To: Corporate Policy Overview and Scrutiny Committee

From: John Simmonds, Cabinet Member for Finance and Business Support
Andy Wood, Corporate Director of Finance and Procurement

Subject: Budget Process 2013/14

Summary: To advise on the options for the budget process 2013/14 including further improvements to the presentation of budget information. This report includes an update on the Local Government Finance Bill and the potential implications for future year's budgets.

FOR INFORMATION AND COMMENT

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1. Introduction

1.1 The draft budget for 2012/13 was launched before Christmas and agreed by County Council on 9th February. This was earlier than we have been able to achieve in the past and gave district councils more time to consider their budget requirements and Council Tax levels with certainty over the precept from the County Council. At the time we embarked on this timetable it felt ambitious, particularly as we did not receive the provisional grant settlement from Government until 8th December.

1.2 In spite of launching the draft budget earlier than previous years the period for formal consultation could not be extended. However, informal consultation throughout the year had been much more extensive than previous years and each POSC established an Informal Member Group (IMG) to consider budget options for their portfolio responsibilities.

1.3 We have continued to evolve the presentation of capital/revenue budgets and the medium term financial plan to make information more meaningful and financial planning more transparent. Making these changes is not without risk and we need to ensure that we are moving at the right pace towards a clear objective.

1.4 The Local Government Finance Bill was published on 19th December and is progressing through the House of Commons. This will have a significant impact on the budget setting process from 2013/14 onwards and we need to keep Members informed, particularly if this impacts on our ability to factor in more time for formal consultation.

2. Local Government Finance Bill

2.1 The Bill includes provisions for the retention of a share of business rates levied locally, localising Council Tax benefit and changes to Council Tax discounts/exemptions. Each of these issues is dealt with separately below.

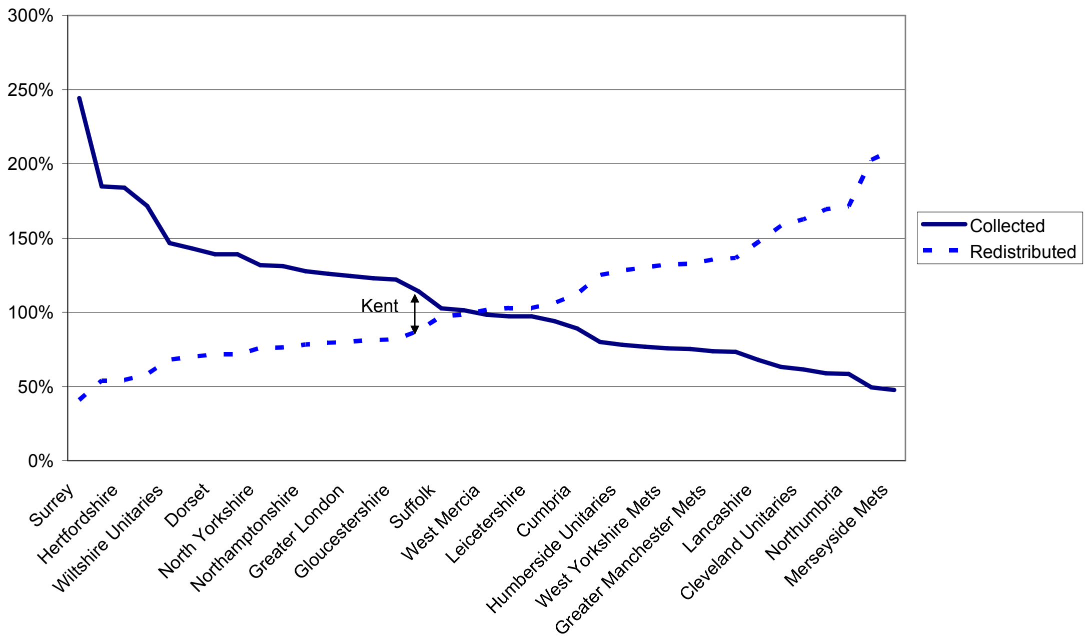
2.2 The Bill is currently progressing through Parliament and is due to be passed in the summer. Much of the detail will only arise from secondary legislation passed via regulations under the Bill. These regulations are unlikely to be available until the autumn.

Business Rate Retention

Note – this section is particularly technical but is explained as simply as possible.

2.3 Under the proposals in the Bill the existing yield from business rates would still be redistributed as reflected in chart 1 below. This shows that at one extreme Surrey authorities (county/districts/ police/fire) receive in total approximately 40% of the business rates collected in the local area through the grant settlement (or put the other way they collect nearly 2½ times more in business rates than they receive in grant). At the other end of the spectrum the Merseyside authorities (met districts/police/fire) receive more than twice as much in grant compared to the business rates collected locally.

