*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 14

TITLE OF REPORT: CORPORATE BUSINESS PLANNING - DRAFT BUDGET 2013/14

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

This report is in draft format and will be presented in final version to Cabinet at the meeting to be held on 11 December 2012. This Committee is requested to review and note the report and that the Strategic Director of Finance, Policy and Governance to take note of any comments raised.

1. SUMMARY

1.1 To report the estimated net District expenditure for 2013/14 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 (2013 – 2018).

2. FORWARD PLAN

2.1 This Report contains a recommendation on a key decision to be taken by Council on 13 February 2013 that was first notified to the public in the Forward Plan on the 1 September 2012.

3. BACKGROUND

3.1 The Council's Medium Term Financial Strategy (MTFS) was adopted by Full Council on the 6 September 2012 following recommendation by Cabinet.

3.2 The MTFS provides the financial background to the Corporate Business Planning process for 2013-14. It was completed during a time of considerable financial uncertainty, much of which remains at the time of writing this report. The wider economic position remains gloomy and further changes to public sector funding arrangements will result in significant financial challenges. Much of the ring fencing of grants has been removed, but the overall "pot" of available funding has been reduced. The localisation of Council tax benefit from 2013/14 comes with a 10% reduction in available funding and it is also the Government's intention that the new business rates retention scheme will be implemented from 2013/14. Alongside these major developments, the precise local implications from other aspects of the Localism Act and the Welfare Reform Bill have yet to become clear.

3.3 The MTFS acknowledged there were a number of significant unknowns in terms of the Local Government Resource review and that it may, therefore, be necessary to update the MTFS later in the year as things become clearer. The MTFS assumed both a best and worst case scenario for further reductions in Government funding. The best case scenario assumed reductions consistent with the 2010 CSR (1.9% in 2013/14 and 7% in 2014/15), while the worst case scenario assumed the

Chancellor would spread a further 20% of reductions over the period of the MTFS (6% in 2013/14 and 6% in 2014/15).

3.4 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 (the worst case scenario assumptions in brackets where different):

- 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 deals in 2012/13 and onwards of 2% on long term and 0.9% on short term investments;
- Any approved one-off increase in expenditure or carry-forward budgets for 2012/13 have been removed from the base figures in subsequent years;
- Reduction in Government support of 1.9% in 2013/14, 7% in 2014/15 as per the 2010 CSR, 8% in 2015/16 and 3% in each year thereafter. (worst case scenario is 6% in 2013/14 and 2014/15, 11% in 2015/16 and 6% in 2016/17 and 2018/19). In the March 2012 Budget the Chancellor raised the prospect of a further 20% funding cut over the two years following the end of CSR 2010;
- Contract inflation in accordance with the individual contract terms;
- Pay inflation at 0% until 2014/15. 1% increase in each year thereafter;
- Pay increments due in 2013/14 and future years have been built in to the model (approximately £100k for 2013/14) 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 increase of 1% in 2013/14, 2% in 2014/15 and 1% increase in each year onwards in order 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 assumptions. 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 November, currently assuming 2.5% increase (3.1%);
- 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 and is built into the base budget. 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 (although this may need to be revisited to reflect potential reduced collection rates for groups adversely affected by the localisation of Council Tax support);
- The minimum General Fund balance should be increased on a phased basis to 7.5% of net expenditure in 2011/12 and to 10% in 2012/13 and the years after, plus an allowance for identified risks in each year;
- The local Council Tax Benefit Scheme will have a cost neutral impact;
- The general fund allowance for capital expenditure will increase by £100k in 2013/14, and 2014/15.to cover the loss of interest from using the funds;

- A vacancy savings target set at approximately 3% of salary budget to yield in the region of £0.3 million is included in the base budget in each year;
- Any investment in Area Committee budgets to reflect additional responsibilities will be offset by reductions in Directorate budget Council tax increase of 0% for 2013/14 and onwards.

