

BABERGH DISTRICT COUNCIL

FROM: Director of Finance

REPORT NUMBER **L146**

TO: STRATEGY COMMITTEE

DATE OF MEETING 9 February 2012

BUDGET 2012/13

1. **Purpose of Report**

- 1.1 To set out the final details relating to setting the 2012/13 Budget following approval of the package of Budget proposals (Papers L123 and L123) by the Council on the 26 January 2012.

2. **Recommendations to Council**

- 2.1 That the General Fund Budget for 2012/13 and the capital programme, as set out in the report and the appendices, be approved. It being noted that this is based on:
- (a) the package of Budget proposals approved by the Council on the 26 January 2012, and
 - (b) the additional matters referred to in the report.
- 2.2 That the risk assessment and statement on the adequacy of reserves, as required by Section 25 of the Local Government Act 2003, and attached at Appendix C is approved.
- 2.3 That it be noted that the Prudential Indicators for capital finance, borrowing and treasury management (set out in Appendix D of Paper L132R) form part of the Budget approval, including the authorised limit for external debt. Further, that the Minimum Revenue Provision (MRP) Statement set out in Appendix D to this report and which contains the Council's policy in relation to this, be approved.
- 2.4 That, where expenditure is included within the approved Budget, the Section 151 officer be authorised to:-
- Vary the timing of revenue and capital payments between financial years in accordance with Financial Regulations and Council resolutions.
 - Vary the method of financing capital schemes, if he is satisfied that it is in the financial interest of the Council to do so.

These recommendations will be reflected and incorporated in the final Budget and Council Tax setting paper that is submitted to Council on the 23 February 2012 for approval.

3. **Financial Implications**

- 3.1 The Council's Policy & Budget Framework for 2012/13 has been arrived at following very careful consideration by officers and Members of the Council's medium-term financial position and achieving the right balance between savings, service provision and council Tax levels.

4. **Risk Management**

- 4.1 Paper L119, which was considered by the Joint Overview and Scrutiny Committees on the 13 December 2011 sets out the key risks.
- 4.2 A more detailed risk assessment on the robustness of the Budget and the adequacy of reserves, as required by Section 25 of the Local Government Act 2003, is attached at Appendix C for Members consideration and approval.

5. **Consultations**

- 5.1 Covered in Papers L119 and L123.

6. **Equality Analysis**

- 6.1 An equality analysis has been undertaken on key aspects of the Budget proposals and will be incorporated in the final Policy and Budget Framework.

7. **Shared Service / Partnership Implications**

- 7.1 Covered in Papers L119 and L123.

8. **Key information**

- 8.1 Full Council approved a package of General Fund Budget proposals for 2012/13 on the 26 January 2012 (Papers L123 and L123R). The anticipated Budget resulting from these decisions is summarised in Appendix A.
- 8.2 The final level of Government grant for next year has been confirmed. Over the 2 years 2011/12 and 2012/13, Babergh has suffered over a 25% grant cut.
- 8.3 The final detailed Policy & Budget Framework for 2012/13 that is reported to Council for approval on the 23 February 2012 will reflect the above, including changes in charges for services that have been approved by Members and inflation-based increase in some other charges.

Budget Scrutiny

- 8.4 The proposals have been fully scrutinised by both Overview and Scrutiny Committees.

Integration and Merger with Mid Suffolk

- 8.5 The Budget includes appropriate provision for the savings and initial transitional costs relating to the integration and merger programme, as provided for in the updated Business Case and updated for latest information.

- 8.6 Actual net expenditure will depend on a number of factors, including the extent to which costs are capitalised in accordance with the £1.5m (joint) capitalisation direction received for 2011/12. An application for capitalisation will also be made for 2012/13.
- 8.7 Initial transitional costs will be more than met in future by ongoing annual staff and other savings from the integration and merger proposals. The majority of these will be funded by either earmarked reserves that the Council has set aside or through the capitalisation arrangements referred to above.

