

Key Decision Required:	Yes	In the Forward Plan:	Yes
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**CABINET
14 DECEMBER 2011**

REPORT OF FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.3 REVISED FINANCIAL STRATEGY FOR 2012/13 AND BEYOND

(Report prepared by Karen Neath)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To allow Cabinet to consider the five year rolling financial forecast for 2012/13 to 2016/17 and, in light of this, to agree the financial strategy approach for 2012/13 to 2016/17.

EXECUTIVE SUMMARY

The Revised Financial Strategy sets out how the financial and budget position of the Council for 2012/13 and beyond has moved on since Cabinet considered the Initial Financial Strategy on 13 July 2011. In light of the current position, the report also sets out the approach to the financial strategy for 2012/13 to 2016/17.

In July, the financial forecast for 2012/13 was for a funding gap of **£1.576m** based on the provisional Local Government Finance Settlement figures. A number of actions have been progressed throughout the year to enable the target savings of **£4.4m** by 2014/15 to be achieved. The savings delivered so far have contributed substantially towards this figure although further savings are still required. As some of the savings have been delivered in advance of the year they are required to balance the budget there is one-off funding available in both 2011/12 and 2012/13 and consideration needs to be given as to how best to utilise this. Following consultation with the Finance and Asset Management Portfolio Holder, the 2012/13 budget is based on a council tax reduction of 0.5%. The Government has announced a further one-off council tax grant for 2012/13 which for this Council equates to an additional grant in 2012/13 only of around **£0.192m**. After taking account of the savings already achieved and other budget adjustments, the forecast for 2012/13 now shows a surplus of **£1.203m**. However it is important to note that this level of savings represent only the initial steps to close the forecasted funding gap as significant on-going budget reductions are still required over future years as set out in **Appendix B**. Further uncertainties also remain against this backdrop that have not yet been reflected in the forecasted deficits in future years such as the impact of localising the support for Council Tax where the proposed 10% reduction in government funding that is associated with this initiative would be in excess of **£1.000m**.

Nationally, the Government has issued further consultation papers on the distribution of business rates (currently included with the Formula Grant), localisation of council tax benefit, planning reforms, pension reforms and on Housing Revenue Account (HRA) self financing and housing strategy. Further analysis and guidance is awaited on these issues so that the full impact can be assessed. Royal assent to the Localism Bill was received on 15 November 2011 and the implications are being assessed.

The Council is moving towards a position where it has a balanced budget without the need to make savings. There is still work to be done to achieve that position and we need to be wary of further austerity measures and the combined impact of changes that affect the Council's core funding streams. In light of this it is proposed to retain for the foreseeable

future the Austerity Reserve of **£0.500m** alongside the general fund reserve of **£4.0m**. Other reserves have been reviewed and the details are set out in the report on the initial budget proposals elsewhere on the agenda.

RECOMMENDATION(S)

- a) That Cabinet agrees the revised proposals for the Financial Strategy and Financial Forecast for 2012/13 and beyond, as detailed in the report.
- b) That Cabinet agrees that the Council Tax for 2012/13 be reduced by 0.5%.
- c) That if the final financial position is more or less advantageous to the Council (from either revised estimates or estimates for 2012/13) then any increase or decrease is adjusted against the Contingency Budget.
- d) That Cabinet requests the Corporate Management Committee's comments on these Revised Financial Strategy Proposals.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Careful planning to ensure financial stability underpins the Council's capacity to achieve the objectives set out in the Corporate Plan and Community Strategy. Individual elements of the Financial Strategy are risk assessed against the aspirations of the Council, as well as statutory service requirements. The approach for 2012/13 builds on previous successful financial planning and is key to the Council's aim to deliver sustainable and joined up services to everyone in the District. This is particularly important in the current climate when resources are scarce and the Council will need to focus even more on identifying and funding its key priorities.

This report will have direct implications on the Council's ability to deliver on the commitments, objectives and priorities set out in both the Corporate Plan and the Community Strategy up to 2016. It will particularly impact on the speed with which the Council can deliver its priorities, rather than the priorities themselves.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are set out in the body of the report.