3.5 The MTFS is an integral part of the Council's Corporate Business Planning process. It complements the Council's Priorities for the District 2013/14 and sets out a clear framework for our financial decision making. Council have confirmed that the high level Council priorities for 2013/14 onwards are:

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

3.6 The key funding issues identified in the MTFS were as follows:

- Implications of the Welfare Reform Bill and the introduction of the Universal Credit. The Department of Work and Pensions had confirmed that a 10% cut in funding will be passed on to Local Authorities. Council tax benefits for the District currently total approximately £8.2million, so this reduction of 10% will mean approximately £820k will need to be found from a review of the benefit scheme.
- The government had announced its intention for 50% of business rates income collected to be retained locally (the proposed split of this 50% between Counties and Districts is currently one fifth/four fifths). A system of levies and safety nets will be put in place to ensure any Council will, at least initially, receive as least as much as it did under the previous Revenue Support Grant scheme. Additional income over and above this could be achieved if the Council attracted new businesses to the District, as long as this did not achieve (an as yet undefined level of) disproportionate growth. However, billing authorities will also be exposed to the possibilities of reductions in business rates income as the safety net will not come into force until income levels have fallen by at least 7.5%, and possibly 10%. For NHDC this could mean an income loss of up to £1million to £1.4million before the safety net applies (depending on the full detail of the final scheme – paragraph 7.2 refers). Business Rate growth assumptions (possibly linked to an inflation measure) will also be built into future years estimates by Central Government and this could also lead to potential falls in Business rates income if the actual growth rate is lower than Govt assumed rate. These factors therefore also lead to pressures to make further increases in balances to mitigate these Business Rate risks.
- The final outcomes of the Local Government resource review would not be available until the end of 2012. The net impact on the Council's funding from central government could be different to the assumptions. The March 2012 Budget statement raised the likelihood of a further 20% funding cut over the two years following the current CSR (i.e. 2015/16 and 2016/17).

3.7 In view of the potential increasing volatility of funding from localisation of Business Rates the MTFS proposed to increase the general fund balance from 5% of net expenditure plus an allowance for known risks to around 10% to cope with any sudden change in income from business rates. The special reserve would continue to be used on a phased basis for invest to save projects and to support unavoidable fluctuations in contract prices as contracts are renewed.

3.8 In order to balance the budget and not have an increase in Council Tax, the MTFS suggested it would be necessary to find efficiencies of between £500k and £700k in 2013/14 to balance the budget. Over the period of the MTFS (five years) it was suggested between £1.7million and £2.3million of efficiencies would need to be found.

3.9 The Council has already identified over £9.3million of savings over the last eight years 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.

3.10 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.

3.11 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 2013.** Further government announcements are expected which will have an impact on Council finances.

4. ISSUES

4.1 Funding Announcements

4.1.1 The Government has not yet announced the Local Government Finance Settlement for 2013/14. On the 5 December 2012, the Chancellor will make his Autumn Statement. This key announcement will provide an update on the current state of public finances and the latest economic forecasts from the Office of Budget Responsibility. It is anticipated the Council will receive a provisional settlement announcement from the Department of Communities and Local Government on either the 19 or 20 December. This will mark the start of a period of consultation on the proposal before the final 2013/14 settlement can be approved by Parliament. An update will be provided to Members as soon as possible after the announcement. It is not clear at this stage whether the Council will also receive an indication of funding for 2014/15.

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 2012/13 (14.1%) demonstrated that this reduction was front loaded. However, in the absence of any other announcements further reductions in government funding are anticipated in line with the CSR in the best case scenario, i.e. 2013/14 (1.9%) and 2014/15 (7%). In the March 2012 Budget the Chancellor raised the prospect of a further 20% funding cut over the two years following the end of CSR 2010 so this is reflected in the worse case scenario.

Table 1: Assumed BEST CASE Government funding reductions and Efficiencies required

Year	% Reduction in Government Funding	Amount of Reduction £'000	Efficiencies required £'000
2013/14	1.9%	102	500
2014/15	7.0%	368	500
2015/16	8.0%	391	500
2016/17	3.0%	135	200
2017/18	3.0%	131	100
Total	**19.9%**	**1,127**	**1,800**

Table 2: Assumed WORST CASE Government funding reductions and Efficiencies required

Year	% Reduction in Government Funding	Amount of Reduction £'000	Efficiencies required £'000
2013/14	6%	322	700
2014/15	6%	302	700
2015/16	11%*	521	300
2016/17	6%	253	300
2017/18	6%	238	300
Total	**35%**	**1,636**	**2,300**

* Reduction in 2015/16 also includes an assumption that funding will reduce by a further 5% when the current council tax freeze grant scheme comes to an end.