Council Tax

- 8.8 There will be no increase in Suffolk County Council's Council Tax. It is understood that the Police Authority is considering a potential increase of 3.75%. Indications are for an average increase by Town and Parish Councils of around 4.6%.
- 8.9 Based on these assumptions, the overall Council Tax position for next year for a Band D property could be as follows. Babergh's Council Tax will still be the second lowest in Suffolk:

	2011/12	2012/13	Change
Suffolk County Council	1,126.53	1,126.53	-
Suffolk police Authority	160.74	166.77	+3.75%
Babergh District Council	139.01	143.87	+3.5%
Town/Parish Councils (average)	63.71	66.61	+4.6%
Total	1,489.99	1,503.78	+0.9%

Reserves

- 8.10 In terms of general reserves, it is estimated that these will be at or slightly above the minimum level of £1.2m by the end of next year. The precise amount will depend on actual expenditure and savings that are achieved, specifically in relation to the integration programme. The position is also dependent on any additional unbudgeted costs e.g. outstanding legal cases.
- 8.11 Any amount above the minimum level would be available to support future Budgets or meet unbudgeted costs. In addition, the minimum level could be reduced further to £1m, in line with Mid Suffolk, over the next 3-4 years depending on the Council's financial position and risks/ cost pressures. Further consideration will be given to this in future years' SFP processes.
- 8.12 Earmarked Reserves are largely made up of the BMI reserve (currently standing at just over £0.7m). It is proposed that a further transfer is made to this earmarked reserve at the end of the current financial year to provide additional capacity for the integration and transformation programme - depending on the financial outturn for the year. In addition, the Budget for 2012/13 includes a £0.1m transfer to Earmarked Reserves for the potential costs of the Government's future welfare reforms.

- 8.13 Although an estimated £134k of the New Homes Bonus is being used to support the 2012/13 Budget, this still leaves around £0.8m to be allocated towards projects that stimulate economic growth and jobs.

Medium Term Financial Strategy

- 8.14 It is essential that Members are aware of and understand what the Council's future medium term financial picture look like. The current position was reported in Paper L119.
- 8.15 Officers from both Mid Suffolk and Babergh will be reviewing and updating the Medium Term Financial Strategy (MTFS) that will set out the future savings targets facing both Councils over the three year period 2013/14 to 2015/16 and the approach and plans that will be needed to tackle these.
- 8.16 This will reflect changes in the economic situation and assumptions in terms of inflation, interest rates and other factors that will affect future Budgets.

Capital Programme

- 8.16 The proposed 3-year General Fund Capital Programme and how this could be financed is summarised in Appendix B. The projects and schemes included have been thoroughly reviewed to ensure only essential/high priority schemes are included. Non-committed schemes in 2012/13 are subject to Strategy Committee approval as necessary.
- 8.17 Prudential Indicators relating to these and the associated borrowing limits relating to capital finance matters, which all Councils are required to approve, are covered separately on today's agenda).
- 8.18 Linked to these, the Minimum Revenue Provision (MRP) Statement for 2012/13, which determines how much has to be set aside each year to repay borrowing to fund the capital programme, is detailed in Appendix D. This is unchanged from last year.

9. APPENDICES

- A – Revenue Budget Summary
- B – General Fund Capital Programme Summary
- C – Robustness of Budget and adequacy of reserves (draft)
- D – MRP Statement 2012/13

10. BACKGROUND PAPERS

None.

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GENERAL FUND REVENUE BUDGET SUMMARY

