

ASSEMBLY

25 February 2013

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| Title: Budget Framework 2013/14 | |
| Report of the Cabinet Member for Finance | |
| Open Report | For Decision |
| Wards Affected: All | Key Decision: Yes |
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| Accountable Divisional Director: Jonathan Bunt, Divisional Director – Finance | |
| Accountable Director: Graham Farrant, Chief Executive | |
| Summary: This report sets out the: <ul style="list-style-type: none">• Medium Term Financial Strategy (MTFS) for 2013/14 to 2014/15;• Proposed General Fund budget for 2013/14;• Proposed level of Council Tax for 2013/14;• Financial outlook for 2014/15 onwards;• Four year draft capital investment programme. <p>The General Fund net budget for 2012/13 is £177.4m and the proposed net budget for 2013/14 is £178.1m. The budget for 2013/14 incorporates changes in government grants, decisions previously approved by Members in the Medium Term Financial Strategy, savings approved by Cabinet Members on 19 December 2012 and other financial adjustments.</p> <p>Council Tax for 2013/14 is proposed to remain at the current level (£1,016.40 for a Band D property). This would be the fifth consecutive year that Council Tax will have been frozen.</p> <p>The proposed draft capital programme is £315m for 2013/14 to 2015/16, including £203m for proposed HRA schemes. Details of the schemes included in the draft capital programme are at Appendix E.</p> <p>The Greater London Authority is reducing their precept by 1.2% for a Band D property, reducing the charge from £306.72 in 2012/13 to £303.00 in 2013/14.</p> | |

Recommendation(s)

Assembly is recommended to agree:

- (i) A base revenue budget for 2013/14 of £178.1m as detailed in **Appendix A**;
- (ii) The adjusted Medium Term Financial Strategy (MTFS) position for 2013/14 to 2014/15 allowing for other known pressures and risks at this time as detailed in **Appendix B**;
- (iii) Note the Chief Finance Officer's recommendation to increase the minimum level of balances to £15m and reduce the base budget contingency held.
- (iv) The Statutory Budget Determination for 2013/14 at **Appendix C**, which reflects a freeze on the amount of Council Tax levied by the Council, plus the final Council Tax announced by the Greater London Assembly on 25 February 2013 (1.2% reduction), as detailed in **Appendix D**;
- (v) The Council's draft four year capital programme as detailed in **Appendix E**.

Reason(s)

The setting of a robust and balanced budget for 2013/14 will enable the Council to provide and deliver required services within its overall business and financial planning framework, and to meet its policy priority of 'A Well Run Organisation.'

1.0 Introduction and Background

- 1.1 The purpose of this report is to seek agreement to the revenue budget for 2013/14 of £178.1m (£177.4m in 2012/13).
- 1.2 The report also sets out the Medium Term Financial Strategy (MTFS) for 2013/14 to 2014/15 and the Council Tax level for 2013/14.
- 1.3 As part of the budget setting process consideration has been given to the priorities set out in the Council's Corporate Plan and how best these can be achieved with the recourses available. The Council's latest Corporate Plan will be presented for approval in March.

2.0 Medium Term Financial Strategy (MTFS)

- 2.1 The Budget Strategy 2013/14 report presented to Cabinet on 19 December 2012 showed the MTFS was forecasting a surplus of £719k for 2013/14.
- 2.2 Table 1 below shows how the MTFS changed from its position reported to Assembly in February 2012 to the position reported to Cabinet in December 2012.

Table 1 – MTFs Changes from February 2012 to December 2012

| Medium Term Financial Strategy Pressures and Adjustments | 2013/14 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| MTFS Pressures – February 2012 Assembly | 19,330 | 16,050 |
| MTFS Savings – February 2012 Assembly | (10,950) | (739) |
| MTFS Budget Gap – February Assembly 2012 | 8,380 | 15,311 |
| Service pressures and adjustments since February | (2,566) | (2,300) |
| Additional savings before Select Committees | (7,085) | (7,140) |
| Net Budget Gap / (surplus) – November 2012 | (1,271) | 5,871 |
| Savings withdrawn/deferred/amended | 552 | 80 |
| Net Budget Gap / (Surplus) – December 2012 | (719) | 5,951 |

- 2.3 Since December's Cabinet meeting the Department for Communities and Local Government (CLG) announced the final 2013/14 finance settlement for local authorities on the 4 February 2013. Prior to this announcement the MTFs had made assumptions regarding the funding the Council would receive based on indicative indications from CLG and advice from other external bodies. The impact of the finance settlement on the MTFs is shown in the table below.

