

REPORT TO THE EXECUTIVE



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PORTFOLIO	Resources & Performance Management
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Revenue Budget 2013/2014

PURPOSE

1. To consider the detailed estimates of revenue income and expenditure for 2013/14 and to make recommendations to full Council about next year's Revenue Budget.

RECOMMENDATION

2. The Executive is recommended to:
 - (a) authorise the Chief Executive and the Director of Resources in consultation with the Executive Member for Resources & Performance Management to progress and submit a bid for Efficiency Support Grant for 2013/14 and to report back to the Executive on the outcome of the bid
 - (b) adopt the following resolution:

That full Council be recommended to:

- i) Endorse the approach that has been adopted in developing budget proposals that reflect the Council's Strategic Objectives for 2013/14;
- ii) Approve the proposals contained in this report;
- iii) Set a Council Tax Requirement of £5,482,808 for the financial year 2013/14;
- iv) Set a Net Budget Requirement of £16,643,677 for 2013/14;
- v) Receive and consider the statutory report issued by the Director of Resources under the Local Government Act, 2003;
- vi) Authorise Directors/Heads of Service to progress action plans to deliver the 2013/14 budget and finalise any redundancies, early retirements or deletion of vacant posts or restructuring that result;
- vii) Approve a Council Tax (Band D) figure of £262.26 for this Council for the year commencing 1st April 2013 and adopt the statutory resolution to set the full Council Tax for the year. This is equivalent to 1.995% Council tax increase.

REASONS FOR RECOMMENDATION

3. To fulfil the Council's statutory obligation to calculate its Council Tax requirement as set out in Section 31A of the Local Government Act 1992 (as amended by section 74 of the Localism Act 2011).
4. To set a balanced budget for the financial year 2013/14 that ensures the viability of the Council and aligns resources to the Council's strategic priorities.

SUMMARY OF KEY POINTS

5. **BACKGROUND**

This report summarises the key issues that elected Members will need to consider when finalising the Revenue Budget 2013/14. Under the constitution, it is the Executive's duty to present detailed recommendations for full Council to consider. The following appendices are related to the report.

APPENDIX 1	General Fund Revenue Summary 2013/14
APPENDIX 2	List of Proposed Budget Adjustments
APPENDIX 3	Growth Proposals

6. The schedule of proposed fees & charges, which forms an integral part of the budget process, was approved at the meeting of full Council on 20th December 2012.
7. The proposals contained within this report have been developed as a result of discussions and presentations at various Member and officer forums.
8. The Local Government Act 2003 sets out the requirements for sound financial management. Section 25 is particularly relevant when the budget and Council Tax for the coming year are being set. It requires the Chief Finance Officer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report is contained elsewhere on your agenda.
9. This budget has been developed following the principles set out in the Council's Medium Term Financial Strategy. The strategy emphasises the need to focus on the use of the Council's resources towards achieving the Council's stated objectives.
10. The Council has adopted an approach to producing the budget based upon the relative priority of all the services that the Council provides and this helps to establish the savings targets that are set. In addition however, there has also been a focus on efficiency savings and value for money savings within each service area and in key corporate areas.
11. In view of the tight financial constraints within which the Council has operated in recent years, there is little scope for growth in service provision other than funding key Council priority initiatives. Additional funding has however been found through monitoring the 2012/13 revenue budget and will be used to finance these key initiatives.

12. SUMMARY OF THE REVENUE BUDGET POSITION 2013/14

The proposed net revenue budget for 2013/14 is as set out in the table below:

	£'000	£'000
Projected net revenue spending 2013/14		19,057
Less:		
Savings approved December 2012	1,778	
Additional budget savings proposed (Appendix 2)	375	
Earmarked reserve approved – Business Growth	270	
Use of under spending 2012/13 brought forward	156	
Use of earmarked reserves	44	2,623
		16,434
Add:		
2013/14 growth (APPENDIX 3)		210
Net budget requirement 2013/14		16,644
Financed from:		
Collection Fund Surplus		54
Business Rate Baseline Funding	3,725	
Revenue Support Grant	5,600	
Efficiency Support Grant	1,782	11,107
Council Tax Yield		5,483
		16,644

