £179k of the known financial risks, identified when setting the 2011/12 budget, had been realised, leaving a balance of £669k. A further £112k of other overspends to be funded from the general reserve balance have been identified by the end of the second quarter. This demonstrates our process for allowing for known and unknown financial risks in the general fund balance is important.

Other Reserves and Provisions

- 4.2.7 Balances on other reserves and provisions are estimated to total £2.440million at the 31st March 2012. The expected movement on these accounts for 2011/12 is shown in Table 4.

Table 4 –Other Reserves & Provisions 2011/12

	Balance at 1 April 2011	Projected Contributions	Projected Payments to Fund expenditure	Projected Balance at 31 March 2012
	£'000	£'000	£'000	£'000
Special Reserve	967cr	0	71dr	896cr
Housing Planning Delivery Reserve	951cr	0	334dr	617cr
Information Technology Reserve	450cr	0	110dr	340cr
Environmental Warranty Reserve	209cr	0	0	209cr
Performance Reward Grant Reserve	187cr	0	98dr	89cr
Insurance Reserve	83cr	0	0	83cr
Cemetery Mausoleum	81cr	15cr	0	96cr
S106 Monitoring	53cr	25cr	16dr	62cr
Building Control Reserve	21cr	0	21dr	0
Museum Exhibits Reserve	12cr	0	0	12cr
Property Maintenance	7cr	10cr	3dr	14cr
Hitchin Museum Donations	2cr	0	0	2cr
Leisure Management Reserve	0cr	20cr	0	20cr
Total Revenue Reserves	3,023cr	70cr	653dr	2,440cr

4.2.8 Special Reserve

As at 31 March 2011 the balance of the reserve was £0.967million. The projected balance at 31 March 2012 is £0.896million. Use of the special reserve will happen on a phased basis to prevent erratic movements in Council Tax increase. Members have agreed to maintain a balance in this reserve to fund invest to save projects and to support unavoidable fluctuations in contract prices as contracts are renewed.

Housing & Planning Delivery Reserve

- 4.2.9 In previous years the Council has received Planning Delivery Grant (PDG) towards meeting the then Government's Communities Plan objectives. The original time period of the Planning Delivery Grant ceased and the Housing and Planning Delivery Grant (HPDG) which replaced it has also finished. In order to match the Council's expenditure to the grant received for the approved work programme a reserve was set up to be drawn on over the forthcoming years. The balance on the reserve at the 31st March 2011 was £951k and is projected to be £617k as at 31st March 2012. This remaining balance has been allocated to projects.

I.T Reserve

- 4.2.10 The projected balance on the fund is estimated to be £340k at the 31st March 2012 after much of the balance is used for IT capital investment. The IT reserve was set up to ensure funding was available for IT capital projects as it was required. In the current economic climate, when there is less scope for any form of new investment, any new capital IT investment will need to be considered alongside other Council priorities. It is not thought appropriate to maintain a reserve specifically for IT

investment. Therefore, no further contributions will be made into the reserve and the remaining balance will be used on a phased basis. The special reserve is available for invest to save projects.

Environmental Warranty Reserve

- 4.2.11 As part of the Stock Transfer agreement, the Authority was required to provide environmental warranties to North Hertfordshire Homes. A desktop environmental study indicated that the risk to the Council of the warranty being used was low and the Council took the decision to self insure the warranties from the post stock transfer reserve. In 2003/04 the Council agreed to transfer funds from the post stock transfer reserve to an earmarked Environmental Warranty, which under the agreement will be held for 30 years. At the commencement of this year the balance stood at £209k.

Performance Reward Grant Reserve

- 4.2.12 The Performance Reward Grant was awarded for success against targets in the Local Area Agreement. This earmarked reserve represents the revenue element of the grant and is allocated to schemes in the District.

Insurance Reserve

- 4.2.13 As at 31st March 2011 the Council's Insurance Fund stood at £83k. The original purpose of the Reserve was to protect the Council against the possibility of the Municipal Mutual Scheme of arrangement being triggered which would entitle them to 'clawback' claims costs paid since 1993. It can take a very long time for insurance company liabilities to be finally assessed, the Scheme of Arrangement therefore remains in place and the Reserve allows 5% cover. The latest Statement of Accounts for MMI indicate that should the Employers Liability Policy Trigger Litigation that is due to be heard by the Supreme Court in 2012 go against MMI then the Scheme of Arrangement is likely to be triggered. In addition the Reserve has been maintained to cover the probability of a loss on self-insured assets.