4.1.3 The Secretary of State introduced the Local Government Finance Bill on 19 December 2011 and this subsequently became an Act which gained Royal Asset on the 1 November 2012. This legislation represents a change to the local government finance system. It enables local authorities to retain a proportion of the business rates generated in their area, which is intended to provide a financial incentive for them to promote local economic growth. As a result the Revenue Support Grant will cease to exist. The change in funding mechanism can be demonstrated as follows:
Funding Arrangements in 2012/13:
Resources = Formula Grant + Council Tax (base + local increase)

Funding Arrangements in 2013/14:
Resources = Council Tax – Council Tax Benefit + NNDR +/-Top-Up/Tariff

4.1.4 The government has announced a further extension to the Council Tax Freeze Grant scheme. We understand the Council will be offered a grant for two years, equivalent to 1% of Council Tax income, if it chooses to freeze council tax again for 2013/14. This would be equivalent to approximately £100k per annum, or £200k over the two years. A 1% increase in Council Tax in 2013/14 would provide the Council with the same income over the next two years, but a total of £500k over the five year period. 1% on Council Tax is equivalent to a £1.96 per annum increase for a Band D property, or just under 4p per week. A referendum will be required if the Council increased council tax by 2% or more.

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 and £489k in 2012/13, which will be payable for six years. It is anticipated the Council will be awarded a further £450k in 2012/13 and each year thereafter but this is dependent on the delivery of new housing developments in the District. The New Homes Bonus has provided the opportunity to have an £150k annual allowance for growth 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 the Formula Grant.

4.1.6 In 2012/13 the Council will receive in total some £50.408million 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. The total expected revenue and capital grant funding for 2013/14 is not yet known. The expectation for each grant is shown in the table below.

Table 3: Analysis of Government Grants and other contributions:

Revenue Activities	2012/13 £'000	Expectation for 2013/14
Housing Benefit Subsidy	38,983	Will not have the initial estimate for 2013/14 available until Jan 13, so current budget forecast is based on the 2012/13 mid-year estimate.
Council Tax Benefit Subsidy	8,159	A 10% reduction in funding for the Local Council Tax Support Scheme would result in a grant of £7,343
Discretionary Housing Payments	51	Expecting notification in Dec 12 regarding 2013/14 allocation.
Benefits Administration and Fraud Initiative	839	Announcement by DWP received of £744k main administration grant and £37k additional admin grant, total £781.
Waste minimisation – HCC contribution	400	This funding is expected to reduce to approximately £250k in 2013/14.
NNDR Administration Grant	181	Should be notified Dec 12 regarding 2013/14 allocation
Council Tax Freeze	247	Approximately £100k assuming the grant is accepted.
New Homes Bonus	1,041	Approximately £1.491million in total.
Community Safety Grant	29	Assume same level. Funding is now with the Police Commissioner not HCC. Will not know if funding has been awarded until the New Year.
Homelessness Prevention Grant	88	Expecting a similar level of funding for 2013/14. Announcement will be at the same time as the finance settlement.
Election Administration Grant	135	Announcement to be confirmed. No effect on general fund as will receive a grant to cover cost of County election in May 2013
Total Revenue Grants	**50,153**	
Capital Activities		
Disabled Facility Grant	255	Announcement expected during December
		The North Hertfordshire Museum and Community Facility project is hoped to attract nearly £1million of funding from the Heritage Lottery Fund.
Total Capital Grants	**255**	
Total Grants	**50,408**	

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 to 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 2013/14. 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 2013/14, 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 £15million for 2013/14. 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 £750k. 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. The MTFS suggested it would be prudent in the light of the potential funding volatility from the localisation of Business Rates to increase the 5% allowance to around 10%. Rather than increase this allowance for unknown risks it is considered more appropriate to identify this item within the known financial risks.