13. RECAP ON BUDGET DECISIONS TAKEN DECEMBER 2012

Members at Executive and Council approved a savings programme of £1,778k, following receipt of the initial budget report that outlined a savings requirement of £2,002k. The information presented to members at that time is shown below:

	£'000	£'000
General Government grant reduction	1,602	
Pay award and increments	361	
General inflation	246	
Rent income reductions	91	
Other net increases	84	
Increases		2,384
Less:		
Reduced net interest costs payable	139	
Fees and charges increases	111	
Council tax 2% increase	132	
Decreases		382
Total projected net increase 2013/14		2,002
Savings approved of :		
Non salary savings	820	
Deletion of 37 posts (21 occupied)	958	1,778
To be identified		224

14. LOCAL GOVERNMENT SETTLEMENT

The local government settlement was announced in December 2012 and brought in new funding arrangements with effect from 1 April 2013. In essence, the key changes are:

- The inclusion of Homelessness prevention funding within the general grant settlement
 - The introduction of localised business rate retention, which enables the council to retain a proportion (20%) of any growth in business rates locally, but the council is faced with increased risk of up to 7.5% from the loss of any business rates. In cash terms this gives the council a new risk of up to £280k.
 - Changes to the council tax benefit system following its localisation with the introduction of the council tax support funding at 90% included within the Settlement.
15. In Burnley's case the settlement entailed a headline 17.7% reduction in revenue spending power between 2012/13 and 2013/14. Given that changes were made to the way in which revenue spending power is calculated compared with the 2012/13 settlement (by adding Council tax support grant and new Homes Bonus grants to the calculation) the effective reduction is 20.53%. An element of protection has however been incorporated within the 2013/14 settlement. The Government has announced that 7 local authorities including Burnley will have reductions in revenue spending power next year limited to 8.8% (but based upon the changed calculation). This limit means that the full reduction in revenue spending power of £3.53 million which would have been implemented falls to £1.75 million
16. Previously in 2011/12 and 2012/13 the limit of falls in the Council's revenue spending power has been made through the payment of Transition Grant. It is proposed for 2013/14 that the limit in the reduction of £1.78 million is made through the introduction of a new Efficiency Support Grant (ESG). This grant is conditional upon Burnley and the 6 other affected Council's submitting an application based upon a business plan outlining efficiency savings measures to be carried out over the next two financial years.
17. The effect of the settlement on the Council's funding assumption is shown below:

Funding assumption reported to executive and Council December 2012	£'000	£'000 16,731
Loss of Government funding	(307)	
Loss of funding following localisation of council tax support	(75)	
Increase on council tax yield following technical changes	241	
Funding following Settlement announcement		16,590
Net reduction in funding		141

18. The overall funding allocation from government is reduced by a further £307k, giving a total reduction in government grant of £1.909m (17% reduction in government funding) between 2012/13 and 2013/14. However, this has been partially offset by increases to funding levels through adjustment to the council tax base and the localisation of council tax support as approved by the Executive and Full Council in December 2012.

19. REVISION TO BUDGET GAP

The impact of these changes on the overall gap is shown below.

	£'000's	£'000's
Gap as at December 2012	224	
Further reduction in Government funding	307	
Loss of funding localisation of council tax support	75	
Increase in Council Tax base following technical changes	(241)	365
Living Wage growth		10
Savings now required (APPENDIX 2)		375

20. FURTHER SAVINGS IDENTIFIED

Further savings of £375k are required to balance the budget and to provide for the Living Wage growth of £10k. Proposals for further savings are shown in APPENDIX 2 together with brief descriptions of each savings proposal:

21. GROWTH PROPOSALS

Given the budget pressures, there is very little scope for continuing growth. In summary, these are shown in APPENDIX 3. There is one on-going growth item proposed for £10k to cover the cost of introducing the Living Wage.