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets, IT etc.

Risk

There are clearly risks associated with the Strategy. The actions to achieve a fully funded budget, including limiting budgets to 2010/11 spending levels and restricting cost pressures, give rise to the potential for items that have not been funded to emerge or for increases in income etc. not to materialise in reality. This is particularly so given the current economic climate, the reductions in the availability of public sector funding, the Government's programme of change for Councils' services and the as yet unknown impact on the Council's core funding streams from changes to business rate distribution and council tax.

In view of the above it is important that the Council has a sufficient level of uncommitted reserves set aside to support the approach identified in this Strategy. An uncommitted reserve of approximately **£4m** (including the **£1.6m** minimum working balance) has been approved previously to insure against the eventuality of pressures on the budget through additional unexpected expenditure or removal of funding. The level of reserves has been revisited in light of the risks identified as part of the Financial Strategy and also in line with the Council's strategic risk register, and the figure of **£4m** (including the **£1.6m** working balance) is still deemed to be sufficient.

LEGAL

The current arrangements for setting and agreeing a budget and for the setting and collection of council tax are defined in the Local Government Finance Act 1992. The existing legislation defining the arrangements for charging, collecting and pooling of Business Rates is contained within the Local Government Finance Act 1988.

New legislation would need to be enacted in order to bring into practice the proposals set out in the Government consultations regarding business rate distribution, localising council tax benefit and Council Tax discount and exemption changes. The Localism Bill will introduce new legislation around the right of veto for residents on excessive Council Tax increases and on the arrangement for Housing Revenue Account (HRA) accounting.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

These implications have no impact on the Financial Strategy itself. However, they are taken account of in the delivery of individual services and projects.

Budget Consultation – “YOU CHOOSE”

For the second year running the Council has utilised the ‘YouChoose’ budget consultation model which is a tool made available free of charge that enables councils to gather the views of local residents on areas they consider to be spending priorities.

To date 84 responses had been received with a “snap shot” of the results so far set out below. The final outcome from the consultation will be set out in the final budget proposals report presented to Cabinet for consideration at its 25 January 2012 meeting.

• Respondents indicating reductions in budgets

Service / Function	% of Respondents who indicated a reduction	Level of Reduction - % of Respondents			
		Upto 5%	Upto 10%	Upto 20%	Over 20%
Democratic and Councillor Support	98%	7%	7%	25%	58%
Strategic Management of the Council	98%	12%	11%	23%	52%
Council Tax and Business Rates Collection	98%	17%	13%	17%	51%
Planning and Building Control	98%	10%	23%	15%	50%
Theatres and Entertainments	96%	5%	15%	21%	55%

Economic, Community Development and Parking	96%	8%	17%	18%	54%
Tourism	95%	6%	17%	18%	55%
Sports and Leisure Facilities	95%	11%	15%	18%	51%
Parks and Open Spaces	94%	8%	17%	18%	51%
Benefit Payments and Administration	87%	13%	15%	8%	50%
Street Cleansing and Enforcement	86%	15%	12%	7%	51%
CCTV, Crime Prevention and Emergency Planning	86%	24%	10%	4%	49%
Public Conveniences	85%	23%	8%	4%	50%
Refuse Collection and Recycling	85%	14%	13%	7%	50%
Private Sector Housing and Homeless Services	85%	8%	19%	7%	50%
Food Hygiene, Env Protection and Cems and Crams	85%	17%	13%	7%	48%
Coast Protection and Infrastructure Maintenance	83%	20%	8%	6%	49%
Licensing and Regulatory Services	83%	18%	10%	8%	48%
Tending Careline	80%	23%	5%	4%	49%