Table 2 – Changes to the MTFs following the 2013/14 finance settlement

| Medium Term Financial Strategy Pressures and Adjustments | 2013/14 £'000 | 2014/15 £'000 |
|--|------------------|------------------|
| Net Budget Gap / (Surplus) – December 2012 | (719) | 5,951 |
| Changes in Funding (Paragraph 2.6) | (6,975) | 3,183 |
| Reduction in Corporate Contingency (paragraph 2.7) | - | (2,000) |
| Pressures in Children's Services (paragraph 2.8) | 1,700 | - |
| Transfer of Council Tax and NNDR surplus to reserves (paragraph 2.9) | 860 | (450) |
| Reduced Expenditure Due to Ceasing of the Housing Fraud Grant (Paragraph 2.10) | (100) | - |
| In Year Net Budget Gap / (Surplus) | (5,234) | 6,684 |
| Roll-forward of Previous Year's Surplus | - | (5,234) |
| Total Net Budget Gap / (Surplus) | (5,234) | 1,450 |

- 2.4 The 2013/14 finance settlement provided the Council with higher than expected funding in 2013/14, resulting in a forecast £5.2m surplus. However, the funding for 2014/15 was worse than expected and including the 2013/14 surplus a budget gap of £1.5m exists.
- 2.5 Based on the 2012/13 underspend reported to Cabinet, the Council will create a cash fund to balance the budget over the two years 2013/14 – 2014/15. Although the 2014/15 budget gap is £1.5m a cash fund of up to £2.0m could be created from the underspend.
- 2.6 The difference between the funding assumptions made in the MTFs before and after the announcement of the settlement is shown in the table below.

Table 3 –Changes in funding built into the MTFS before and after the announcement of the finance settlement, and the resulting difference

| Funding Source | 2013/14 | | | 2014/15 | | |
|--------------------------|------------------|-----------------|----------------|------------------|-----------------|----------------|
| | Before £000's | After £000's | Diff £000's | Before £000's | After £000's | Diff £000's |
| Formula & Specific Grant | 6,685 | 6,657 | (28) | 8,000 | 11,807 | 3,807 |
| Council Tax Freeze Grant | (400) | (545) | (145) | - | - | - |
| Weekly Collection Grant | (281) | (417) | (136) | - | - | - |
| New Homes Bonus Grant | (500) | (1,423) | (923) | (500) | (1,328) | (828) |
| Council Tax Surplus | - | (450) | (450) | - | 450 | 450 |
| Council Tax Precept | - | (183) | (183) | - | (246) | (246) |
| NNDR Surplus | - | (410) | (410) | - | - | - |
| Education Services Grant | - | (4,700) | (4,700) | - | - | - |
| Change in Funding | | | (6,975) | | | 3,183 |

- 2.7 By applying £1.0m of unused contingency from 2012/13 and reducing the 2014/15 contingency originally in the MTFS by £1.0m, an overall reduction in contingency of £2.0m can be achieved.
- 2.8 To meet the demands of an increasing young population in the Borough additional funding has been allocated to Children's Services [£1.7m].
- 2.9 The future Council Tax and National Non-Domestic Rates (NNDR) income due to the authority in the proposed budget is based on estimated collection rates. Due to the uncertainties around the localisation of Council Tax benefit and NNDR, and to mitigate the risk of actual income becoming lower than estimated, a reserve is being created from the assumed Council Tax and NNDR surpluses [£860k].
- 2.10 In addition to the wider funding changes released on 4th February, the government announced that the housing fraud grant would cease from 2013/14. As a result the expenditure funded by the grant has been removed and the reduction in income is included as a funding change [(£100k)].
- 2.11 Following the 2013/14 finance settlement the Council's net budget requirement is £178.1m. The table below shows how this is funded and details the changes in funding from 2012/13 to 2014/15.

Table 4 - Sources of funding 2012/13 to 2014/15

| Funding Source | 2012/13 £000's | 2013/14 £000's | 2014/15 £000's |
|----------------------------------|-------------------|-------------------|-------------------|
| Formula & Specific Grant | 119,268 | 112,612 | 100,805 |
| Council Tax Freeze Grants | 2,655 | 1,885 | 1,885 |
| Weekly Collection Grant (Refuse) | - | 417 | 417 |
| New Homes Bonus Grant | 1,469 | 2,892 | 4,220 |
| Education Services Grant | - | 4,700 | 4,700 |
| Government Funding | 123,392 | 122,506 | 112,027 |
| Council Tax Surplus | 399 | 450 | - |
| Council Tax Precept | 53,588 | 40,610 | 40,856 |
| Council Tax Support Grant | - | 14,136 | 14,136 |

| | | | |
|----------------------|----------------|----------------|----------------|
| NNDR Surplus | - | 410 | 410 |
| Local Funding | 53,987 | 55,606 | 55,402 |
| | | | |
| Total Funding | 177,379 | 178,112 | 167,429 |