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 over £8million, 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 4 summarises the identified risks over the high, medium and low assessment:

Note: at the time of publication Table 4 was still being finalised. The Table and detail of the financial risk balance will be provided in the final version of this report.

Table 4 –Budget risks 2013/14

Category	Number	Value £,000	Proportion £,000
High			
Medium			
Low			
Total			

4.2.4 Although the total assessment of risk is over £8million, 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 £1.5million (estimated until all the assessments have been completed) above the minimum level. This would seem to suggest that it is advisable to maintain a minimum General Fund balance in the region of £2.25million for 2013/14. This is £602k higher than the approved minimum balance for 2012/13 but is a reflection of the additional risks facing the Authority at the current time.

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) that the Council should continue to maintain an appropriate level of reserves to ensure financial resilience is maintained.

Other Reserves and Provisions

4.2.6 Balances on other reserves and provisions are estimated to total £2.572million at the 31March 2013. The expected movement on these accounts for 2012/13 is shown in Table 5.

Table 5 –Other Reserves & Provisions 2012/13

	Balance at 1 April 2012	Projected Contributions	Projected Payments to Fund expenditure	Projected Balance at 31 March 2013
	£'000	£'000	£'000	£'000
Special Reserve	967cr	100cr	0	1,067cr
Housing Planning Delivery Reserve	648cr	0	211dr	437cr
Information Technology Reserve	382cr	0	93dr	289cr
Environmental Warranty Reserve	209cr	0	0	209cr
Performance Reward Grant Reserve	71cr	0	71dr	0
Insurance Reserve	90cr	0	0	90cr
Cemetery Mausoleum	96cr	15cr	0	111cr
S106 Monitoring	72cr	0	16dr	56cr
Homelessness	72cr	0	8cr	64cr
Building Control Reserve	42cr	0	0	42cr
DWP Additional Grants	41cr	0	41dr	0
Climate Change Grant	28cr	0	28dr	0
Museum Exhibits Reserve	12cr	0	0	12cr
Property Maintenance	15cr	10cr	0	25cr
Paintings Conservation	11cr	0	0	11cr
Childrens Services	6cr	0	6dr	0
Hitchin Museum Donations	2cr	0	0	2cr
Leisure Management Reserve	12cr	20cr	13dr	19cr
Town Wide Review	0	100cr	0	100cr
Town Centre Maintenance	0	25cr	0	25cr
Community Right to Bid	0	13cr	0	13cr
Total Revenue Reserves	**2,776cr**	**283cr**	**487dr**	**2,572cr**

4.2.7 **Special Reserve**
As at 31 March 2012 the balance of the reserve was £0.967million. The projected balance at 31 March 2013 is £1.167million. 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

4.2.8 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 2012 was £648k and is projected to be £340k as at 31 March 2013. This remaining balance has been allocated to projects.

I.T Reserve

4.2.9 The projected balance on the fund is estimated to be £323k at the 31 March 2013. 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

4.2.10 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

4.2.11 The Performance Reward Grant was awarded for success against targets in the Local Area Agreement; the grant is administered by the Authority, on behalf of its 'owner' the North Herts Local Strategic Partnership. This earmarked reserve represents the revenue element of the grant and is allocated to schemes in the District identified by the LSP. Spending of the final portion will take place by the end of the financial year 2013/14.

Insurance Reserve

4.2.12 As at 31 March 2012 the Council's Insurance Fund stood at £90k. 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

4.2.13 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 £111k.

S106 Monitoring

4.2.14 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 31 March 2012 the balance on the reserve was £72K.

Homelessness

4.2.15 The £72k at 1 April 2012 is the unspent amount of Homelessness and Preventing Repossessions Grant, received from the DCLG, which is earmarked for homelessness prevention work.

Building Control

4.2.16 A new charging regime was implemented in October 2010. According to CIPFA guidance the Building Control Service should break even so 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.

DWP Additional Grants

4.2.17 This reserve is for unspent Discretionary Housing Payments and various additional Housing Benefit Administration grants to help meet the additional burden of implementing changes to the Housing Benefit process from the Department of Work of Pensions (a total of £41k remained unspent at the 1 April 2012).