• **Respondents indicating increases in budgets**

Service / Function	% of Respondents who indicated an Increase	Level of Increase - % of Respondents	
		Upto 5%	Over 5%
Licensing and Regulatory Services	7%	5%	2%
Coast Protection and Infrastructure Maintenance	6%	4%	2%
Public Conveniences	6%	4%	2%
Food Hygiene, Env Protection and Cems and Crams	6%	4%	2%
CCTV, Crime Prevention and Emergency Planning	6%	4%	2%
Tending Careline	6%	4%	2%
Refuse Collection and Recycling	6%	4%	2%
Benefit Payments and Administration	6%	4%	2%
Private Sector Housing and Homeless Services	6%	4%	2%
Street Cleansing and Enforcement	5%	4%	1%
Theatres and Entertainments	4%	1%	2%
Sports and Leisure Facilities	4%	1%	2%
Parks and Open Spaces	4%	1%	2%
Tourism	4%	1%	2%
Strategic Management of the Council	2%	0%	2%
Democratic and Councillor Support	2%	0%	2%
Council Tax and Business Rates Collection	2%	0%	2%
Economic, Community Development and Parking	1%	1%	0%
Planning and Building Control	0%	0%	0%

• **Level of Council Tax** (To be able to submit their responses, people were required to

indicate a level of Council Tax increase or reduction up to a maximum of a 5% increase)

Level of Council Tax

% of Respondents who indicated no increase or reduction	61%
% of Respondents who indicated a reduction	
Reduction of 1%	6%
Reduction of 2%	4%
Reduction of 3%	1%
Reduction of 4%	1%
Reduction of 5%	1%
Reduction > 5%	5%
% of Respondents who indicated an increase	
Increase of 1%	0%
Increase of 2%	2%
Increase of 3%	5%
Increase of 4%	2%
Increase of 5%	12%
Increase > 5%	0%

• **Fees, Charges and Efficiencies**

	Number of Respondents who Selected the Item
Fees and Charges	79%

	Number of Respondents who Selected the Item
Savings / Efficiencies	
Increased Electronic Service Delivery	87%
Procurement	85%
Shared Services	80%
Asset Management	77%
Outsourcing	68%

PART 3 – SUPPORTING INFORMATION

BACKGROUND

National Picture

Following on from the 2010 Spending Review which contained the Government's deficit reduction proposals, the detailed Local Government Finance Settlement for 2011/12 together with provisional figures for 2012/13 was announced in January 2011. This provided the first detailed indication of the level of spending reduction to be borne by Local Authorities. As widely expected the settlement was the worst seen for many years and resulted in an average reduction of 15% and 13% in the two years in shire district local

authority formula grant funding.

On 17th March 2011, the Secretary of State for Communities and Local Government (CLG) issued a written statement on the Local Government Resource Review in which he set out his view that councils were too dependent on central grant allocations and his desire to move to “a radically different system of funding and support for councils that is built on strong incentives, is driven by local decision-making and breaks this dependency”.

First Phase of the Review

The first phase of the review is looking at ways to reduce the reliance of local government on central government funding, increase local accountability and ensure that the benefits of economic growth are reflected in the resources authorities have.

The review will include consideration of changes to the business rates system, and focus in particular on:

1. the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;
2. the extent to which these proposals can set local authorities free from dependency on central funding;
3. considering how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities, recognising that some parts of the country are currently more dependent on government funding;
4. reviewing the scope for greater transparency and localisation of the equalisation process;
5. the position of councils whose business rate yield would be significantly higher than their current spending;
6. how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;
7. how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;
8. how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;
9. examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers; and
10. the wider implications of rates retention for related policies, including the work of the Commission on the Funding of Care and Support and the Government's other incentive schemes (the New Homes Bonus and the commitment to allow communities to keep the business rates for renewable energy projects).

Second Phase of the Review

The second phase of the review was announced on 29th June 2011 and will focus on extending the decentralisation of financial control out to communities and local people through community budgets. It will test how community budgets can be used to :

- give communities and local people more power and control over local services and budgets;
 - develop outcomes, service solutions and a single budget, or options for pooling and aligning resources, comprising all spending on public services in an area.
- A single budget for place

This part of the review will involve two areas, comprising local authorities and their partners, working with Whitehall to co-design how a Community Budget comprising all spending on public services in an area might be implemented.