Mausoleum Reserve

- 4.2.14 As part of the new extension to Wilbury Hills cemetery, Members agreed that receipts from the purchase of mausoleum spaces would be used to fund the extension of the number of mausoleum blocks. To date the Council has received deposits totalling £81k.

S106 Monitoring

- 4.2.15 In 2007/08 a reserve was created to cover the cost of monitoring S106 obligations in future years. The reserve is funded by S106 monitoring fees payable by Developers when they enter a S106 agreement. The balance on the reserve at the end of the year will be used to fund the cost of monitoring in future years. As at 31st March 2011 the balance on the reserve was £53K.

Building Control

- 4.2.16 From October 2010 a new charging regime has been implemented. According to CIPFA guidance the Building Control Service should break even so that there is no significant surplus or deficit at year end. However, the use of earmarked reserves is encouraged for the use of surpluses and funding of deficits if they occur, i.e. offsetting surpluses or deficits against future fees and charges or reinvesting surpluses in improving the quality of the Building Control Service.

Museums Exhibits Reserve

- 4.2.17 The Council has previously received donations towards the purchase of exhibits. These donations are put into the reserve until an item for purchase is identified. The Council did not receive any donations in 2010/11. The balance on the reserve as at the 31st March 2011 was £12K.

Property Maintenance & Leisure Management Maintenance Reserves

4.2.18 Both of these reserves have been created in order to provide an ability to offset future unexpected maintenance costs which could not be funded from regular general fund budgets. The total expected balance at 31st March 2012 is £34k.

4.3 Collection Fund

4.3.1 The Council is required to maintain a Collection Fund to account for the costs of collecting the Council Tax. The Fund is required to break even over time and should a surplus/deficit develop, this must be returned/repaid to/from the Council Taxpayers. Any surplus/deficit must be shared with the County Council and Police authority in proportion to their share of the overall Council Tax bill.

4.3.2 The balance on the Collection Fund as at 1st April 2011 was a deficit of £82k, however, within this net position the proportion relating to North Hertfordshire was a surplus of £14k while the County Council and Police Authorities share were both deficits. The provisional figures for 2011/12 indicates a year-end surplus on the collection fund of £16k, see Appendix 5. North Hertfordshire's share is a net surplus of £15k, against this amount.

4.3.3 Should the Government decide to use capping powers, the Council tax increase before application of any collection fund reduction is the figure used to determine whether an authority is to be capped.

4.4 Strategic Priorities

4.4.1 The Council operates a system of priority led budgeting and the Corporate Business Planning process describes an annual cycle which begins with the identification of our strategic priorities and the short and medium term actions we will take to achieve them. Having identified our strategic priorities and actions through the Priorities for the District, the MTFS then considers the financial implications of the priorities and other external pressures and ensures we have a clear policy framework to enable us to allocate funds in accordance with our priorities as we go through the budget setting and service planning stages of the process. To assist in the prioritisation of the limited financial resources a scoring system is used. Any investment proposals put forward must be linked directly to the strategic priorities or be an "invest to save" option.

4.4.2 Our allocation of resources to these priority areas will mean that some areas are not prioritised but these can be looked at in future years as appropriate. The Council is absolutely committed to achieving maximum Value for Money in the use of our limited resources to meet our strategic priorities.

4.4.3 The Council's Revenue & Capital Strategies require that revenue investment options and capital projects submitted by services are classified against ten key factors, as outlined in table 5 below. The scoring has been applied to all considerations of both revenue and capital investment in order to determine the risk and effect of growth, reduction or complete removal of a service.

Table 5 – Capital & Revenue Investment Key Factors

	Capital	Revenue	Points Score
1	Strategic Priorities	Strategic Priorities	5
2	Value for Money	Value For Money	5
3	Statutory pressures	Statutory pressures	4
4	Health & Safety	Health & Safety	5
5	Contractually inescapable	Contractually inescapable	5
6	Adverse impact on service	Risk Management	4
7	Consultation/Opinion Poll survey	Consultation/Opinion Poll survey	2
8	Condition survey	Condition survey	1