Climate Change Grant

4.2.18 The Climate Change Grant has been awarded by the DCLG over the last couple of years. A total of £28k remains unspent at 1 April 2012 but it is committed to projects to reduce energy consumption.

Museums Exhibits and Hitchin Museum Donations

4.2.19 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 or 2011/12.

Property Maintenance & Leisure Management Maintenance

4.2.20 Both of these reserves have been created in order to provide an ability to offset future unexpected maintenance costs which cannot be funded from regular general fund budgets. The total expected balance at a 31 March 2013 is £44k.

Paintings Conservation

4.2.21 The paintings conservation reserve consists of receipts from the sale of the Radcliffe Book and other monies which have been earmarked for future art conservation.

Childrens Services

4.2.22 This reserve is for play schemes and sports development grants from County Councillor's locality budgets. The £6k bought forward from 2011/12 is expected to be fully spent in 2012/13.

4.2.23 **Town Wide Review / Town Centre Maintenance**

These reserves are new during 2012/13 to reflect the fact that budgets were continually being carried forward from one year to the next. By maintaining an earmarked reserve funds can be drawn down as required.

4.2.24 **Community Right to BID**

Represents the one-off grant funding received to recognize the additional burden of the new legislation.

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 1 April 2012 was a deficit of £65k, however, within this net position the proportion relating to North Hertfordshire was a surplus of £3k while the County Council and Police Authorities share were both deficits. The provisional figures for 2012/13 indicates a year-end surplus on the collection fund of £215k, see Appendix 8. North Hertfordshire's share is a net surplus of £34k, 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.

4.3.4 The implementation of the Local Council Tax Support Scheme from 1 April 2013 will result in changes to the accounting and the mechanisms of the Collection Fund. Authorities will still be able to increase council tax, subject to other constraints (e.g. the need for local referendum) that already exist. However, because of the move to localised support for council tax, the increases in council tax benefits that result from the increases in council tax each year will directly impact upon the amount of revenue that a local authority raises through its council tax increase each year. The proportion of council tax revenue that is subject to a discount as part of a localised scheme of council tax support will lead to a commensurate reduction in the amount of additional income raised through increasing council tax.

4.3.5 If claims for council tax support are higher than expected this would be translated into an increase in the value of discounts awarded and a reduction in the level of council tax collected that would be credited to the collection fund. This will either reduce the surplus in the collection fund that is distributed at the end of a financial year or increase the deficit that has to be funded. If there is likely to be a deficit, then the billing authority will be able to alter the instalments paid out to major preceptors and to itself during the financial year in which a deficit might arise.

4.3.6 The Local council tax support scheme for 2013/14 must be adopted by the 31 January 2013 and is a separate item on the agenda for this meeting.

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 6 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 6 – Capital & Revenue Investment Key Factors

	Revenue & Capital	Points Score Range
1	Contractual Obligation	0 but noted as obligation*
2	Statutory/Discretionary/Core or Non-Core	0-10
3	Priorities	5 per main action
4	Continuous Improvement	0-5
5	Social Inclusion	1-3
6	Income generation	2-5
7	District Wide Survey	1-6
8	Health & Safety	0-5
9	Invest to Save	0-10

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, Challenge Board has identified a programme of reviews to be undertaken. During 2012 a value for money review was completed and considered for Licensing Services, Customer Service Centre, Management Support Unit and Careline. The reviews 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 and scrutinizing the budget is continuous. As a result a number of ongoing efficiencies will be implemented in 2012/13 to deliver savings in 2013/14 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. These efficiencies inevitably result in some reductions in staff numbers. Consultation with the relevant officers is underway and as such it would be inappropriate to provide the detail in this report of the proposed restructures of the staffing establishment.

4.5.5 The list of other potential efficiency, income generation, revenue investment and capital investment proposals were discussed with Members at a second set of workshops in October. The proposals have since been refined and are attached as appendices to this report. Comments from Members at the October workshops, together with officer comments, are provided for information in Appendix 7.