The second phase of the review will be completed by April 2013.

In line with the first phase of the review two consultation papers have now been published namely; Proposals for Business Rates Retention and Localising Support for Council Tax in England.

The consultation on business rates does not make any proposals in terms of the system of business rates. The valuation of businesses, the business rate multiplier and the various reliefs currently in place will not change. The proposals are about the arrangements for distribution of business rate income once it has been collected. At present, business rate income collected by individual councils is pooled nationally and then redistributed through the formula grant. The proposals for a local mechanism for business rate distribution would see an end to the current formula grant model. Although the proposals indicate that local authorities will, in the early years of the scheme, receive an amount broadly similar to that which would have been available under the formula grant model the longer term implications for funding are more uncertain. The proposed methodology would also allow funding to be top sliced from business rate income to fund the New Homes Bonus.

In relation to Localising Support for Council Tax, the proposals will require each authority to devise a local scheme for the payment of council tax benefit. The scheme will be required to provide an incentive for work as well as protecting the benefits of pensioners and other vulnerable people. Unlike the current scheme, which is fully funded by the government irrespective of the level of benefit granted, the new local scheme will be funded by a fixed grant which will be reduced by 10% (in excess of **£1.000m**) from the current levels

Together with a consultation on the National Planning Policy Framework these go to the heart of the Government's thinking on localism, the delivery of economic growth and budget deficit reduction. Together these papers map out a future for local government that will lead it to promote economic growth, encourage business, create jobs, provide local housing, stimulate the green economy and support the vulnerable through benefits. The proposals in the consultations will provide a mechanism of both financial incentive and risk and revised planning policies that together will create an environment whereby local authorities will be both encouraged and compelled to deliver on the Government's agenda.

On 31 October, DCLG published a further consultation on Technical Reforms of Council Tax. The proposals would allow changes to the discounts on second homes and empty

properties as well as changes to some current exemptions.

On 14th November, the Secretary of State for Local Government announced a further year of funding to enable local authorities to freeze council tax. However, unlike the scheme announced for 2011/12 the grant for 2012/13 will be for one year only. That means that local authorities will need to be able to fund the removal of that grant from 2013/14 onwards. The previous scheme, which enabled local authorities to freeze council tax in 2011/12, provides grant to cover this loss for the period of the current Spending Review.

Amongst other reforms, the Localism Bill will provide for the right for local residents to veto excessive council tax increases and will abolish the current housing revenue account subsidy system. The bill has completed its passage through parliament and received royal assent on 15 November 2011. Following this further consultations on the final figures for the council to 'buy' itself out of the current subsidy system and on wider housing strategy were published on 21 November 2011. The latter consultations explore final incentives to stimulate the housing market in both the public and private sectors including the New Homes Bonus, S106s agreements, Community Infrastructure Levy and Right to Buy discounts.

Further afield persistent crises within the Eurozone continue to cause economic instability. This position is monitored particularly in respect of the possible impact on banking and treasury arrangements for the council.

On 29th November the Chancellor of the Exchequer presented his Autumn Statement 2011. This set out the latest economic and growth predictions for the UK and the actions that the Government will take in the following areas:

- Protecting the economy;
- Building a strong economy for the future; and
- Fairness.

Amongst a range of measures these actions included setting plans for public sector spending in 2015/16 and 2016/17 in line with the spending reductions over the Spending Review 2010 period. It was also announced that public sector pay awards would be set at an average of 1% for the two years after the pay freeze.

Local Picture

Cabinet considered the Initial Financial Strategy at their meeting on 13 July 2011. At that meeting Cabinet resolved :

- (a) That Initial Financial Strategy for 2012/13 be agreed.
- (b) That the comments to the cost pressures, as set out in Appendix A to item A.1 of the Report of the Finance and Asset Management Portfolio Holder, and any actions therein be agreed.
- (c) That a further report be submitted to Cabinet in December 2011.
- (d) That the Corporate Management Committee be consulted on the initial proposals, recognising that any further inclusion of cost pressures or other budgetary demands will require matching measures to ensure that the funding gap is not increased.

