ASSEMBLY

22 FEBRUARY 2012

Title: Budget Framework 2012/13	
Report of the Cabinet Member for Finance and Education	
Open	**For Decision**
Wards Affected: All	**Key Decision:** Yes
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Summary:

This report sets out the:

- The Medium Term Financial Strategy and a two year summary level financial model for the Council;
- The level of savings already approved over the three-year period;
- The detailed, annual revised budgets, revenue outturn estimates for 2011/12 and 2012/13 proposed budgets;
- The financial outlook for 2013/14 onwards;
- The proposed level of Council Tax for 2012/13;
- The capital investment programme;
- The prudential indicators.

The General Fund net budget for 2011/12 is £183.381m and the proposed net budget for 2012/13 is £177.379m. The budget for 2012/13 incorporates a reduction of grant by the Government, decisions previously approved by Members in the Medium Term Financial Strategy, savings approved by Cabinet Members on December 14th 2011 and other financial adjustments.

Difficult decisions have been made by Members to ensure a robust and balanced budget is set, protecting front line services as far as is possible and providing value for money to our residents. This has been achieved within the context of a zero increase in Council Tax paid by residents for a fourth consecutive year.

The current 2011/12 to 2015/16 capital programme for the Council is £218.5m and the proposed programme is £459.7m for 2012/13 to 2015/16, including £166.9m proposed HRA schemes.

The proposed Council Tax for 2012/13 is to remain at the current level (for a Band D property £1,016.40).

The Greater London Authority precept for a Band D property has been reduced by 1% from £309.82 last year to £306.72 for 2012/13. The GLA precept was approved by the London Assembly on 9 February 2012.

The Medium Term Financial Strategy and the Capital Programme has been developed focusing on key Council priorities.

This report was considered and endorsed by the Cabinet at its meeting on 14 February 2012 (subject to updates that have been made since the Cabinet report's publication to represent the most current position). In addition to endorsing the recommendations below, the Cabinet also noted details of the capital accounting arrangements and the prudential indicator capital guidelines as set out in sections 7 to 9 of this report, as well as the continuing need to identify relevant efficiency gains throughout the organisation.

Recommendation(s)

Assembly is recommended to agree:

(i) A revised revenue budget for 2011/12 of £183.381m as detailed in Appendix B to the report;
(ii) A base revenue budget for 2012/13 of £177.379m as detailed in Appendix C;
(iii) That the current surplus arising from additional specific grant income be held in the Contingency budget, pending the announcement of the top-slice requirement and to mitigate future risks;
(iv) The adjusted Medium Term Financial Strategy position for 2011/12 to 2014/15 allowing for other known pressures and risks at this time as detailed in Appendix E;
(v) The Statutory Budget Determination for 2012/13 at Appendix D, which reflects a freeze, for the fourth consecutive year, on the amount of Council Tax levied by the Council, with a 1% reduction in the Greater London Authority precept approved by the London Assembly on 9 February 2012, as detailed in Appendix F;
(vi) The Council's five-year Capital Programme as detailed in Appendix G.

Reason(s)

Local authorities are required by law to set a balanced budget for each financial year. It is the responsibility of the Assembly to approve all aspects of the annual budget framework, including the setting of Council Tax levels.

1. Introduction and Background

1.1 The purpose of this report is to seek agreement to the budget for 2011/12 of £183.381m and the revenue budget for 2012/13 of £177.379m. This reduction between the two financial years is mainly due to reductions in Government Grants of c£6m, although the Council has faced other demographic and inflationary pressures which meant that additional savings have had to be found. This report focuses on the Council's General Fund expenditure and Council Tax level however does mention the Council's other financial streams in order to provide a context.

1.2 The report also sets out the Medium Term Financial Strategy for 2011/12 to 2014/15 and the Council Tax levels for 2012/13.

2. The Council Statement of Priorities and links to other strategies

2.1 The Council Statement of Priorities for 2012/13 focuses on how the Council can achieve its priorities in the context of reduced resources identified within the Medium Term Financial Strategy. The Council Statement of Priorities is presented for approval elsewhere on this agenda.

