

Report To: CABINET

Date of Meeting: 24th January 2013

Lead Cabinet Member: Councillor Julian Thompson-Hill

Lead Officer: Paul McGrady, Head of Finance & Assets

Title: 2013/14 Budget

1 What is the report about?

The report details the proposed budget for 2013/14.

2 What is the reason for making this report?

The Council is legally required to set a balanced and deliverable budget before the start of each financial year and to set the resulting level of Council Tax to allow bills to be sent to residents.

3 What are the Recommendations?

3.1 That Cabinet supports the budget proposals for 2013/14 as shown in the appendices, and recommends accordingly to full Council.

3.2 That Cabinet recommends the resulting 2.0% increase in the level of Council Tax for 2013/14 to full Council.

4 Report details

4.1 The Welsh Government released its final settlement in mid-December. This showed the grant that each Council would get. Denbighshire's grant increased by 1%. This is lower than expected as, at the last minute, the minister announced a £10m top slice of the local government settlement. This removed £300k from Denbighshire's grant.

4.2 The final settlement showed a cut in our capital funding. The funding has been cut by 15% (equivalent to around £900k) to £4.867m. This is a significant loss on top of the 27% cut we had over the previous two years. The general capital funding is what we rely on to carry out Health and Safety works, major maintenance etc – basically the work that allows us to keep our buildings going.

Budget Assumptions

4.3 The outlook for public finance is still poor for the medium term. It is likely that low settlements and a difficult financial situation will continue beyond the term of the current three year plan. This means it is very important for Members to consider a medium to long term view on all proposals for savings and not try for easy options that provide short term solutions.

4.4 The MTFP had originally assumed there would be cost increases in a number of areas. It is always difficult to accurately forecast inflationary changes in so many areas of expenditure and the Council always has to be prudent with its assumptions.

Fuel and energy cost increases

- 4.5 The original assumption for the increase in energy costs was 15%, based on previous experience plus the rises that had been announced in the autumn for domestic supply. However, the best information we have currently suggests that the cost of our energy contracts will rise by around 5%. However, we were able to reduce our consumption significantly during last year as well, so the overall impact on the budget will be minimal. It is also assumed that the rate of Carbon Tax paid will increase.
- 4.6 Given the highly volatile nature of the energy market, the MTFP will continue to assume higher rises in future years and this will then be amended as we work through the budget process each year.

Pay and Single Status

- 4.7 An assumption has been made for an increase in staff pay for 2013/14. The increase was assumed in the light of a 3 year pay freeze, inflation running around 2.7%, increases in pension contributions and reductions in various welfare payments.
- 4.8 The poor economic climate and the recent announcement by the Chancellor that public sector pay increases should be limited to an average of 1%, coupled with ongoing poor financial settlements for English Councils mean a significant pay rise is less likely. Pay is negotiated at a UK level for Councils. This means that English Councils will probably push for a very low increase in pay costs. The budget assumes a pay increase at just over 1%.
- 4.9 It will be several months before we are any clearer on proposals for pay. We should therefore retain the assumption within the budget. If the rise is slightly above 1% we would have funds to pay this. If the rise was slightly below 1% it would create a saving which would have two consequences – firstly would generate cash as we would have a budget allowance, but no expenditure and secondly would form additional savings for 2014/15. This mirrors the arrangements we had going into 2012/13. Any remaining unspent pay budget for either year will generate an underspend which will be transferred into the strategic investment reserve. It has been assumed that any unallocated budget will then be rolled into future years to mitigate future pressures.
- 4.10 The agreement on single status brought 2 financial burdens to the Council's budget. The first was a one-off increase in pay costs as a number of staff were moved onto higher grades, the second was the 'incremental drift' of these grades. That means staff would have been appointed at the bottom of the grade and over time will move up to the top of the grade. We set up a budget to pay for this 'drift' and it is due to be fully allocated to services by 2014/15. In addition, the Council is currently defending an equal pay claim by a number of staff that allege discrimination over a significant period. Should the Council be unsuccessful in its defence then it will be expected to pay out a significant amount of money to claimants. A provision has been set up specifically for this.
- 4.11 The Council is also currently negotiating with the Trade Unions to remove the essential car user allowance from staff. The 2013/14 budget assumes that this

will be agreed and phased in over the year saving £200k in the year with further savings in 2014/15.

Other Inflationary Pressures

4.12 It is assumed there will be small percentage increases in business rates for council properties and insurance premiums and an inflationary uplift in the cost of the Council's PFI contract. These total £160k.

4.13 It is assumed that services will absorb any other inflationary pressures unless these were specifically raised at service challenges.

Schools protection

4.14 The Welsh Government expects that schools will be protected from savings. The Council must passport to schools an amount equivalent to 1% above the settlement the WG received. For Denbighshire that means that schools will receive a budget increase of around £1,237k (2.08%). From this, they must absorb any increases in staffing costs – single status, pay awards etc. The council also had to protect schools last year when they received around £1.2m. It is likely this protection will continue into 2014/15.