The Corporate Management Committee considered the Initial Financial Strategy at their

meeting on 24 October and resolved:

That the Committee was aware of these difficult financial times for the Council and the need to be prudent, and was confident that the budget proposals and forecasts, as detailed in the Initial Financial Strategy, addressed the issue and therefore the contents of the Initial Financial Strategy 2012/13 be noted.

In light of the required budget reductions, work has been ongoing to identify savings and remove them from the budget. The agreed base budget for 2011/12 included savings of **£1.3m**. During the year further savings have been identified arising primarily from limiting service budgets to 2010/11 spending levels, the senior management organisational review and the re-letting of the waste contract. These along with other minor budget changes have been reported in the first and second quarter Corporate Budget Monitoring reports. They have been incorporated within the detailed budgets for a revised 2011/12 and 2012/13 estimate position which are presented elsewhere on this agenda. The savings delivered as a result of these actions, have contributed substantially towards the savings target up to 2014/15 of **£4.4m**. Some further savings will be delivered from the fundamental service reviews that have now commenced within each of the new departments. Although there is a surplus identified for 2012/13 this is only the first steps in delivering further budget reductions required in future years. The level of savings identified to date are therefore items identified in advance to support the future years position and will compliment further savings that will be needed to meet the forecasted deficits from 2013/14 onwards as highlighted in **Appendix B**. It is also important to emphasise that the rolling five year forecast could also be adversely affected by a range of issues such as those previously highlighted which could require an even greater level of savings to be identified to ensure a sustainable and balanced budget is delivered in the immediate and long term.

Notwithstanding the above, the savings identified across 2011/12 and 2012/13 are one-off amounts that will require consideration as to how best to utilise this one-off funding as discussed further below.

REVISED FINANCIAL FORECAST

In July 2011, the Initial Forecast identified a potential funding gap for 2012/13 of **£1.576m** as follows:

Item	2012/13 £'000
Base Budget from 2011/12	18,863
Changes to Council Expenditure	
Budget Savings	(20)
Removal of one-off items from 2011/12	(149)
Other Budget Adjustments	(2,295)
Changes to Grant Funded Expenditure	145
Changes to Council Income	
Changes to Grant Funded Income	(145)
Carry Forwards from the Base Budget	2,762
Council Tax Grant	(192)
Initial Base Budget Requirement for 2012/13	18,969

Forecast Funding Available	
Local Government Finance Settlement	9,663
Council Tax (at 0%)	7,650
Surplus on Collection Fund	80
Forecast Funding Available	17,393
Funding Gap in 2012/13	1,576

The detailed actions taken since July to review the budget position and to address the funding gap are set out below:

Re-Visit Priority 1 Cost Pressures

Following on from the comments made by the Finance and Asset Management Portfolio Holder in respect of the cost pressures included as part of the Initial Financial Strategy report, an amount of **£0.010m** has been included to allow for a feasibility study to be undertaken in relation to the repair of the beach hut staging at The Leas, Walton. This is to be funded from the Asset Refurbishment / Replacement Reserve. No other cost pressures have been included.

Review of Provision for Vacancies and Underspends

The estimate for 2011/12 included a vacancy provision of **£0.491m**. The provision that was previously provided for general underspends of **£0.250m** has now been removed. As part of the organisational review of the Council a number of long term vacant posts have been deleted. The vacancy provision has also been adjusted accordingly for the removal of these posts and reviewed in light of the current employment market and the reduced size of the Council (at October 2010 the number of full time equivalent posts was 523 compared to 491 at September 2011). In light of this, the vacancy provision has now been set at **£0.050m**.