2.2 The Medium Term Financial Strategy has been developed in the time of significant national funding cuts, focusing the Council's core objective of "Building a better life for all" by protecting front line services and providing a well run organisation. The Medium Term Financial Strategy underpins the Council's three main objectives:

- Raising average income in the borough
- Schools and post-16 education
- Housing and estate renewal

2.3 Other key strategies essential to the successful delivery of the Medium Term Financial Strategy are:

- Treasury Management Strategy – maximises the Council's investment income and cash flow, which underpins the delivery of the MTFS

- Property Assets Strategy – enables the Council to make efficient and effective use of the asset space and drive down the cost of accommodation

- Procurement Strategy – ensures that procurement and contract regulatory and legal requirements are adhered to, as well as achieving Value for Money. The Council's procurement and contract rules are set out in the Council's Constitution

- Risk Management Strategy – details the levels of risks and sensitivities of financial risk that exist and the controls required to sufficiently manage those risks down

- Capital Programme – prioritising capital bids and existing capital programmes in line with statutory demands and member's priorities, on a fully funded basis, supported with and by the Council's disposal plan

3. Medium Term Financial Strategy

3.1 **National pressures & funding position**
The Comprehensive Spending Review (CSR) 2011/12 to 2014/15 was announced in October 2010 covering a four-year period, whilst the Local Government Funding Settlement was announced for the first two years of the Spending Review period.

3.2 At the time of writing, the provisional funding settlement for 2012/13 has been issued, however no further information, other than provisional data released, is available regarding the remaining two years of the Spending Review period – 2013/14 and 2014/15. The estimated funding reductions in the Medium Term

Financial Strategy assume that the overall funding reductions will broadly be 28% over the four-year period.

3.3 Recent indications from the Department of Communities and Local Government (DCLG) are that funding for 2015/16 will reduce by 5-8% and funding for 2016/17 by 7-9%. These indications from the Government suggest that whilst funding will remain broadly flat, there will be a larger reduction in revenue because of a redirection of revenue to capital in order to stimulate economic growth. The Council must therefore continue to identify revenue efficiencies as well as manage increasing demand for services, demographic pressures and inflationary increases on our contracts.

3.4 The table below illustrates the funding adjustments that overall reduce our base budget requirement from 2011/12 to 2014/15:

Table 1 – Budget requirement and adjustments in Government funding

Budget requirement and Government Funding	2011/12 £'m	2012/13 £'m	2013/14 £'m Estimated	2014/15 £'m Estimated
Formula Grant	107.8	99.0	93.0	88.0
Specific Grants	20.1	20.7	20.0	17.0
% Reduction in core funding	9%	6%	6%	7%
Council Tax Freeze Grant	1.3	2.7	1.3	1.3
New Homes Bonus	0.4	1.5	0.5	0.5
Academies Top-slice (estimated)		-0.6		
Total Government Grants	**129.6**	**123.3**	**114.3**	**106.3**
Council Tax	53.6	54.0	54.0	54.0
Collection Fund surplus	0.2			
Budget requirement	**183.4**	**177.4**	**168.3**	**160.3**

*Figures have been rounded in the above table

3.5 **2012/13 Budget Position**

Cabinet on the 14th December 2011 approved savings proposals and other adjustments for the 2012/13 draft budget. The position after Cabinet meant that the Council had a small surplus of £61k for 2012/13 and a budget gap of £4.291m for 2013/14. The surplus of £61k represents less than 0.05% of the Council’s net budget requirement for 2012/13.

Table 2 – MTFS budget gap/(surplus) following December 14th 2011 Cabinet

Medium Term Financial Strategy Pressures and Adjustments	2012/13 £'000	2013/14 £'000
MTFS Pressures (February 2011 Assembly)	16,550	11,315
MTFS Savings (February 2011 Assembly)	10,187	11,000
MTFS Budget Gap – February Assembly 2011	**6,363**	**315**
Service pressures and central adjustments (net)	2,435	3,700
Approved MTFS Budget Gap – October 2011	**8,798**	**4,015**
Additional Savings – October 2011 (before Select Committees)	**(9,883)**	**(1,127)**
Net Budget gap – October 2011 (surplus)	**(1,085)**	**2,888**
Select Committee / Leaders QT savings withdrawn	60	0
Savings to proposed for withdrawal/deferred/amended	964	1,403
Revised Headroom (-) / Budget gap (+) following withdrawn proposals and savings to be deferred	**(61)**	**4,291**

3.6 In order to agree the 2012/13 Budget Requirement, additional information is now available following the December Cabinet report and summarised in Table 3 below.

3.7 The allocation for Specific Grants has increased compared to the indicative funding announcement by £697k. These grants are now pooled centrally as a source of funding in addition to the Formula Grant and are now longer ring-fenced for specific services. This approach is in line with the Government's policy of reducing the number of ring fenced and specific grants, allowing councils to direct funding as required to meet specific areas of need.

3.8 The Government has now issued provisional details of the Formula Grant and other specific grants but has not yet announced the national top slicing of funding for academies. The top slice for 2011/12 was £565k and pending confirmation; this figure has been assumed for 2012/13. In addition to the academies top-slice, the top-slice for private sewers, estimated to be approximately £60k is yet to be confirmed.