9	Service Review	Service Review	3
10	Invest to save	Invest to save	3

4.5 Efficiency and Investment Proposals

- 4.5.1 The Challenge Board continues to critically review all budgets across the authority with the objective of finding efficiency savings. The Challenge Board is led by the Chief Executive and includes the Strategic Directors and Accountancy Manager. These officers question the budget holder regarding the need to hold a particular budget and challenge why a budget is still appropriate.
- 4.5.2 The Efficiency FSR developed a VfM strategy which provides a mechanism for a framework that identifies services for de-prioritising. As part of the Council's intention to improve the value for money of its services, Heads of Service were asked to work on value for money reviews of their services. The reviews would provide a better understanding of the cost and performance of the services and also lead to proposals for future improvement and efficiencies.
- 4.5.3 The strategic direction and key principles of the delivery of council services were discussed at a first round of Member Workshops in September and the steer provided by Members was used by service areas to continue the work on development of future efficiency proposals.
- 4.5.4 The process of seeking more efficient ways of working continued after the setting of the 2011/12 budget and as a result a number of ongoing efficiencies will be implemented in 2011/12 to deliver savings in 2012/13 without having a detrimental impact on front line services. These efficiencies are the result of identifying more efficient ways of delivering the same services and will have been discussed with the relevant Portfolio Holder.
- 4.5.5 A list of potential efficiency proposals was discussed with Members at a second set of workshops in November. The proposals have since been refined and are included in appendix 2. Comments from Members at the November workshops, together with officer comments, are provided for information in Appendix 4.
- 4.5.6 The efficiencies already achieved for 2012/13 total £360k. The other proposed efficiencies total £230k. Together these could result in a net expenditure reduction of £590k in 2012/13. This is more than the 2012/13 efficiency target of £500k reported in the Medium Term Financial Strategy. However, the more saving that can be achieved in 2012/13 the better the base position will be going into the period of uncertainty in 2013/14 and onwards. This is particularly relevant for 12/13 where the government support for not increasing the Council tax is for one year only.
- 4.5.7 It is anticipated some of the efficiencies in future years will be achieved from work currently progressing on looking at alternative means of working, for example, shared working with East Herts and Stevenage Councils, but it is clear there is a lot more work to do to meet the potential efficiency target of the MTFs. If efficiencies are not forthcoming from these initiatives then services will need to be reduced.

Table 6: Efficiency Proposals Summary

	Saving in 2012/13	Ongoing Annual Savings in future years
	£'000	£'000
Already Achieved Staff Reductions	215	215
Already Achieved Other Expenditure Reductions	145	147
Total Already Achieved	360	362
Staff Reduction Proposals	168	121

Other Expenditure Reduction Proposals (appendix 2)	62	52
Total Proposed	230	173
Grand Total	590	535

- 4.5.8 The more efficiencies that can be achieved early the easier it will be in later years. For example, if an ongoing efficiency is achieved in 2012/13 for £100,000 then by the start of 2014/15 there would be an additional £200,000 available in reserves.
- 4.5.9 Members are reminded of the requirement under section 30 of the Local Government Finance Act 1992 to set a balanced budget by March 2012. This requires that the Council Tax level be set at a level which bridges the gap between budget requirements and the expected income from local taxes and the Revenue Support Grant. The Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of estimates and the adequacy of reserves allowed for in the budget. At this stage in the process there are adequate proposals to meet the budget gap for 2012/13 for the Council to demonstrate it has a clear strategy in place that satisfies the Chief Finance Officer there is a balanced budget.
- 4.5.10 Employee expenditure remains one of the key areas of the Council's gross expenditure (approximately 40% of gross expenditure when benefit payments are excluded) and as such it is an area of spend which must be considered when looking for efficiencies. While the Council only recently made savings by undertaking a restructure it is again proposed that further savings can be made from this budget in 2012/13. The special reserve balance will be used to fund any payments that are necessary for unavoidable redundancies. Table 7 demonstrates the effect of the proposed changes on the employee budget from 2009/10 to 2012/13. There is an estimated net reduction of £283k in the employee budget between 2011/12 and 2012/13.

Table 7: Estimated Employee budget from 2009/10 to 2012/13

	£'000*
<i>2009/10 Employee Budget</i>	14,482
<i>2010/11 Employee Budget</i>	13,966
2011/12 Employee budget	13,191
Add:	
Additional increment for staff not on the top spinal column point of the grade	100
2011/12 Pay Award	0
Less:	
Already Achieved Staff reductions	(215)
Staff Reduction proposals	(168)
2012/13 Employee budget	12,908
Net reduction from 2011/12 to 2012/13	(283)
<i>2012/13 Estimated Average salary per FTE</i>	30

* all figures include on costs for employer national insurance and superannuation

- 4.5.11 There was broad acceptance of many of the efficiency proposals discussed at the Member workshops in November. In addition it was suggested by some Members that Officers should investigate ways to reduce the cost of the Member courier service. This topic was also raised at the September workshops. In particular Members asked if it was still necessary to continue two despatches of papers a week now that all the papers can be made available electronically. Cabinet may be minded to ask officers to bring back a proposal with regards to the Member courier service in January.