22. In addition, a number of proposals for growth are recommended to support council key priorities to be funded from in-year under spending arising from 2012/13 budget monitoring process, estimated to be £156k.
23. Targeted Family Support and the Home-coming March for the Duke of Lancaster Regiment are to be funded from earmarked reserves totalling £44k.
24. Furthermore the Executive and Full Council in December 2012, approved the incorporation of a discretionary hardship scheme as part of the localisation of the council tax support. The council is in discussion with the County Council to agree an appropriate cash limited amount to be funded predominantly by the County Council. Further details will be provided following the outcome of the consultation process.

25. COUNCIL TAX

The maximum increase in the Council tax permitted by the Government in recent years has been conditioned by "excessiveness principles". These excessiveness principles have previously been announced after local authority budgets have been set and were widely referred to as capping principles. The Localism Act 2011 abolished Council tax capping in England and replaced the regime with local referendums.

26. For the current financial year, 2012/13, the maximum permitted increase in an authority's Council tax requirement beyond which a local referendum would be triggered is 3.5%. The announced figure for 2013/14 is up to a 2% increase. Such a referendum would allow local electors to either support or veto the proposed increase. It is assumed that any referendum would produce a result against any proposed increase and the Council would therefore not be able to generate any additional income through Council tax beyond the 2012/13 level.

27. The proposals in this paper assume that the Council's Band D Council tax will increase in 2013/14 by 1.995% from £257.13 to £262.26. This level of charge will yield an estimated total income of £5,482,808.

28. **COLLECTION FUND SURPLUS**

This represents a relatively small proportion of the overall budget equation. A surplus or deficit can arise for two reasons namely:

- i) A variation in the amount of Council tax that is actually due and charged for the year in question compared with the figure assessed when the Council tax base for the year is calculated.
 - ii) A variation in the amount that needs to be provided for taxes that the Council is unable to recover in each financial year.
29. The combined result of the calculations referred to above produces an overall surplus or deficit figure. This is divided between precepting authorities in proportion to their respective level of Council tax in the current year, 2012/13.
30. This year's calculation has produced an overall surplus figure of £329,478 of which this Council's share is £53,653 which is 16% as a proportion of the total. The Council's share of the collection fund surplus can be used to reduce the remaining budget deficit.

31. **FEES AND CHARGES**

During the budget process, it has been assumed that income budgets would increase by 3% in 2013/14 reflecting a corresponding increase in fees and charges levied. Heads of Service were therefore asked to review their fees and charges in the context of an overall assumed increase of 3%. It was decided that the increase should take effect from 1st January 2013 as has been the case previously. The tariff of fees and charges mainly effective from 1st January 2013 was approved by Council on 20th December 2012.

32. Where Heads of Service have assessed that higher income levels than this can be achieved, the additional amounts over an overall 3% increase for the service have been shown in the list of savings approved in December 2012.

33. **EARMARKED RESERVES AND GENERAL FUND RESERVE**

It is important that, when considering the Revenue Budget, due consideration is given to the levels of reserves and balances that are available. Reserves consist of earmarked reserves held for future liabilities and general reserves which are held to provide a working balance to help cushion the impact of unexpected emergencies and uneven cash flow.

34. Due to the increased risk facing the council from the potential loss of business rates that the council may bear up to £279k in any one financial year, it is recommended that the general reserve is increased to further protect the sustainability of the council (see para 30).

35. The latest budget monitoring report identified under-spending of £551k for 2012/13. It is recommended that £279k from this under-spending is used to contribute to the General Fund Reserve to mitigate potential risk from sudden and unexpected business rate losses.

36. The table below shows the anticipated use of reserves for 2013/14. This table excludes any reserves held for specific operational reasons.