3.9 The surplus on the Collection Fund was £200k last year and it was estimated at the time of producing the Medium Term Financial Strategy that this surplus would remain for 2012/13. A further review has now been completed for the Collection Fund, and this surplus is now estimated to be £30k. This has resulted in a reduction of the surplus of £170k.

3.10 Following a review of recharges relating to the management of HRA properties during the 2012/13 budget setting process, a further £175k adjustment has been made to recharge budgets within Finance & Resources.

3.11 The Council has agreed to implement the London Living Wage from January 2012. The cost of this has been calculated as £35k and has been built into the table below.

3.12 A separate Council Tax setting report approved by Cabinet on 14 December 2011 set the Council Tax base for 2012/13 of 53,086.90 taxable Band D equivalent properties, which represents an increase on the Council Tax base of 363.2 properties. This will generate additional income of £369k for the Council in 2012/13.

3.13 Following their initial submission, the savings (detailed on pro-formas) agreed by Cabinet have been reviewed and any necessary amendments have been highlighted. As a result, there is a requirement to adjust two of the savings pro-formas:

- CEX/SAV/01 – Restructure of senior management. The saving of the Legal Services Group Manager was double counted within the Legal & Democratic Services restructure proposals. In addition, the saving relating to the Divisional Director Mental Health post will still be deleted, but the saving will be used towards the North East London Foundation Trust (NELFT) section 75 agreement management fees.

- CEX/SAV/01 – Restructure of policy teams. The split of recharges between the general fund and the housing revenue account has been recalculated following the agreement of the specific savings to be made. The net effect is an increase in the saving to the general fund of £42k.

Table 3– Adjusted Budget Gap 2012/13

Medium Term Financial Strategy Pressures and Adjustments	2012/13 £'000
Approved MTFS Budget Surplus (December 2011 Cabinet)	**(61)**
Specific Grants (2012/13 announced, 2013/14 not yet announced)	(697)
Academies top sliced grant	565
Reduction in Collection Fund Surplus	170
Private sewers top slice to formula grant	60
Further review of internal recharges between Directorates	175
Council Tax base increase	(369)
London Living Wage	35
Updated savings proposals	
Senior Management/Legal & Democratic Services	71
Senior Management/Adult & Community Services	50
Policy review	(42)
Revised MTFS Budget (Surplus)/Deficit	**(43)**

3.14 These amendments have decreased the budget surplus from £61k to £43k for 2012/13.

3.15 The levy for Lee Valley Regional Park Authority has been announced but is still subject to confirmation. The levies for the East London Waste Authority, London Pension Fund Authority and the Environmental Agency have been confirmed. Full details are shown in Table 4.

Table 4 – Position regarding levies

Levy	2011/12 £'000	2012/13 £'000	Change %
East London Waste Authority (ELWA)	8,147,000	8,480,000	4.08%
London Pension Fund Authority (LPFA)	180,026	180,026	0%
Lee Valley Regional Park Authority *	155,869	152,409	-2.2%
Environment Agency	103,743	103,546	-0.2%
Total Levies	**8,586,638**	**8,915,891**	**3.8%**

*Subject to confirmation

3.16 At present, the surplus of £43k is allocated to the Central Finance budget. The options for this surplus are set out below and it is recommended that the sum be held as an additional contingency item to mitigate future risks (option 2):

- Identify areas of investment for the surplus savings;
- Hold the surplus as an additional contingency to mitigate against the unconfirmed levies or as a provision to increase balances;
- Allocate to Directorates (Children's Services and Adult and Community Services) the increases in specific grants, though this will reduce the budget surplus of £43k to a potential budget deficit of £654k.

3.17 The MTFS summary as agreed by Cabinet in December 2011 is provided in Appendix A of this report for reference purposes.

4. Revised budget for 2011/12 and proposed budget 2012/13

4.1 Revised budget for 2011/12

The revised budget for 2011/12 of £183.381m has been calculated on the original 2011/12 budgets approved by Assembly in February 2011 and amended for approvals by Cabinet throughout the year. Appendix B shows the departmental position for the revised 2011/12 budget.

4.2 At the end of December 2011, the Council is forecasting an under spend position of £2.2m for 2011/12. The current projected under spend of £0.7m, and the planned contribution to balances of £1.5m, could result in the General Fund balance increasing by £2.2m to £13.0m. Despite the overall projected underspend position, the Council is reporting pressures in the Directorates of Housing and Environment, and Children's Services.

4.3 These pressures have been modelled into the Medium Term Financial Strategy to ensure that a robust budget is set for 2012/13. The adjustments made to the Medium Term Financial Strategy are detailed in the report presented to Cabinet on 14 December 2011 (paragraphs 4.5 and 4.6).