- 2.12 Table 4 shows that government funding will reduce by 0.7% (£0.9m) in 2013/14 then by a further 8.6% (£10.5m) in 2014/15. In addition the Council Tax Support (CTS) grant has been excluded from the government's calculations of local authority funding. This change creates another £1.8m pressure to the Council each year, and this is being managed through the CTS scheme approved by Assembly on 14 January 2013.
- 2.13 The government will announce the final Education Services Grant allocations in March 2013, which could change the funding position. On the basis of the information released to the Council by the Department for Education, the grant and associated expenditure has been incorporated into the budget for 2013/14 and 2014/15. Once the final terms and conditions of the grant are announced, the application of the funds and their implications on the Council's budget may have to be reviewed.
- 2.14 An important consideration in the MTFs is the level of balances and contingency to be held. This is determined by the financial risks the Council faces. Previously this has been set at £10m balances and £2m contingency. The level of financial risk faced by the Council has increased significantly in the last 12 months from a number of sources:
- The new funding system for local government transferring financial risk from central to local government, especially through CTS and NNDR;
 - Welfare reforms leading to direct pressures on key Housing budget, and potentially also to Children's and Adults budgets;
 - Continued poor economic performance impacting on the Council's income streams; and
 - Demographic changes, especially in the demand for school places.
- 2.15 In view of this increased risk, the minimum level of balances is recommended to increase to £15m. In return for maintaining a higher minimum level of balances, the Council can operate on a lower contingency within the base budget therefore releasing recurring savings.

3.0 General Fund Revenue Budget 2013/14

- 3.1 The proposed budget for 2013/14 has been set starting with the original 2012/13 budget approved by Assembly in February 2012. This was then adjusted for items detailed in the approved MTFs and other adjustments made in accordance with financial regulations during 2012/13.
- 3.2 The Chief Finance Officer 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 taken to keep Council Tax frozen for a further year.

- 3.3 Proposed Directorate budgets are provided in Appendix A and the Statutory Budget Determination for 2012/13 is set out in Appendix C of this report.
- 3.4 In order to address the funding reductions as well as other service pressures outlined in the MTFS, Cabinet in December 2012 approved savings of £16.6m in respect of 2013/14. An analysis of savings by Directorate has been provided in Appendix B of the Budget Strategy Report (December 2012). An equalities impact assessment of savings options has also been completed based on separate assessments for each saving and can be found at Appendix D of the same report.
- 3.5 The proposed net budget requirement for 2013/14 is £178.1m and the details of how this is funded are set out in Table 4 of this report.
- 3.6 Details of the levies (Environment Agency, East London Waste Authority, Lee Valley Park, London Pension Fund Authority) the Council is required to pay in 2013/14 have yet to be confirmed. The budget includes an increased provision for the cost of levies of £700k from 2012/13 which, based on current information provided by the levying authorities, is expected to be sufficient. As highlighted in section 2, allocations of the Education Services Grant paid by the Department for Education are to be confirmed in March 2013.

4.0 Council Tax Requirement

- 4.1 The Council proposes to freeze its Council Tax for 2013/14 (£1,016.40 for a Band D property). This will be the fifth consecutive year the Council has set a budget without increasing Council Tax.
- 4.2 The Mayor of London has set a 1.2% reduction in the Greater London Authority precept for 2013/14. The precept will be reduced from the 2012/13 amount of £306.72 to £303.00 (Band D property). This reduction was presented to the London Assembly on 25 February 2013.
- 4.3 Councils who opt to freeze their Council Tax will receive a grant from the government in 2013/14 and 2014/15. Barking and Dagenham will receive additional funding of £545k and this has been factored into the MTFS.
- 4.4 The calculation of the proposed Council Tax for 2013/14 is shown in Appendix D.
- 4.5 Under the Local Government Finance Act 1992 Council Tax must be set before 11 March of the preceding year.

5.0 Financial Outlook

- 5.1 The Chancellor's Autumn Statement made on 5 December 2012 showed the economy was not recovering as quickly as forecast. The gross domestic product (GDP), a key indicator of growth, is now expected to be lower in every year of the forecast. Consequently the government now expects to start reducing debt a year later in 2016/17.
- 5.2 The Autumn Statement also confirmed that total government spending in 2015/16 and 2016/17 will continue to change at the same rate as the Spending Review 2010 (SR10) period. Detailed spending plans, including the breakdown between

departments, will be set out in the first half of 2013, although it was confirmed that the protection of the health, schools and overseas aid budgets will continue.