	Earmarked Reserves (£'000's)	General Reserve (£'000's)	Total (£'000's)
Balance as at January 2013	4,787	1,100	5,887
Anticipated year end contribution 2012/13	272	279	551
Commitments 2013/14	(404)		(404)
Growth funded from underspends 2012/13	(156)		(156)
Growth funded from earmarked reserves	(44)		(44)
Anticipated balance 31.3.14	4,455	1,379	5,834

37. Growth of £156k will be funded from 2012/13 underspending, being £116k less than the contribution made from 2012/13 financial year as reported in the latest budget monitoring.

38. **RISK ASSESSMENT**

A risk assessment has been carried out on key areas of income and expenditure and ways of monitoring and mitigating the risk have been identified where possible.

39. An important issue to consider is the extent to which the Council will be utilising earmarked reserves and non-recurring income when setting the budget. Initiatives that are to be funded from earmarked reserves do not have assumed ongoing funding and the Council must therefore plan in future years to discontinue these activities or approve growth if they are to continue. The latter course of action would add to the savings requirement. It is not considered that the extent of funding from earmarked reserves factored into the 2013/14 revenue budget is unduly onerous and the levels of reserves forecast will be sufficient in accordance with the medium term financial strategy.
40. The main element of potential non-recurring income contained within the budget is Efficiency Support Grant (ESG). As indicated earlier in this report the revenue budget is due to be supported in 2013/14 by ESG totalling £1.78 million. Whilst the Government have announced that ESG will be payable in 2013/14 it is subject to a bidding process and the 2013/14 revenue budget is dependent upon receiving this grant in full. There is even more uncertainty in 2014/15 as current Government figures do not provide for ESG being paid beyond 2013/14. This is the most significant financial risk underpinning the revenue budget for 2013/14, although the Council is optimistic of a favourable outcome.
41. In addition to the uncertainty relating to future Government grant funding there are also new risks associated with the new funding system. This is based upon an increasing element of the Council's funding requirement being met from business rates. The Council remains optimistic that the new system could provide positive benefits through the stimulation of economic growth but there is the possibility of less than anticipated receipts through factors beyond the Council's control. This is the basis on which general reserves are recommended for increase to £1.379m.
42. Declining levels of income are also a significant risk area and although substantial reductions in income receivable have been made to reflect current economic conditions there may be a further decrease in income levels supporting the revenue budget.

43. Following localisation of council tax support, the council now bears the risk from any increased demand in the event of a growth in the number of claimants. This risk is felt to be a medium risk and enhanced monitoring will take place during 2013/14.
44. Declining levels of income are also a significant risk area and although substantial reductions in income receivable have been made to reflect current economic conditions there may be a further decrease in income levels supporting the revenue budget. This will be closely monitored as part of budget monitoring for 2013/14.
45. Pay inflation is not a significant budget pressure in 2013/14 and there is also little price inflation included within the estimates. However, general levels of inflation as measured in the retail prices index and the consumer prices index could increase in the future and this may lead to demands for higher pay and an increase in the prices of goods and services which the Council has to meet. Furthermore, Pension revaluation exercise is likely to commence during 2013/14 but as yet the outcome is unknown. These factors will be considered as part of the on-going modelling of the updated Medium Term Financial Strategy.
46. It is widely expected that there will be further reductions in public sector funding by the Government from 2014/15 onwards following the next spending review.
47. In summary, after taking consideration of the issues in this report and the risks referred to above, the 2013/14 revenue budget may be approved. Also, the assumed level of Council Tax that should be set in order to achieve a balanced budget as set out above should be confirmed.
48. The final decision that Members of the Council take will need to reflect the statutory (Section 25) report of the Chief Finance Officer as to the robustness of the assumptions that have been made in compiling the budget.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

49. As shown in the body of the report and appendices.

POLICY IMPLICATIONS

50. The revenue budget determines the extent to which the Council's strategic objectives can be pursued and achieved.

DETAILS OF CONSULTATION

51. No external consultation has been carried out.

BACKGROUND PAPERS

52. None.

FURTHER INFORMATION

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ALSO:

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