4.4 **Proposed budget for 2012/13**
The proposed budget for 2012/13 has been set taking the 2011/12 original budget approved by Assembly in February 2011, adjusted for items as set out in the MTFS approved by Cabinet on 14 December 2011:

- Reductions in Government funding of c£6m;
- Statutory, economic and demographic pressures;
- Local budget pressures and central accounting adjustments to contingencies;
- Supporting the Council's capital investment strategy and;
- Saving options for 2012/13.

4.5 In order to set a robust budget the above adjustments have been incorporated. The CFO has advised that in order to ensure the Council's financial base is not eroded that Council Tax levels should increase however, a political decision has been made to keep the increase at 0% for a further year.

4.6 Proposed Directorate budgets are provided in Appendix C and the Statutory Budget Determination for 2012/13 is set out in Appendix D of this report.

4.7 In order to address the funding reductions as well as other service pressures outlined in the Medium Term Financial Strategy, Cabinet in December 2011 approved savings of £19.046m in respect of 2012/13. An analysis of savings by Directorate has been provided in Appendix B of the Budget Strategy Report (December 2011). An equalities impact assessment of savings options has also been completed based on separate assessments for each saving and can be found at Appendix E of the same report.

4.8 The proposed budget requirement for 2012/13 is £177.379m.

5 Future forecasted funding reductions/pressures and updated savings

5.1 As noted above, the report in December 2011 summarised a number of potential pressures facing the Council in the medium term. The paragraphs below briefly outline the current estimate of those pressures and the impact on the Medium Term Financial Strategy (MTFS) which will be updated accordingly.

5.2 An indicative settlement for 2013/14 and 2014/15 were given in the CSR in October 2010 and these have been used in the modelling for the MTFS so far. The December 2011 finance announcement for 2012/13 gave no detail for later years and this indicates that the settlement for years three and four of the CSR period may be reconsidered by the Government. It is difficult to second guess what this will mean at this stage and therefore no amendments have been made to the indicative figures currently built into the MTFS.

5.3 In his autumn budget speech in November, the Chancellor of the Exchequer announced a potential 1% pay rise for public sector workers from 2013/14. Whilst this will be subject to national negotiation, the likely impact for Barking & Dagenham is approximately £1m and it is prudent to incorporate this estimate into the MTFS. However, it is unlikely that this increase would apply to all staff.

5.4 Within the CSR, a 10% reduction in the grant paid to local authorities for Council Tax Benefit (CTB) was announced to be generated through savings the Coalition

Government believes can be made through the application of local criteria for the allocation of the benefit. The current CTB cost to the Council is approximately £20m resulting in a benefit funding cut of £2m.

5.5 From 2013/14, the Coalition Government is proposing to change the way it funds local authorities through the Resource Review sometimes called the localisation of business rates. The broad assumption is that this will have a neutral effect on funding through the top slice/top up tariff mechanism. There are risks and opportunities associated with the localisation of business rates, however, the impact cannot be fully assessed at this stage and has not been incorporated into the MTFS.

5.6 As part of the setting of both the 2011/12 and provisional 2012/13 budgets, the Council has taken advantage of the government's Council Tax freeze grants. Whilst the grant for 2011/12 is expected to be incorporated into the on-going grant funding of the Council, the monies for 2012/13 are only offered as one off funding and therefore will not be available again in 2013/14. This therefore becomes a pressure which will need to be budgeted for.

5.7 Library savings proposal

At its meeting on 14 December 2011, Cabinet agreed to the following:

- Closure of Wantz and Markyate libraries;
- Implementation of the break clause to allow the relocation of services from the Muirhead Quay depot to Valence Library;
- Creation of an integrated service in Thames View by bringing the library and children's centre service together;
- Development of the services offered from Valence Library, Valence House and the adjacent park for children, young people and older people.

It is estimated that these proposals will achieve a full year saving of £425,300.

As further options are required to ensure that the Council's savings target can be achieved, officers have developed a further proposal which has two key elements:

- Closure of the Castle Green library; and
- Re-shaping the service currently delivered at the Marks Gate library.

It is estimated that the savings from these proposals will be £226,000 in 2013/14. This has been reflected in the projections in Table 5 but has yet to be formally approved by Cabinet. It is considered that further savings to the General Fund (up to £178,000) in future years could result from the transfer of PFI costs associated with the library to Jo Richardson School, if and when the school take over the operation of this space.

5.8 The total impact of these known pressures and adjustments is shown in table 5 below. The MTFS adjusted for the changes in Table 5 below has been provided in Appendix E of this report.