Review of 2010/11 Outturn

On 15 June 2011, Cabinet considered a report on the outturn position for 2010/11. This identified general fund savings of **£1.753m**. This consisted of a large number of minor savings. Following a review of the nature of these savings and discussion with then Heads of Service, a total of **£0.857m** was identified for removal on an ongoing basis. This effectively cash limits a large number of service budgets to 2010/11 spending levels. There is no doubt that the current austere climate in which all public sector organisations are now operating has driven an efficiency minded culture. To a large extent this is what has delivered the sizeable savings in 2010/11. However, provision was made available within the contingency for the eventuality that the amount removed from any individual budget was too much. In total, requests for **£0.069m** to be added back into the budget have been received and agreed. The ongoing savings therefore removed from budgets are **£0.788m** in both 2011/12 and 2012/13.

Review of Inflationary Increases

As set out above budgets have been set at 2010/11 spending levels with the availability of a contingency to manage the position. In light of this no inflationary allowance has been included within the 2012/13 budget. It is recognised that inflation (RPI) is currently running at above 5%. Nevertheless, departments will be expected to manage within existing budgets with use of the contingency to be considered if this is not possible. Two areas of concern are NNDR costs and the price of electricity and gas where significant increases

are proposed with effect from 1 October. At this stage it is not clear what the impact on individual budgets might be but it is proposed to earmark **£0.200m** within the contingency to be allocated to individual budgets as required. The position for 2013/14 will be informed by the prices and costs operational during 2012.

The forecast budget position currently makes no allowance for any pay award in 2012/13 or 2013/14. However, the last pay award was with effect from April 2009 and, although the Government has set out that pay awards of 1% would apply in future, as time passes, the pressure for higher pay awards is expected to increase, especially given the current high rate of inflation. On 7 October CLG issued a consultation on proposed changes to the contribution rates and accrual rates of the Local Government Pension Scheme. The proposals set out changes to deliver **£900m** of savings by 2014/15 and follow on from Lord Hutton's review of public service pensions. Proposed changes within public service pensions prompted a day of industrial action across the public sector on 30th November.

For 2012/13 Departments have been asked to review their fees and charges on an individual basis rather than a blanket inflationary increase being set. The full proposed fees and charges as they currently stand are included within the report on the initial budget proposals elsewhere on the agenda.

Other Budget Adjustments

As set out above actions already taken have delivered savings that can be built into the ongoing budget. Salaries have decreased overall in 2011/12 by **£0.958m** and by **£1.109m** in 2012/13 mainly as a result of the deletion of vacancies and the senior management restructure. The budget currently reflects the new senior management structure implemented with effect from 1 September 2011. A second stage to that restructure is currently being consulted on and is therefore not reflected in the budget at this stage. A number of further efficiency measures brought forward through the Tending Spending Review Delivery Plan agreed by Cabinet at the meeting on 10 November 2010 have delivered savings of **£0.323m** in 2011/12 and **£0.297m** in 2012/13. On 7 September Cabinet considered a report on the new Street Sweeping and Household Waste and Recycling Collection contracts which will commence in January 2012 and February 2012 respectively. Together with amended arrangements for delivery for pest control, this will result in contract budget savings of **£0.088m** in 2011/12 and **£0.577m** in 2012/13.

Other adjustments have also been built into the budget as follows.

- The 2011/12 budget reflects the amount of New Homes Bonus received for net new properties for the year to October 2010 and the 2012/13 budget reflects the amount for new properties to October 2011. The sums of **£0.283m** and **£0.671m** respectively have been included with a corresponding expenditure budget. This is on the assumption that the grant will be spent on initiatives within the district rather than being used solely towards a balanced budget position.
- Based on the proposals for Council Tax set out below the council would receive additional one-off Council Tax grant of around **£0.192m** for 2012/13. This has been assumed in the budget but means that the gap arising from the grant being removed again in 2013/14 would need to be filled. The grant of **£0.192m** which the council receives for not increasing council tax in 2011/12 will continue to be received until 2014/15.
- In line with Community based budgeting where Essex County Council was one of 16 pilot areas, Tending has received **£0.150m** in relation to the Essex Family Project

which is looking at early intervention for problem families.