- 5.3 In addition to these changes there will be a one off impact to 2015/16 of £1.9m when the Council Tax Freeze grants end.
- 5.4 In light of this information and modelling undertaken by the Local Government Association, the Council has built further funding reductions into the MTFs from 2015/16. The forecast reductions are shown in the table below.

Table 5 – Forecast reductions in government funding over the next 5 years

| | 2015/16 £000's | 2016/17 £000's | 2017/18 £000's | 2018/19 £000's | 2019/20 £000's |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Reduction in Funding | 7,775 | 4,652 | 4,008 | 3,840 | 3,682 |

- 5.5 As details of the next spending review are yet to be announced there is uncertainty about the level of funding reductions that will occur from 2015/16. The table below models different reduction scenarios to provide an indication of the possible outcomes.

Table 6 – Indicative cuts to central funding from 2015/16 to 2019/20

| % of Reduction | 4% Annually £000's | 5% Annually £000's | 6% Annually £000's | 7% Annually £000's | 8% Annually £000's |
|----------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 2015/16 | 4,030 | 5,037 | 6,045 | 7,052 | 8,059 |
| 2016/17 | 3,868 | 4,785 | 5,682 | 6,558 | 7,415 |
| 2017/18 | 3,714 | 4,546 | 5,341 | 6,099 | 6,821 |
| 2018/19 | 3,565 | 4,319 | 5,020 | 5,672 | 6,276 |
| 2019/20 | 3,423 | 4,103 | 4,719 | 5,275 | 5,774 |
| Total | 18,600 | 22,790 | 26,807 | 30,656 | 34,345 |

6.0 Draft Capital Programme

- 6.1 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.
- 6.2 The level of existing internal resources has been reviewed during the year and existing and expected General Fund capital receipts have been allocated to reduce the borrowing requirement of the approved programme, rather than being made available to fund new schemes. The reason for this is to reduce the impact of debt charges on the Council's revenue budget. Officers continue to review the level of existing planned borrowing and identify further reductions that can be made.
- 6.3 New schemes that have identified external funding (e.g. government grants) are added to the capital programme during the year and are appraised internally as and when the development arises (see paragraph 6.7). Further borrowing will only be possible for new schemes where the expenditure is essential for statutory and/or health and safety reasons to enhance assets that are in need of urgent

maintenance or where the completed project generates an income stream that will enable the financing of the incurred debt. Directorates are required to find savings in their existing approved programmes to fund new schemes, where possible, in order to limit the level of borrowing.

6.4 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 £29.8m of Basic Needs funding in 2012/13 in respect of school places. This forms part of an overall allocation from government of £89.8m since 2011/12 and will be invested over the next four years. An announcement on new Basic Needs funding from the government is expected in February and indications are that a further £35m will be allocated to the Council, but this is not yet confirmed.

6.5 Current capital programme

The current capital programme for the Council is £110.9m for 2012/13, and a further £315.021m for 2013/16. This is summarised in the table below.

Table 7 – Draft capital programme 2012/13 to 2015/16

| Capital Expenditure | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|--|----------------|----------------|----------------|----------------|---------------|
| £000's | Actual | Estimate | Estimate | Estimate | Estimate |
| General Fund | 97,178 | 67,587 | 74,579 | 32,017 | 5,475 |
| HRA * | 30,968 | 43,350 | 83,240 | 74,090 | 45,620 |
| HRA settlement | 265,912 | - | - | - | - |
| Approved Capital Prog | 394,058 | 110,937 | 157,819 | 106,107 | 51,095 |
| Financed by: | | | | | |
| Capital Receipts | - | 6,037 | 12,429 | 5,700 | 1,920 |
| Capital Grants and Contributions | 79,728 | 54,161 | 96,990 | 33,557 | 7,225 |
| Revenue contributions | 1,440 | 607 | - | - | - |
| Capital Reserves | - | 1,195 | - | - | - |
| HRA Resources | 7,638 | 33,850 | 42,260 | 45,250 | 41,950 |
| Net financing need for the year | 305,252 | 15,087 | 6,140 | 21,600 | - |

*HRA programme is based on the HRA business plan as at Jan 2013

6.6 The capital programme is supported by the Capital Delivery Team (Assets and Commercial Services) and is monitored by the Finance Capital Team. The current programme is funded by £54.1m grants and contributions, £33.9m in HRA resources, £7.8m General Fund sources (i.e. capital receipts, revenue contributions and reserves) with the remaining £15.1m funding requirement to be met from borrowing. It is currently anticipated that the capital programme will underspend in the region of £11m this year due to slippage. Requests for carry forwards of funding will be submitted to June Cabinet for approval.