Table 5 - Impact of future pressures the MTFS budget gap

Medium Term Financial Strategy Pressures and Adjustments	2013/14 £'000	2014/15 £'000
Approved MTFS Budget Gap – December 2011	**4,291**	**14,311**
Public sector pay award	1,000	1,000
Council Tax Benefit reform	2,000	
Council Tax Freeze Grant	1,315	0
Library savings proposal	(226)	
Revised MTFS Budget Gap	**8,380**	**15,311**

5.9 Other unknown factors at this stage include:

- The impact of the Welfare Reform legislation – The full impact of this reform will only be known over the next five years. One impact that is being discussed is the potential reduction of the Benefits Administration Grant. Barking and Dagenham Council currently receive £1.965m and the Government's intention is to reduce this funding following the implementation of localisation of Council Tax Benefit.

- National Funding Formula for the Dedicated Schools Grant – The introduction of the National Funding Formula could result in the funding being paid directly to schools. This change could impact on recharges to the Dedicated Schools Grant (est. £700-£800k) as well as other centrally retained costs.

- Local Government Resource Review - The impact of any loss of collection on the National Non Domestic Rates (NNDR) as well as the impact of existing businesses leaving the borough, would pass onto the Council if proposals under discussion are carried out. The positive impact is that if the Council is able to regenerate the local economy by encouraging business growth, this will create additional funding that can be used towards services.

5.10 **Risks to the Settlement from 2013/14 onwards**
As noted above, the current information on the settlement from central government from 2013/14 is very limited. The presentations and briefings from the Department for Communities and Local Government (CLG) and the Treasury indicate that the level of funding will reduce even further than initially anticipated and will continue reducing until around 2018/19.

5.11 Early indications from CLG are that 2015/16 grant will reduce by 5-8% and 2016/17 by 7-9%. Due to the uncertainty around the 2013/14 and 2014/15 settlement, apart from what was announced in the October 2010 CSR, the MTFS model currently assume a 6% reduction in grant for 2013/14 and a 7% reduction for 2014/15.

5.12 To provide Members with an early illustration of the potential impact, the table below gives scenarios for different levels of reductions. Based on early indications, the funding reduction for 2015/16 could range between £5.4m to £8.1m and the reduction for 2016/17 could range between £6.7m to £8.1m. The potential funding reduction has been highlighted in Table 6 below. Broadly, a 1% reduction in grant equates to a funding cut of approximately £1.2m, taking the 2012/13 grant allocation as a starting point.

Table 6 – Indicative cuts to central funding from 2013/14 to 2018/19

% of Reduction	5.00%	6.00%	7.00%	8.00%	9.00%
	Annually	Annually	Annually	Annually	Annually
	£000's	£000's	£000's	£000's	£000's
2013/14	5,988	7,185	8,383	9,580	10,778
2014/15	5,688	6,754	7,796	8,814	9,808
2015/16	5,404	6,349	7,250	8,109	8,925
2016/17	5,134	5,968	6,743	7,460	8,122
2017/18	4,877	5,610	6,271	6,863	7,391
2018/19	4,633	5,273	5,832	6,314	6,726

6. Council Tax requirement

6.1 The proposed LBBD element of the Council Tax for 2012/13 is to remain at the current levels (£1,016.40 for a Band D property). This will be the fourth consecutive year the Council has set a budget without increasing Council Tax. The Council Tax base for 2012/13 is 53,086.9 and is an increase of 363.2 Band D equivalent properties compared to the 2011/12 base of 52,723.7.

6.2 The Mayor of London has proposed a 1% reduction in the Greater London Authority precept for 2012/13. The precept will be reduced from the 2011/12 amount of £309.82 to £306.72 (Band D property). This reduction was approved by the London Assembly on 9 February 2012.

6.3 Councils who opt to freeze their Council Tax will receive a one off cash grant from the Government. Barking and Dagenham has received additional funding of £1.3m and this has been factored into the MTFS model.

6.4 The calculation of the proposed Council Tax for 2012/13 is shown in Appendix F.

6.5 The Council Tax must be set before 11th March of the preceding year.

7. Capital programme

7.1 The Council is required to review its capital spending plans each year and set a capital programme. A key consideration when setting the programme is the projected level of available capital resources and the affordability of the overall programme.

7.2 In line with Members' objective of minimising the Council's external borrowing requirements, bids must be prioritised into "statutory" (e.g. school places), "essential" and "Member priorities".

7.3 In order to meet the statutory demand for school places, the Council will continue to lobby for additional funds from central Government. Through successful lobbying to date by Members and officers, the Council has been awarded an additional £23.9m of Basic Needs funding in 2011/12 in respect of school places.