- There has been a reduction in the recharge to the HRA of **£0.154m** which includes the allocation of savings between the HRA and General Fund. Further analysis of the recharges between HRA and General Fund will need to be undertaken in consideration of the self financing arrangements and related treasury transactions.
- Other minor adjustments total a reduction of **£0.006m** in 2011/12 and an increase **£0.022m** in 2012/13.
- After allowing for the budgetary adjustments set out in this report and the report on the initial budget proposals elsewhere on the agenda the Fit for Purpose budget stands at **£4.6m** in **2011/12** and **£1.2m** in 2012/13 (after transference of the surplus). The Fit for Purpose budget is a one-off sum set aside to support costs arising from Fundamental Service Reviews, management reviews and other actions undertaken to deliver the savings target. Once all organisational restructuring has been completed the Fit for Purpose budget will be reviewed to determine how much remains available and how this funding could be best utilised. The contingency, established to provide a buffer against unexpected costs, currently stands at **£0.645m** in 2011/12 with an ongoing base budget of **£0.150m**.

Council Tax Assumptions

The Initial Financial Forecast was based on an assumed increase in Council Tax of **0%**. Following discussion with the Finance and Asset Management Portfolio Holder it is proposed that there be a council tax reduction of **0.5%** for 2012/13. This would allow the Council to access the additional Council Tax grant that has been made available for 2012/13.

For information and comparison the 2011/12 Council Tax for a Band D property (excluding parish precepts) for all Essex Districts is shown in the following table:-

District	Annual Council Tax (£)	Weekly Council Tax (£)
Basildon	252.81	4.86
Harlow	251.55	4.84
Castle Point	229.59	4.41
Rochford	201.15	3.87
Colchester	175.23	3.37
Brentwood	174.37	3.35
Maldon	169.66	3.26
Chelmsford	163.29	3.14
Braintree	162.81	3.13
Tendring	149.13	2.87
Epping Forest	148.77	2.86
Uttlesford	147.42	2.83
Essex Average	183.46	3.53
All England Average – Districts	165.65	3.18

When the variations set out above are taken into account this results in a Revised Forecast for 2012/13 of a surplus position of **£1.2m** as summarised in the following table:-

Revised Financial Forecast 2012/13

Item	As At 13/07/2011 £'000	Change to 14/12/2011 £'000	As At 14/12/2011 £'000
Base Budget	18,863	0	18,863
Changes to Council Expenditure			
Budget Savings	(20)	(2,771)	(2,791)
Removal of one-off items from 2011/12	(149)	0	(149)
Other Budget Adjustments	(2,295)	176	(2,119)
Changes to Grant Funded Expenditure	145	0	145
Changes to Council Income			
Changes to Grant Funded Income	(145)	0	(145)
Carry Forwards from the Base Budget	2,762	0	2,762
Council Tax Grant	(192)	(192)	(384)
Initial Base Budget Requirement	18,969	(2,787)	16,182
Forecast Funding Available			
Local Government Finance Settlement	9,663	0	9,663
Council Tax (reduction of 0.5 % within 14/12/2011 position)	7,650	8	7,642
Surplus on Collection Fund	80	0	80
Forecast Funding Available	17,393	8	17,385
Funding Gap / (Surplus) in 2012/13	1,576	(2,779)	(1,203)

The full list of all the changes can be seen in the Revised Financial Forecast for 2012/13 shown at **Appendix A**. A more detailed analysis of these budget changes is also set out in the report on the detailed estimates elsewhere on your agenda and which also sets out the latest position for 2011/12.

Outstanding Issues

There are some issues still to be resolved and although not reflected in the budget at this stage will be included when Cabinet consider the final budget proposals if resolved at that time. Outstanding issues include:

- The Council currently has an agreement with Essex County Council whereby 60% of the additional income to the County Council as a result of the reduction in the discount on second homes from 50% to 10% is paid back to TDC. The County Council have recently written to say that they wish to withdraw from the current agreement and enter into a new agreement where the amount paid is equivalent to 50% of the additional income for 2012/13 and the following two years. A new agreement on this basis is awaited but at this stage no adjustment has been made in the budget. Signing up to this new agreement would reduce the contribution received by TDC by around **£0.070m** but having no agreement in place would mean the Council would lose over **£0.400m** each year.