4.5.6 The budget scrutiny efficiencies total £386k and the staff restructure efficiencies total £497k. The other proposed efficiencies total £52k and the income generation proposals total £45k at this stage. Together these could result in a net expenditure reduction of £980k in 2013/14. This is more than the best case 2013/14 efficiency target of £500k, reported in the Medium Term Financial Strategy. However, the more saving that can be achieved in 2013/14 the better the base position will be going into the future years.

Table 7: Efficiency Proposals Summary

	Saving in 2013/14	Ongoing Annual Savings in future years
	£'000	**£'000**
Budget Scrutiny Reductions	386	386
Senior Management Restructure	133	133
Other Staff Restructures	364	364
Sub-total	**883**	**883**
Other Detailed Efficiency Proposals (appendix 3)	52	94
Other Income Generation Proposals (appendix 4)	45	133
Total Proposed	**97**	**227**
Grand Total	**980**	**1,110**

4.5.7 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 2013/14 for £100,000 then by the start of 2015/16 there would be an additional £200,000 available in reserves.

4.5.8 Members are reminded of the requirement under section 30 of the Local Government Finance Act 1992 to set a balanced budget by March 2013. 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. 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 anticipated budget gap for 2013/14 for the Council to demonstrate it has a clear strategy in place that satisfies the Chief Finance Officer there is a balanced budget.

4.5.9 Employee expenditure remains one of the key areas of the Council's gross expenditure (approximately 40% of gross expenditure when Housing 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 2013/14. A total of 12 posts are proposed for deletion of which 3 are currently vacant. The special reserve balance will be used to fund any payments that are necessary for unavoidable redundancies. Table 8 demonstrates the effect of the proposed changes on the employee budget from 2009/10 to 2013/14. There is an estimated net reduction of £232k in the employee budget between 2012/13 and 2013/14.

Table 8: Estimated Employee budget from 2009/10 to 2013/14

	£'000*
2009/10 Employee Budget	*14,482*
2010/11 Employee Budget	*13,966*
2011/12 Employee budget	*13,191*
2012/13 Employee budget	**12,697**
Add:	
Additional increment for staff not on the top spinal column point of the grade	80
Pay Award (1% increase)	100
Superannuation (1% increase)	85
Less:	
Senior Management Staff reductions	(133)
Other Staff Reductions	(364)
2013/14 Employee budget	**12,465**
Net reduction from 2012/13 to 2013/14	**(232)**
2013/14 Estimated Average salary per FTE	*29*

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

Investment Proposals

4.5.10 A list of seven draft revenue investment proposals are attached to this report as Appendix 5. 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. The proposals total more than the £150k allowance for investment, but with the over-achievement of the efficiency target, funding is available should Members wish to approve them all.

4.5.11 A list of fifteen draft capital investment proposals are attached to this report as Appendix 6. 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' from the Council's set aside receipts would be needed to fund these proposals and it is estimated based that the cost to the general fund of the loss of interest from investments would total £40k a year for all the proposals.

4.6 Estimates 2013/2014

4.6.1 Detailed estimates are currently being prepared and will be available in February. High level estimates attached as Appendix 1 & 2 include 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 £15.024million for 2013/14 compared to the original estimate for 2012/13 of £15.566million. This is a net decrease of £542k.

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 (3.2%) 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 2012/13 second quarter monitoring report. A high level update on the financial position in 2012/13 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 use some of the Council's set aside capital receipts to fund the capital programme, at least in the short term, until more asset disposals are completed. The cost of this 'borrowing' is the loss of interest earned on the cash investments and this will need to be funded from the general fund. The appropriate base budget adjustments to the general fund estimates will be made when appropriate. The total estimated drawdown of cash investments over the four years 2012/13 to 2015/16 to fund the current capital programme is £11million. This includes the new capital investment proposals presented in this report. Based on the current average interest received on cash investments the cost of 'borrowing' the whole £11million would be £220k per annum.

4.7.2 Discussions at the Hertfordshire Waste Partnership suggest the funding the Council receives from the Alternative Financial Model could be phased out over the next 4 years. At this stage it is anticipated the Council will see a reduction from the £400k received in 2012/13 to £250k in 2013/14. This reduction can be covered by existing budgets in the waste service used for promoting recycling, but will limit the flexibility of the service to deliver further improvements. The ongoing funding estimates will be reflected in the base budget for the December draft budget in consultation with the Service and the Portfolio Holder.