7.4 It is also proposed that future capital expenditure is funded on a “Pay as You Sell” basis, with Members agreeing the Council’s disposal programme, both in terms of which assets that can be sold as well as when to sell them. Although the disposals programme will generate some capital receipts, Members are advised that external borrowing will still be required to fund the existing capital programme and that previous decisions have been made by Members to borrow £152m. These are the culmination of capital decisions approved by Cabinet since 2008/09.

7.5 To ensure that the capital programme remains affordable, it is proposed to cap the overall capital programme, as well as limit the amount of overall borrowing by setting a gearing ratio for the Council.

7.6 **Current capital programme**
The current capital programme for the Council is £163.9m for 2011/12. The capital programme is supported by the Capital Delivery Team (Assets and Commercial Services) and is monitored by the Finance Capital Team. Full details of the current programme on a per scheme basis are provided in Appendix G of this report. The current programme is funded by £89m grants and contributions, £23m other sources (e.g. funds from S106 agreements and HRA Major Repairs Allowance and £52m planned future borrowing. Forecast borrowing requirement for 2011/12 is £55m due to capitalisation of redundancy costs of £3m in addition to the existing programme.

7.7 **Proposed capital programme 2012 to 2015**
The proposed capital programme is shown below and has been developed with the concept of prioritising projects into “statutory”, ”essential” and “Member priorities”.

Table 7 – Proposed capital programme 2012 to 2015

Capital Expenditure £’000	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
General Fund	82,547	116,432	44,068	6,001	4,350
HRA *	23,643	47,466	60,700	52,400	53,800
Approved Capital Prog		**163,898**	**104,768**	**58,401**	**58,150**
HRA settlement		265,000			
General Fund proposed bids		3,000	40,071	23,370	7,892
Total	**106,190**	**431,898**	**144,839**	**81,771**	**66,042**
Financed by:					
Capital receipts	227	0	3,000	2,700	2,000
Capital grants and Cont.	51,608	97,382	57,875	32,370	17,392
Capital reserves	10,854	13,927			
HRA resources	7,333	698	36,700	37,400	38,300
Net financing need for the year	**36,168**	**319,891**	**47,264**	**9,301**	**8,350**
Current planned borrowing		316,890	44,264	6,001	4,350
Funding Gap		**3,001**	**3,000**	**3,300**	**4,000**

*HRA programme from 2012/13 is based on the draft HRA business plan

7.8 The full list of approved schemes is included at Appendix Gi. In addition to approved schemes, total further capital proposals amount to £267m, with a further £166.9m of bids proposed through the HRA business plan. Based on the current levels of proposed bids, there is a significant funding gap between proposed bids and existing resources. Therefore it is currently proposed to fund only essential Highways maintenance (£2m in 2012/13) and Required Asset Management Plan works (£1m per annum) and the capitalisation directive for redundancy costs (£3m per annum). New schemes which have funding from external sources will be approved as they become known. New sources of funding will need to be identified and secured to fund any further schemes.

7.9 Appendix G sets out the details of the capital programme:

Appendix Gi	Current capital programme
Appendix Gii(A)	Funding of current capital programme (2011/12)
Appendix Gii(B)	Funding of the 2012/13 capital programme
Appendix Giii(A)	Proposed list of prioritised bids and funding (£74m), plus a further £166.9m in respect of the HRA business plan.
Appendix Giii(B)	Proposed bids – all (£193m)

7.10 **Capital appraisal and monitoring system**

The Council has in place a Capital Programme Monitoring system to ensure that capital projects are appraised and scored in terms of:

- Strategic fit and business justifications;
- Options analysis and achievability;
- Management and delivery structure;
- Risk analysis;
- Financial implications.

7.11 The Capital Programme Monitoring process is Office of Government Commerce (OGC) Gateway compliant and supports the effective delivery of the Council's capital programme**.** The OGC is the recognised industry standard for procurement purposes.

8. Prudential Indicators

8.1 On 1 April 2004 the Prudential Code introduced a new regulatory regime for capital finance. It freed authorities from government control allowing councils to borrow to finance capital investment so long as it could demonstrated that it was prudent, affordable and sustainable.

8.2 The Local Government Act 2003 requires councils in England and Wales to determine and keep under review the amount of money that they can afford to borrow for capital investment. The Prudential Code states the following factors should be taken into account when prioritising capital investment:

- Service objectives, i.e. strategic planning;
- Stewardship of assets, e.g. asset management planning;
- Value for Money, e.g. options appraisal;
- Prudence and sustainability, e.g. implications for external borrowing and whole life costs;
- Affordability, e.g. implications for Council Tax;
- Practicality, e.g. achievability of the plan.