Line	2011/12 Original £	2012/13 Budget £
1 CORPORATE ORGANISATION	2,008,450	1,774,920
2 CORPORATE RESOURCES	2,809,770	2,724,380
3 COMMUNITIES	1,299,530	1,300,300
4 HOUSING	398,550	422,600
5 ECONOMY	1,265,980	1,178,000
6 ENVIRONMENT	2,844,650	3,205,020
7 MSDC Integration (met from reserves)	130,000	460,000
8 Unallocated Savings	0	(34,000)
9 Net Service Cost	10,756,930	11,031,220
10 Reduced Staffing Costs / Vacancy Mgt.	(125,000)	(125,000)
11 Additional Savings & Income	(75,000)	(75,000)
12 Contingency - lower income/savings	91,000	0
13 Total Net Service Costs	10,647,930	10,831,220
14 Capital charges / Asset Management & Investment Income	(888,230)	(1,167,530)
15 New Homes Bonus / Transition Grant	(356,560)	(629,000)
16 Transfers to / (from) Earmarked Reserves	272,560	155,000
17 Net Revenue Expenditure	9,675,700	9,189,690
18 Use of Reserves - General	(80,000)	(160,000)
19 MSDC Integration / Merger	(130,000)	
20 Budget Requirement	9,465,700	9,029,690
21 Deficit / (Surplus) on Collection fund	(19,630)	6,230
22 Government Support	(4,691,890)	(4,089,760)
23 Add'l Gov't Support for CTax freeze (2011/12)	(115,000)	(115,980)
24 Council Tax	4,639,180	4,830,180
25 Council Tax Base	33,373	33,573
26 Council Tax for Band D Property	139.01	143.87

Appendix B**Capital Programme Summary**

Service/Project	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	Total £000
<u>Private Sector Housing</u>					
Affordable Housing Grants	263	297	50	50	660
Mandatory Disabled Grants	233	270	335	335	1,173
Discretionary Grants	56	90	100	100	346
<u>Community Development Grants</u>	337	129	129	129	724
<u>Asset Management</u>					
Hadleigh Community Facilities	998	1,200			2,198
Kingfisher extension	707				707
Carbon Reduction Schemes	118	100	100	100	418
Waste Transfer Station	4	15	600		619
Refuse Fleet replacements		360	135	135	630
Green Waste Vehicle	135				135
Play Equipment	28	25	25	25	103
Planned Maint/Enhancements:					
- Kingfisher	49	111	112	114	386
- Hadleigh Pool	25	25	25	25	100
- Car Parks	70	80	40	40	230
- HQ	35	35	35	35	140
- Other corporate buildings / assets	47	40	40	40	167
Street Parking Improvements (HRA)		8	8	8	24
Pin Mill Regeneration	11				11
<u>ICT</u>					
Infrastructure	118	80	50	50	298
Applications	20	40			60
Broadband		50			50
Shared Services/Integration	13	55			68
Transformation	64	45			109
<u>Natural & Built Environment</u>					
Air Quality Management	12	5			17
Redevelopment of Sudbury Bus Station	64				64
<u>Mid Suffolk Integration</u>					
Redundancies – Pension costs	750				750
ICT integration	12	60	444	252	768
Total Capital Programme	4,169	3,120	2,228	1,438	10,955

Potential Financing:					
Capital Receipts	548	1,350	500	100	2,498
Earmarked Reserves	214				214
Grants/External Funding	829	419	247	222	1,717
Borrowing	2,578	1,351	1,481	1,116	6,526
	4,169	3,120	2,228	1,438	10,955

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ROBUSTNESS OF BUDGET AND ADEQUACY OF RESERVES (DRAFT)

1. Section 25 of the Local Government Act 2003 requires Councils, when setting its annual General Fund Budget and level of Council tax, to take account of a report from its Section 151 Officer on the robustness of estimates included in the Budget and the adequacy of reserves. This report fulfils that requirement for the setting of the budget and Council Tax for 2012/13.
2. This is to ensure that when deciding on its budget for a financial year, Members are made aware of any issues of risk and uncertainty, or any other concerns by the Chief Financial Officer (CFO). The Council is also expected to ensure that its Budget provides for a prudent minimum level of reserves to be maintained, which the CFO has assessed should remain at £1.2m (the same figure as 2011/12).
3. Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its CFO and is heading for financial difficulty. The Section 151 officer and Members, therefore, have a responsibility to ensure in considering the Budget that:
 - It is realistic and achievable and that appropriate arrangements have been adopted in formulating it
 - It is based on clearly understood and sound assumptions and links to the delivery of the Council's Strategic Plan and priorities
 - It includes an appropriate statement on the use of reserves and the adequacy of these.
4. In forming the advice for this report, the CFO has considered the following:
 - The requirement established in the Council's Medium Term Financial Strategy to ensure that a safe contingency level of reserves is maintained.
 - The degree to which the Council's financial plans are aligned to the Council's statutory obligations, local priorities and policy objectives.
 - The adequacy of the information systems underpinning the Council's financial management processes.
 - Risks associated with the Council's activities, as identified within the Significant Business Risks register.
 - The level of earmarked reserves and unearmarked (general) reserves within the General Fund and the degree to which uncertainties exist within the proposed 2012/13 budget.