Investment Proposals

- 4.5.12 A list of six draft revenue investment proposals are attached to this report as appendix 3. Work is ongoing to refine these proposals before production of the final budget report in January but they are attached for information for Members. All proposals have been linked to Council priorities and have been scored, as described in paragraph 4.4.3, to give an indication of the priority of the proposals. Early indications suggest that the £150k allowance will be sufficient to fund them should Members wish to approve them all.
- 4.5.13 A list of fourteen draft capital investment proposals are attached to this report as appendix 4. Similarly to the revenue investment further work is required to refine the proposals ahead of the January meeting but they are attached for information for Members. All proposals have been linked to Council priorities and have been scored, as described in paragraph 4.4.3, to give an indication of the priority of the proposals. It is recognised that borrowing would be needed to fund these proposals and it is estimated based on current borrowing rates that the cost to the general fund of paying the interest on the borrowing would total £18k a year for all the proposals. Provision would also need to be made for repaying the principal amount borrowed. This has not yet been built into the general fund estimates.

4.6 Estimates 2011/2012

- 4.6.1 Detailed estimates are currently being prepared and will be brought to the February meeting. High level estimates attached as Appendix 1 includes the investment and efficiency options mentioned above and any base budget adjustments approved by Members through the budget monitoring reports or other Committee reports. The high level estimates show a total net district expenditure of £15.390million for 2012/13 compared to the original estimate for 2011/12 of £15.782million. This is a net decrease of £392k.
- 4.6.2 In arriving at the above net district expenditure it is assumed discretionary fees and charges for services will be increased by RPI (5.6%) unless a separate decision has been taken with regard to a specific service. For example, decisions have been made that cemetery services and allotment services should be delivered at a net nil subsidy. Work is ongoing with individual services to finalise an appropriate increase in fees and charges and further information will be provided in the January budget report. It is, however, expected that some services will have reasons to suggest that it would not be appropriate to increase fees and charges this year.
- 4.6.3 The detailed estimates reflect the current reserve balances as forecast at the 2011/12 second quarter monitoring report. A high level update on the financial position in 2011/12 as at the end of month 8 will be provided in the January budget report to help inform the budget setting process.

4.7 Other Considerations

- 4.7.1 It is clear that it will be necessary to borrow to fund the capital programme, at least in the short term, until more asset disposals are completed. The cost of borrowing will need to be funded from the general fund and appropriate base budget adjustments to the general fund estimates will be made when appropriate. The total estimated use of capital receipts or borrowing over the four years 2011/12 to 2014/15 to fund the current capital programme is £11.8million. This does not include the new capital investment proposals presented in this report. Based on the 5 year PWLB borrowing rate (as at 23rd November) of 2.2% the annual interest cost of borrowing the whole £11.8million would be £260k. It is anticipated at least £1million of borrowing will be needed to fund the capital expenditure at the end of 2011/12. This is anticipated to be at an annual cost of £22,000 and has been included in the base budget adjustments.

- 4.7.2 Having considered all the implications in this report on the demand for Council resources, Cabinet must consider its recommendation to Council on the level of Council Tax for 2012/13. The estimates in appendix 1 have assumed that Members would wish to accept the Government grant for Authorities that choose to freeze Council Tax, and a zero increase on the 2011/12 Council Tax level has been anticipated. Members could, however, decide to protect the base going forward and choose to increase Council Tax within an acceptable level. An 'Excessive' increase would be potentially subject to a local referendum. Members will have to justify the level of increase to the Council Taxpayers and have to balance the costs of providing services to the public with the implications of non-provision or variation to the level of provision.
- 4.7.3 If the Council did choose to increase council tax in 2012/13 by 2.5% (£4.91 on a Band D Council tax bill) it would not receive the government grant but it would receive more income in future years. As a result the efficiency target over the 5 year period would be approximately £300k lower than it would be by taking the grant. This is demonstrated in the following Table 8:

Table 8: Council Tax increase scenarios

Council Tax assumption	Efficiency Target over 5 years* £m
No increase in council tax and no council tax freeze grant	2.9
No increase in Council Tax but do receive a new council tax freeze grant for one year only	2.7
2.5% increase in Council Tax and do not receive the council tax freeze grant	2.4

* Efficiency target to maintain general fund and special reserve balances of about £2.2million at the end of 2016/17.