8.3 Councils can finance capital expenditure in a number of ways, including borrowing, capital receipts, grants and contributions from revenue or via a Private Finance Initiative (PFI). The impact of the Council borrowing externally to finance capital expenditure since 2008/09 has impacted on increasing debt charges – in terms of interest payable costs and annual statutory charge for the repayment of debt, called the Minimum Revenue Provision. Consequently, capital bids requiring further borrowing will be thoroughly appraised on the principles of the Prudential Code, ensuring that limited resources are channelled effectively and the further debt charges are affordable.

8.4 The Prudential Framework is underpinned by a set of Prudential Indicators to measure whether capital investment is affordable, sustainable and prudent. Key Prudential Indicators relating to the capital programme include the Capital Financing Requirement.

9. Capital Financing Requirement (CFR)

9.1 The Council's Capital Financing Requirement is currently forecast to increase to £466m by end of 2011/12. This is largely due to the £265m borrowing required to finance the HRA self-financing settlement and a further £55m borrowing to fund this year's capital programme. The CFR is forecast to increase to £530m by 2014/15 based on current net financing need to fund the existing programme and the new Dagenham Park School PFI scheme (Table 8).

9.2 The Council currently has £70m external loans against borrowing decisions of £152m. The balance is being financed internally by borrowing from general fund balances and other reserves. This is currently prudent as interest rates for depositing cash is less than for borrowing therefore it is better to use available cash than to borrow.

Table 8 – Capital Financing Requirement (CFR)

£'000	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Financing Requirement					
CFR – non housing	142,491	169,983	219,698	220,210	219,752
CFR - housing	9,563	31,262	45,762	45,762	45,762
HRA Settlement		265,000	265,000	265,000	265,000
Total CFR	**152,054**	**466,245**	**530,460**	**530,972**	**530,514**
Movement in CFR		314,191	64,215	512	-458
Movement in CFR represented by					
Net financing need for the year (above)	40,189	54,891	47,264	9,300	8,350
HRA Settlement		265,000			
Dagenham Park School PFI			23,750		
Less MRP and other financing movements	-4,021	-5,700	-6,799	-8,788	-8,808
Movement in CFR	**36,168**	**314,191**	**64,215**	**512**	**-458**

9.3 In terms of the affordability of the capital programme, key Prudential Indicators include the impact on debt charges of increases in borrowing, as a percentage of revenue income (Council Tax, Formula Grant and non ring-fenced grant income).

Table 9 - Ratio of financing costs to revenue stream

%	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
General Fund	5.86%	7.25%	9.95%	11.79%	12.51%
HRA (inclusive of settlement)	1.29%	3.46%	9.26%	8.94%	8.63%

9.4 As can be seen in the table above, increases in borrowing to finance the capital programme result in increases in debt charges during a period where revenue income is falling, hence increasing the ratio of financing costs each year. The HRA ratio increases significantly in 2012/13 because of the interest payable impact (approximately £9.7m pa) on the £265m debt settlement. This is also reflected in the impact on housing rent levels below.

9.5 The affordability of changes in capital spending plans is further measured by the incremental impact on Council Tax and Housing Rents. This is shown in Table 10 below.

Table 10 - Impact of capital spending plans on Council Tax and rents

£	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Council Tax - band D	0.00	0.02	0.04	0.01	0.01

£	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Weekly housing rent levels	0.00	0.01	0.52	0.00	0.00

9.6 The full set of Prudential Indicators is included in the Council's annual Treasury Management Strategy statement.

10. Treasury Management Strategy

10.1 The Treasury Management strategy is presented as a separate report on this agenda. The Treasury Management Strategy 2012/13 covers the Treasury Management Annual Investment Strategy Statement, Treasury and Prudential Indicators, the Annual Investment, levels of external debt and borrowing limits, in compliance of section 15 (1)(a) of the Local Government Act 2003.

10.2 The Treasury Management Strategy sets out the Authorised Borrowing Limit of £528m for 2012/13, which will be the statutory limit determined by the Council, pursuant to section 3(1) of the Local Government Act 2003.

10.3 The CIPFA Code of Practice for Treasury Management in the Public Services places specific responsibilities on the Chief Finance Officer to ensure that revised prudential limits are reported to the decision making body and to ensure that appropriate monitoring and reporting arrangements are put in place to assess performance against all forward-looking indicators.

10.4 The Chief Finance Officer's view is that the 2012 to 2015 capital programme is prudent, sustainable and affordable

11. Finance Implications

11.1 This is a financial report which details the financial implications throughout the whole report.

11.2 The CFO has advised that an increase in Council Tax is required to protect the Council's financial base. However a political decision was made to keep the increase at zero.

11.3 The impact of not increasing Council Tax for a fourth consecutive year means that the Council's financial base has not increased in line with inflationary and demographic pressures. For each year the Council Tax is not increased, there is a year on year loss of income of approximately £500k per annum for each 1% that Council Tax is not increased by.