5. In terms of the overall approach to financial planning and setting the Budget, the following aspects increase confidence in the robustness of estimates.
- A strategic and integrated approach to service and financial planning, based on the Strategic Plan and Medium-Term Plans has been adopted, providing a robust framework ensuring that the Budget reflects the council's priorities.
 - The Member Strategic Financial Planning (SFP) Task Group has carefully considered and scrutinised potential areas for savings, efficiencies and income generation opportunities.
 - Key Assumptions have been made and updated during the Budget process to reflect the changing economic position and latest information. Risks and uncertainties have been identified and carefully considered.
 - Detailed scrutiny, review and challenge of budgets undertaken by Finance Officers and Senior Management.
 - The Scrutiny Committees jointly undertook a review of the General Fund Budget options for 2012/13 at its meeting on 13 December 2011 and the Overview and Scrutiny (Community Services) Committee scrutinised draft HRA Budget proposals on the 31 January 2012.
6. No Budget can, however, ever be completely free from risk and these are increasing in the current financial climate of finding very significant savings and the changes required of Councils. Babergh's integration plans with Mid Suffolk are A key example of this. Assumptions, therefore, have to be made, which means that the Budget will always have an amount of uncertainty. The following are the main areas identified:
- **Benefits Caseload and Welfare Reforms** – Pressures could increase as a result of the economic climate. The Budget for 2012/13 has been put together on the assumption that current levels of activity will continue throughout next year and an unearmarked reserve has been established to deal with cost pressures and the Government's welfare reforms, which could result in further pressure on the Budget. (Medium Risk)
 - **Shared Revenue Partnership (SRP)** - The SRP between Ipswich Borough Council and Babergh and Mid Suffolk District Councils became operational from May 2011 in Grafton House, Ipswich. The Council's Budget for 2012/13 includes its agreed contribution to SRP under the business case. A lot of detailed work has and continues to be undertaken to ensure that the new service will be successful and the Joint Committee is now established and overseeing the new shared service, but there are still some financial risk for each of the partner councils. (Low/Medium Risk)
 - **Refuse Collection Contract.** Within the Budget for 2012/13 there are still some areas of the service that are being developed. The garden waste service is expected to expand further and whilst prudent estimates of income and expenditure have been included in the budget, these are

uncertain. It is possible that further variances (up or down) will occur in 2012/13. (Low Risk)