Social Services Protection

4.15 In addition to the protection for schools, it is expected that the Council protects and increases Social Care budgets by 2.08% (£958k) for this year only. From this, the service must absorb pay rises, care home fee rises and other pressures.

4.16 The 2011 census indicated that there were significantly less people over the age of 85 than the Council was receiving funding for. This is likely to lead to a large cut to the Council's funding for 2014/15. Discussions are underway with the Welsh Government, but for now, the Social Services departments are assuming the additional funding will be available for one year only and will be lost in 2014/15.

4.17 Adult Social Services and Children's Social Services had intended to make savings for 2013/14 because the protection was not formally announced until December. The services will still therefore be expected to make efficiency savings, but these will then be reinvested back into the service.

4.18 Protection for Social Care and Education puts additional strain on other services in the Council as they have to find additional savings to compensate for this. For 2013/14 some £102m (56%) out of our budget is ringfenced and protected.

Council Tax Support Scheme

4.19 Under the UK Government's welfare reform agenda, Council Tax Benefit has been abolished and replaced with 'Council Tax Support'. This has involved transferring a sum of money to Councils which is approximately 10% less than the level previously provided. The WG then designed a national scheme which Councils will approve by the end of January. The Council will receive around £8.3m in 2013/14 which is about £1m less than it will spend in 2012/13.

4.20 In addition to this loss the Council will have to send Council Tax bills to residents who may never have paid Council Tax before. It is anticipated that a number of these will not pay and therefore additional collection costs will be incurred and there may be an increase in bad debts. The Council's bad debt provision will be increased by £200k and it has been assumed that the collection rate will drop by 0.5%.

Budget Workshops

4.21 Two rounds of budget workshops were held in November and December to which all members were invited. Three areas were considered – savings, priorities for investment and possible Council Tax levels.

Savings

4.22 Services have proposed just under £3.1m of savings (shown in Appendix 1). These were examined by members in detail at Service Challenges and were presented to members at budget workshops in November. All savings have been deemed to be deliverable and no objections have been raised by members to any proposals.

Priorities

4.23 In September members approved the Corporate Plan along with a series of projects. In the budget workshops members were then asked to consider how to allocate priorities funding to these projects. The proposed split is shown below :

Priority	£k	Purpose
Modernising Education	200	Capital Investment
Highways	100	Capital Investment
Economy	160	To be confirmed
Modernisation	140	To be confirmed
Social Care	400	Capital Investment

4.24 These funds will be allocated to projects from the Corporate Plan and on the back of full business cases.

Council Tax

4.25 Members also gave an indication of the sort of Council Tax increase they wanted to see. Members considered a number of options as shown below. The original assumption for financial planning purposes was for a 2.75% rise. The range of responses from the groups was for Council Tax to be at or below the rate of inflation for the medium term and that for 2013/14 the broad steer was that it should be between 2% and 2.5%, preferably at the low end of this range.

Increase %	Income £000k
0	0
1	400
2	800
2.75	1,100
3	1,200
4	1,600

4.26 The original budget assumption had been for a rise of 2.75%. However increased savings from renegotiated contracts allowed this to be reduced to 2.5%. The Fire Service levy has been confirmed at £70k below the planned level and a reduced assumption for pay rises reduces pressures by £130k. Taken together these save the equivalent of 0.5% Council Tax making 2.0% achievable.

4.27 The base assumption for the future is that Council Tax will rise at around 2% each year.

5 How does the decision contribute to the Corporate Priorities?

Effective management of the council's revenue and capital budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

6 What will it cost and how will it affect other services?

Appendix 1 shows agreed savings. There were also a number of grants transferred into the settlement and these are shown in Appendix 2. Appendix 3 shows the full Council budget and the implications of the proposals within this report. The net budget has risen from £177.4m in 2012/13 to £190.7m in 2013/14. This is mainly due to the transfer of Council Tax Benefit (£8.4m) from the UK Government and grant transfers of £3m from the Welsh Government.

7 What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

Individual services are responsible for carrying out impact assessments on their savings proposals contained within the budget.

8 What consultations have been carried out with Scrutiny and others?

Service challenges were held with each head of service and each challenge included representatives from scrutiny committee and Cabinet. Corporate Plan and Budget workshops were held with members in September, November and December.

9 Chief Finance Officer Statement

2013/14 will be another challenging year for the Council's finances. It is likely that relatively low settlements will continue for the medium term and the Council must be mindful of this when setting this budget.

The budget as proposed is realistic and deliverable. It makes sufficient savings to balance our position, protects front line services from major reductions and allows investment of £1m into Council priorities.

This is delivered with a 2.0% increase in Council Tax which compares to general inflation running at around 2.7%.

9 What risks are there and is there anything we can do to reduce them?

If the budget is not agreed within the relevant timescale then the Council will be breaking the law.

This is the most challenging financial period the council has faced and failure to deliver the agreed budget strategy will put further pressure on services in the current and future financial years. Effective budget monitoring and control and early reporting of variances will help ensure that the financial strategy is achieved.

10 Power to make the Decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their finances.