6.7 The full list of approved schemes is included at Appendix E. Future capital scheme proposals will be considered as and when new funding streams are identified, or where there are major Council developments which will require capital investment to meet strategic objectives. Essential remedial works for health and safety/statutory

reasons will be met, however it is planned that further borrowing will be kept to an absolute minimum.

6.8 A draft capital programme is presented for approval as amendments will be required before 2013/14 when further information becomes available. The amendments will be carried out in accordance with financial regulations.

6.9 **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.

6.10 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.

7.0 **Consultation**

Implications provided by Paul Bates: Group Manager Marketing and Communication: 020 8227 3362; paul.bates@lbbd.gov.uk

7.1 The details of the consultation are included in Appendix F – 2013/14 Budget Consultation – Summary of Submissions and Responses

8.0 **Financial Implication**

8.1 Financial Implications have been covered throughout the report.

9.0 **Legal Implications**

Implications completed by Paul Feild, Corporate Governance Lawyer

9.1 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 and widely known 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 the local authority is free to vary its policy and consequent service provision but at the same time must have regard to public law considerations in making any decision lawfully as any decision eventually taken is also subject to judicial review. Members would also wish in any event to ensure adherence as part of good governance. Specific legal advice may be required on the detailed implementation of agreed savings options. Relevant legal considerations are identified below:

9.2 Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, so if savings proposals t

will affect staff then it will require consultation with Unions and staff. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet.

9.3 If at any point resort to constricting expenditure is required, it is important that due regard is given to statutory duties and responsibilities. In particular the Council must have regard to:

- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must be fulfilled or varied with agreement of current providers;
- any legitimate expectations that persons already receiving a service (due to be cut) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
- any rights which statute may have conferred on individuals and as a result of which the council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs statement of special educational needs in the education context);
- 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.

9.4 In relation to the impact on different groups, it should be noted that the Equality Act 2010 provides that a public authority must in the exercise of its functions have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant 'protected characteristic'. This means an assessment needs to be carried out of the impact and a decision taken in the light of such information.

10.0 Other Implications

10.1 **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.

10.2 **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.

10.3 **Staffing Implications** – Discussions with the Trade Unions on the specific impact of the savings proposals for 2013/14 began in mid-October, although budgets are discussed at each formal meeting with them. For each individual savings proposal, where there is an impact on staff, consultation has taken place with the staff affected. Appropriate HR policies and procedures around implementing change will be followed. The Council remains committed to minimising compulsory redundancies where possible. We have issued HR1 and S188 letters to advise of the potential of a significant number of redundancies.

10.4 Where there are reductions in posts, this frequently means that smaller numbers of staff are required to carry out the same volume of work. The process of

implementation of the savings will need to be handled with care to mitigate risks in relation to this.

- 10.5 **Customer Impact** – The freezing of Council Tax at 2010/11 levels is designed to minimise the financial impact on residents. The saving options have been subject to an assessment of equalities and diversity implications and consideration given to the extent of adverse impact on customers. Extensive consultation has also taken place. Front line services have been protected as far as possible, but some cuts to front line services have been unavoidable.
- 10.6 **Crime and Disorder Issues** – The Crime and Disorder Act places a duty on the Council as a responsible authority to have regard to the reduction and prevention of crime and disorder in its decision making process and policy development and delivery. As such in terms of financial constraints it is important to have regard to the impact of budget reductions in terms of crime and disorder.
- 10.7 **Property / Asset Issues** – Some of the savings proposals have indirect property/ asset implications with regards building closures resulting from service reviews, which will reduce the Council's property estate. The implications of these will be dealt with on a property-by-property basis in line with the Council's disposal rules. Additionally the continued reduction in posts across various areas of the Council may result in increased health and safety management risks within the borough.

Background Papers Used in the Preparation of the Report:

Assembly Budget Framework 2012/13 report – February 2012

Cabinet Budget Strategy 2013/14 report – December 2012

List of appendices:

Appendix A – Revenue Budget 2013/14

Appendix B – MTFs 2013/14 to 2014/15

Appendix C – The Statutory Budget Determination

Appendix D – Calculation of the Council Tax Requirement

Appendix E – The Council's Draft 4 year Capital Programme

Appendix F – 2013/14 Budget Consultation – Summary of Submissions and Responses