4.7.3 Cabinet are also due to receive reports about proposed service changes to waste services and the district council offices. Both of these reports could have implications for the 2013/14 budget which will need to be considered in the final budget report in January.

4.7.4 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 2013/14. The estimates in appendix 1 & 2 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 2012/13 Council Tax level has been anticipated. Members should, however, be aware that acceptance of the Council Tax freeze grant for a further year leads to further erosion of the base for future years and from a longer term financial planning perspective it would be more advantageous to have a modest 1 to 2% increase each year to help mitigate the impact of inflationary increases which the Council faces. Members could, therefore, decide to protect the base going forward and choose to increase Council Tax within an acceptable level. An increase of 2% or more would be 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.

4.7.5 If the Council did choose to increase council tax in 2013/14 by 1% (£1.96 on a Band D Council tax bill or just under 4p per week) 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.

4.7.6 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 10 -Average Band D Council Tax

	2012/13	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 When the final budget report is considered Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax and the council tax base. Council's terms of reference include approving or adopting the budget.

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 IMPLICATIONS

7.1 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. EQUALITIES IMPLICATIONS

8.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 8.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.

8.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

8.3 The proposals for efficiencies within this report do not unduly disadvantage one Individual group within our local community, although proposals relating to the staff, their terms and conditions or future employment will need to be subject to individual equality analysis in due course, as for any organisational or service restructure.
The growth proposals with regards to capital improvements to leisure facilities and financial support of the Herts Youth games should be viewed positively, as they increase and maintain leisure opportunity for a wider range of age groups, and in a number of locations across the district.

8.4 For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this will take place following agreement of efficiencies or growth.

9. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

9.1 All Members were given opportunity to comment on the efficiency and investment proposals at Member Budget Workshops held on the 30/31 October 2012. Notes of the comments and questions raised at the workshops are attached as appendix 7 to this report.

9.2 Members of the public on the Citizens Panel are being invited to attend Public Budget Focus Groups at the end of November 2012. The sessions will be facilitated by an independent third party and the outcome will feed into the final budget report in January.

9.3 The Council will consult on the proposals in this report with the Business Rate Payers Group and will consult with Area Committees at the scheduled meetings in January if the Chair of the Committees requests opportunity for the Committee to comment on particular proposals.

10. RECOMMENDATIONS

10.1 That Cabinet notes the finance settlement for 2013/14 is not yet available.

10.2 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 £2.25million has been used in the precept calculations.

10.3 That Cabinet notes the inclusion of the efficiencies and investment Proposals at Appendices 3 to 6 in the budget estimates for 2013/14.

10.4 That Cabinet notes the estimated surplus on the Collection Fund as at 31 March 2013, paragraph 4.3.2 refers.

10.5 That Cabinet refers this report to all Members via 'Members Information Service' for comment.

10.6 That Cabinet notes the comments from the October Member budget workshops on the proposals.

10.7 That Cabinet notes that the provisional Council Tax requirement may be subject to change before the final meeting on 29 January 2013.

11. REASONS FOR RECOMMENDATIONS

11.1 To ensure that all relevant factors are taken into consideration when arriving at the proposed Council Tax precept for 2013/14.

11.2 To ensure that the Cabinet recommends a balanced budget to Council on 13 February 2013.

12. APPENDICES

12.1 Appendix 1 - General Fund estimates (Best Case) for 2013/14 to 2017/18
Appendix 2 - General Fund estimates (Worst Case) for 2013/14 to 2017/18
Appendix 3 – Expenditure reduction proposals
Appendix 4 – Income generation proposals
Appendix 5 – Revenue Investment proposals
Appendix 6 - Capital investment proposals
Appendix 7 – Notes of November Member Workshops
Appendix 8 – Collection Fund Projection 2012/13

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14. BACKGROUND PAPERS

14.1 Government finance settlement 2012/13
Financial Risks estimate working paper 2013/14
Grant Thornton's Review of the Council's arrangements for securing financial resilience. (October 2012)