- No allowance has been included for any change in the delivery of leisure facilities. Following consideration of the consultants report on options for delivery of the council's sports centres, it is proposed that further work is undertaken through the departmental FSR to review the opportunities to reduce expenditure and to increase income through a change in the pricing structure with the position then reviewed after one years trading following the FSR.
- Analysis of the HRA self financing determination needs to be undertaken to establish whether there are any implications for the general fund. A report on the HRA budget and business plan will be brought to the Cabinet meeting on 25 January.
- Confirmation of the final Formula Grant Settlement for 2012/13.
- Apart from the Formula Grant Settlement there are some other grants where details are still to be confirmed. This may relate to specific grants direct from Government e.g. homelessness or grants allocated by Essex County Council e.g. supporting people funding. In the case of supporting people sizeable funding reductions are anticipated. Details of capital grants are also awaited.

There are a number of funding and service changes that will arise over the coming months from the Government's ongoing programme of public sector reform e.g. the local growth agenda, benefit reform, HRA reform and the Local Government Resource Review. New guidance, consultations and legislation will be reviewed, assessed and reported on as they emerge.

Forecast for 2012/13 and Beyond

The five year forecast now rolls into 2016/17. This is beyond the period of the current Spending Review. For the purposes of the forecast continuation of the level of core funding at the same level as 2015/16 has been assumed. Based on this, along with the settlement notified and taking account of the ongoing percentage reductions announced as part of the Spending Review, the Financial Forecast shown in **Appendix B** identifies a total deficit to 2016/17 of up to **£1.1m**. The forecast shows that the showings already identified will enable the council to deliver a balanced budget in 2012/13 but with further savings then required. After 2014/15 the position because increasingly uncertain as that is the last year of the Spending Review and the impact of upcoming changes will then begin to impact.

APPROACH TO THE FINANCIAL STRATEGY FOR 2012/13 AND BEYOND

Over the past twelve to eighteen months the focus of the Council has been on delivering savings to meet the shortfall of **£4.4m** by 2014/15. The actions undertaken have delivered savings that have contributed substantially towards this target. However, further savings are still required and delivering these will form part of the fundamental service reviews that have now commenced in all departments.

It is clearly important that a focus on delivering savings is maintained to ensure that the Council can deliver a balanced budget in future years. However, the savings already delivered, ahead of the year(s) in which they are required means that one-off funding will be available and consideration should be given to how this can best be utilised. The council continues to face challenging issues arising from areas of deprivation within the district and the continuing threat from coastal erosion. There are also opportunities to move forward with the memorandum on the civic hub, promotion of Harwich as centre for the wind power industry and development of our tourist and seafront areas. All of these are big projects that will require sizeable investment to take them forward and the one-off

funding available, although small in comparison to the total amount required to address all of these major issues, could perhaps assist in moving some, if not all, of them forward.

The Council is moving towards a position where it has a balanced budget without the need to make savings. However, there is still work to be done to reach this position and we need to be wary of further changes. It is not clear whether the austerity measures already introduced by the Coalition Government will be sufficient and there is the possibility that there may be further spending cuts in the future. The combined impact of changes to business rate distribution, council tax, benefits and formula grant are not yet clear. In light of this it is proposed to retain for the foreseeable future the Austerity Reserve of **£0.500m** alongside the general fund reserve of **£4.0m**. Other reserves have been reviewed and the details are set out in the report on the initial budget proposals elsewhere on the agenda.

BACKGROUND PAPERS FOR THE DECISION

Working papers held in Accountancy

APPENDICES

Appendix A **Revised Forecast 2012/13**

Appendix B **Forecast 2012/13 and Beyond**