- 4.7.4 Members will recall that the North Herts proportion of the overall bill is relatively small and our ability to influence the overall perception of the Council Tax increase is marginal. The County Council increase is the determining factor in the overall level of increase experienced by the Council Tax payer.

Table 9 -Average Band D Council Tax

	2011/12	Share of bill
	£	
District	196.59	13.44%
HCC	1,118.83	76.46%
HPA	147.82	10.10%
Total	1,463.24	100.00%

5. LEGAL IMPLICATIONS

- 5.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 5.2 Members are reminded of the duty to set a balanced budget and to maintain a prudent balance.

6. FINANCIAL AND RISK IMPLICATIONS

- 6.1 As outlined in the body of the report.

7. HUMAN RESOURCE AND EQUALITY IMPLICATIONS

- 7.1 Each of the efficiency proposals made within this report has been subject to an Equality Impact Assessment (EIA) following guidance published by the Equality and Human Rights Commission in July 2010 entitled 'Making Fair Financial Decisions'. That guidance requires any public body to fulfil their duty to consider the needs of all members of their local community when making changes to funds, services etc; the guidance also encourages authorities not to be risk averse since there is recognition change may be necessary, but to have knowledge of and have identified the risks of taking those decisions, and where possible to mitigate their impacts.

- 7.2 The proposals made here are primarily about changing the way in which services are delivered, which while they both impact to a small degree on sections of our community, do not unduly target any single group as a complete removal of service may. As well as being assessed individually, they have all been considered 'in the round' in order to ensure that the overall impact of efficiencies or rise in fees does not remove all services for a certain age, race etc in the local community.
- 7.3 Subject to the budget options being agreed by Cabinet, the relevant services will be required to demonstrate that they have taken account of suggestions made from EIAs with regard to communicating these changes, signposting to alternative services where we know they exist, or providing 'suitable adjustment' of procedures where that is deemed necessary.
- 7.4 A number of efficiency proposals will directly affect staff. It is important that all affected staff are consulted at the earliest opportunity and council policies and procedures are followed.

8. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 8.1 The Council will consult on the proposals in this report with the Business Rate Payers Group and with Area Committees at the scheduled meetings in January.

9. RECOMMENDATIONS

- 9.1 **That Cabinet notes the position relating to the Council's General Fund balance and that due to the risks identified in paragraph 4.2.4, a minimum balance of £1.660million has been used in the precept calculations.**
- 9.2 **That Cabinet notes the inclusion of the efficiencies and investment Proposals at Appendices 2 to 4 in the budget estimates for 2012/13.**
- 9.3 **That Cabinet notes the estimated surplus on the Collection Fund as at 31st March 2012, paragraph 4.3.2 refers.**
- 9.4 **That Cabinet refers this report to all Members via 'Members Information Service' for comment.**
- 9.5 **That Cabinet notes the comments from the November Member budget workshops on the Efficiencies proposals in Appendix 5.**
- 9.6 **That Cabinet notes that the provisional Council Tax requirement may be subject to change at the final meeting on 24th January 2012.**

10. REASONS FOR RECOMMENDATIONS

- 10.1 To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2012/13.
- 10.2 To ensure that the Cabinet recommends a balanced budget to Council on 9th February 2012.

11. APPENDICES

- 11.1 Appendix 1 - General Fund estimates for 2012/13 to 2016/17
- 11.2 Appendix 2 – Expenditure reduction proposals
- FAR CTTEE (8.12.11)

- 11.3 Appendix 3 – Revenue Investment proposals
- 11.4 Appendix 4 - Capital investment proposals
- 11.5 Appendix 5 – Notes of November Member Workshops
- 11.6 Appendix 6 – Collection Fund Projection 2011/12

12. CONTACT OFFICERS

- 12.1 Tim Neill, Accountancy Manager, Tel 474461, email, tim.neill@north-herts.gov.uk.
- 12.2 Norma Atlay, Director of Finance, Tel 474297, email, norma.atlay@north-herts.gov.uk.

13. BACKGROUND PAPERS

- 13.1 Estimate working papers 2012/13
 - Government finance settlement 2011/12
 - Financial Risks estimate working paper 2012/13
 - Grant Thornton's Review of the Council's arrangements for securing financial resilience. (November 2011)

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