12. Legal Implications

12.1 A local authority is required under the Local Government Finance Act 1992 to produce a balanced budget. The current budget setting takes place in the context of significant reductions in public funding to local authorities. Where there are reductions or changes in service provision as a result of changes in the financial position a local authority is free to vary its policy and consequent service provision but members must have due regard to public law considerations when making a decision and ensure governance arrangements are robust. Relevant legal considerations will include:

- having due regard to any existing contractual obligations concerning existing service provision
- having due regard to any legitimate expectations that persons already receiving services to be cut may have to either continue to receive a service or to be consulted directly before such service is withdrawn
- having due regard to any rights which statute may have conferred on individuals and as a result of which the authority may be bound to continue its provision.
- having due regard to the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments
- having due regard to any consultation undertaken.

13. Other Implications

13.1 **Risk Management -** This report concerns financial risks carried by the Council. The report sets out how the Council will manage and minimise these financial risks.

13.2 **Contractual Issues -** There are no contractual risks directly linked to this report however the impact of the savings approved as part of this budget report may have an impact on individual contracts.

13.3 **Staffing Issues** - The savings proposals contained in this report clearly have implications for the staff who work in the relevant services. Full consultation will take place with those affected. The Council has sought volunteers for redundancy and will also look to redeploy people at risk of redundancy. The Council has advised the Trades Unions (and the relevant Government Department) of the likelihood of redundancies and we have a programme in place (Supporting Staff Through Tough Times) to assist any staff in difficulty.

At this stage negotiations on the pay award in 2012 for local government staff are on-going. There is no requirement on local government employers to apply the public sector pay policy of this Government.

13.4 **Customer Impact** - Customer impact has been considered in the Equalities Impact Assessment appended to the savings report considered by members on 14 December 2011.

13.5 **Health Issues** - The indicative Public Health Grant shadow settlement has been announced but this is very much an indicative figure and Councils and PCTs will need to review the calculation of the figures.

The Department of Health has taken the 2010/11 out turn figures identified by PCTs in the autumn as expenditure on public health functions due to pass to local authorities in 2013; removing the expenditure in relation to termination of pregnancies, vasectomies and sterilisations and other council specific adjustments.

The 2012/13 shadow calculation for the Council is £11.019m, which is broadly £61 per head of population, compared to like-spend of £10.485m in 2010/11.

Despite the shadow announcement, councils still do not have the necessary information about what funding they will receive in 2013/14 which they need in order to plan for taking on their new public health duties. It is currently understood that final announcements of 2013/14 allocations will not now be available until December 2012.

In addition, the Government has issued draft statutory guidance that sets out the strategic duties that underpin the requirement of Joint Strategic Needs Assessments (JSNAs) and joint Health & Wellbeing strategies by the NHS and councils through health and wellbeing boards. The new mandated Health and Wellbeing Strategy will be developed by June 2012 incorporating a number of key principles:

- Be strategic and take account of the current and future health and social care needs of the entire population from pre-conception to end of life and take account of the needs of that population including people in the most vulnerable circumstances such as carers, disabled people and the homeless.

- Act as the vehicle for joint commissioning/integration, considering the total resource available to commissioners to improve their population's health and wellbeing, and to come to a joint understanding as to how those resources can best be invested. This can be identified by Health and wellbeing Boards working with partners and understanding the added value of pooling resources (including people) in order to achieve greater impact and value for money.

- Focus on improving outcomes at a local level – health and wellbeing Boards will use JSNAs and joint health and wellbeing strategies to set and measure outcomes for the local community; but will also align these local priorities with the National Outcomes Frameworks for the NHS, public health and adult social care.

Background Papers Used in the Preparation of the Report:

- Oracle reports
- December 2011 Cabinet report
- February 2011 Assembly report
- Government funding letters

List of Appendices:

- Appendix A - Medium Term Financial Strategy Summary 2011/12 to 2014/15
- Appendix B - The revised budget for 2011/12
- Appendix C - The proposed 2012/13 revenue budget
- Appendix D - The Statutory Budget Determination for 2012/13
- Appendix E - Adjusted Medium Term Financial Strategy Summary 20111/12 to 2014/15
- Appendix F - Calculation of the Council Tax requirement
- Appendix G - The Council's 5 year Capital Programme (Appendix G);
  Appendix Gi Approved capital programme
  Appendix Gii(A) Funding of current capital programme (2011/12)
  Appendix Gii(B) Funding of the 2012/13 capital programme
  Appendix Giii(A) Proposed list of prioritised and/or fully funded bids
  Appendix Giii(B) Proposed bids – all other bids