- **Capital Financing Costs** - These are influenced by variable factors such as cash flow, variations in the capital programme, interest rates, availability of capital receipts and other sources of capital funding and borrowing/financing costs. Complex regulations also exist, which contribute to the difficulty in producing totally reliable estimates. (Medium Risk)
- **Income** - Whilst the Budget for 2012/13 has been prepared on the basis of trying to ensure that income budgets are realistic and achievable, it is unknown as to how the economy will fare during next year. The amounts included in the Budget, along with estimates for some new/increased charges being introduced from April 2012, are therefore unproven and variances may occur. (Medium Risk)
- **Inflation and other cost pressures** – the Budget allows for a small pay increase although the Government's stated policy is for a continuation of a pay freeze. Other allowances for inflation have been made on some budgets including major contracts, where there is a contractual requirement to do so. Where appropriate, higher inflation allowances have been allowed for major contracts where multi-cost indexing mechanisms apply that reflect energy, fuel and other costs. (Low Risk)
- **Salary savings from staff vacancies management and other unidentified savings** – there is an allowance in the budget of £200k for these. These are seen as achievable as those levels of savings have been exceeded in recent years. The savings will be achieved through the ongoing rigorous challenge of the need to fill vacant posts and by identifying areas where additional efficiency savings are possible (Medium Risk)
- **Integration with Mid Suffolk District Council** - The Section 151 Officers of Babergh and Mid Suffolk have prepared estimates based on the business case approved in late 2011 and latest information on the potential costs and savings for the integration between the two councils. An assessment has been made as to the level of costs and savings that are forecast to arise in 2011/12 and 2012/13 and included within the budget. Within this there is an assumption that the two councils will capitalise some of the one-off staff severance costs resulting from the integration of senior management and services. There are a number of variables within this project, including finalising the integrated staffing structure and the resulting savings in 2012/13, which could impact on the 2012/13 Budget and the amounts to be met from revenue reserves. (Medium/High Risk).

7. Taking all of the above issues into consideration, the Section 151 Officer's opinion is that the Council's Budget and estimates for 2012/13 are not absolutely robust and he is unable to provide a full assurance that there will be no unforeseen adverse variances. This is not an unexpected situation and is acceptable for any organisation that has to deal with a large number of variables and also reflects the

context of the world economy and the changes facing Councils. Provided that the minimum safe level of reserves is maintained, any variations arising as a result of lack of robustness in the estimates should be manageable.

8. There is no available guidance on the minimum level of reserves that should be maintained. In 2003 CIPFA stated that each authority should determine a prudent level of reserves based upon their own circumstances, risk and uncertainties. Regard has been had to recent guidance that has been issued to CFO's.
9. Although General Fund Budget requirements are reducing as a result of the public sector spending reductions, cost pressures and the huge changes, including very significant savings (of £1.3m for 2012/13) increase the margin of risk. For this reason, the CFO's opinion is that the minimum level of unearmarked reserves can, for the time being, be maintained at the current level of £1.2m without increasing the risk to the Council.
10. Subject to the risks identified, the Council's unearmarked (general) reserves will remain above the minimum level of £1.2m at the end of 2012/13. However, if significant adverse variations arise, that would affect the position.
11. There is uncertainty, for example, on a major legal case related to potential uninsured claims and costs against the Council (estimated at up to £0.3m - worst case) which would not be covered in the event of the case being lost in the Supreme Court. In addition, the reserves position would need further consideration if there are any significant variation in risks before the budget is approved by Council on 23 February 2012.
12. Levels of earmarked reserves are currently just over £1m, which includes the integration and transformation reserve, this year's New Homes Bonus and a small provision for legal costs. These will be reviewed at the end of the current financial year and any changes/additions proposed as appropriate - but they are currently seen as appropriate and adequate to meet the integration programme and other potential cost commitments at this point in time.
13. Any improvement in the 2011/12 financial outturn could be used to increase the integration and transformation reserve. In the case of the New Homes Bonus, this will be mainly used for projects that contribute towards economic growth and job creation in the District.

Barry Hunter
Director of Finance

31 January 2012.

MRP Statement 2012/13

1. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision (MRP) has been issued by the Secretary of State and local authorities are required to “have regard” to such guidance under Section 21 (1A) of the Local Government Act 2003.
2. The four MRP options available are:
 - Option 1: Regulatory Method
 - Option 2: CFR (Capital Financing Requirement) Method
 - Option 3: Asset Life Method
 - Option: 4 Depreciation Method
3. MRP in 2012/13: Options 1 and 2 may be used only for grant-supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.
4. The MRP Statement will be submitted to Council before the start of the 2012/13 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.
5. The Council will apply Option 2 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.
6. MRP in respect of leases brought on Balance Sheet under the IFRS based Code of Practice will match the annual principal repayment for the associated deferred liability.