Chart 1



2.4 The principle of redistribution is widely accepted although the existing formula grant mechanism has been challenged both in terms of equity and transparency. We will continue to lobby that the redistribution should be based on a fair and transparent basis and that the current "Four Block Formula" is neither of these.

2.5 Under the proposals in the Bill each authority would be allocated a "Needs Baseline". This is proposed to be based on the 2012/13 damped Formula Grant allocation adjusted to the overall spending totals for local government in the Spending Review 2010. Each authority will also be allocated a "Non Domestic Rates (NDR) Baseline". This will be based on the anticipated business rate yield less a set aside adjustment (in effect reducing rate income down to the SR2010 spending level) and an adjustment to fund New Homes Bonus.

2.6 Authorities where the needs baseline is less than the NDR baseline will pay a “tariff” to central government out of the rates collected locally. Authorities where the needs baseline exceeds the NDR baseline will receive a “top-up” from central government out of the tariffs collected from other authorities. In two tier areas the NDR baseline is proposed to be split 20/80 between the county and districts. This means all county authorities would receive a substantial top-up and districts would have to pay a substantial tariff.

2.7 Tariffs and top-ups will be uprated by RPI each year. This will be consistent with the annual uprating of the NDR multiplier. This means individual authorities will only be able to retain any excess income generated from an increase in the business rate tax base and changes in reliefs. The converse is that if the tax base declines a tariff authority would still have to pay the uprated tariff and thus could face declining income and a top-up authority would not see the full benefit of the inflationary uplift. Hypothetical examples how inflation and tax base changes would operate are included in appendix 1.

2.8 The proposals in the Bill also provide for a proportional levy on excess tax base increases. This levy would be used to fund a safety net to cushion authorities from excessive reductions. The proposals allow for the tariffs and top-ups to be reset to reflect changed circumstances (suggested every 10 years) and regulations would allow the Secretary of State to change an individual authority’s baseline at any time to reflect exceptional circumstances.

2.9 Much of the detail around the calculation of baselines, operation of the levy/safety net, etc., will be included in the secondary legislation.

Council Tax Benefit Localisation

2.10 Council Tax benefit is currently funded by Department for Work and Pensions (DWP). This means it forms part “Annually Managed Expenditure” rather that “Departmental Expenditure Limits (DEL)” in the overall national budget. The proposal in the Bill is that 90% of the current spending is transferred from DWP to the Communities and Local Government (CLG) DEL.

2.11 CLG would provide an un-ring-fenced grant to local authorities who would be responsible for determining their own local schemes for Council Tax support for the most vulnerable. Nationally the current expenditure on Council Tax benefit is £4.1bn, the 10% reduction under the proposals would deliver £410m saving towards reducing the budget deficit and was factored into SR2010. The government has made it clear that if the saving isn’t delivered from Council Tax benefit it will have to be found elsewhere.

2.12 Under the proposals the local billing authority (district councils in two tier areas) would be responsible for developing the local arrangements for Council Tax support for vulnerable groups. Districts can pool with other authorities to develop a common scheme and share resources/risks over a wider area.

2.13 At this stage it is not clear if the grant will be paid solely to districts and they would have to meet the costs of local support for Council Tax. If this were the case they would benefit from the saving if they could keep the cost of Council Tax support to less than the grant. Even so, there could still be an impact on the County (and other precepting authorities) if the local scheme had an impact on Council Tax collection rates.

2.14 The Bill allows scope for the grant to be split in two tier areas opening the opportunity for local Council Tax support to be applied as a discount. If so, this would reduce the local tax base which could have a more significant impact on precepting authorities (subject to which vulnerable groups continue to receive support under individual local schemes). We are awaiting further consultation on the allocation of grant.

2.15 The current benefits for pensioners will be protected under the Bill. Around 40% of benefits are paid to pensioners nationally (42% in Kent). This means that the 10% reduction can only be achieved from the 60% of benefits paid to working age claimants.

2.16 Impact assessments which accompany the Bill identify a number of options for local schemes:

- Do nothing (i.e. the same benefits as present would be available) and local authorities would have to make compensating savings elsewhere
- Apply a pro rata reduction in benefits to all working age recipients (the protection for pensions means the reduction would have to be 16%/17% to cover the 10% reduction in grant)
- Increase the rate at which benefit is withdrawn from those earning above the level at which 100% benefit is available (currently such beneficiaries lose 20p in benefit for each £1 of income above the minimum level)
- Introduce a stepped scheme for all working age beneficiaries

2.17 There are other options available to fund the introduction of the scheme (including increasing the Council Tax yield under the new proposals outlined in paragraph 2.20). There will be a duty placed on district authorities to consult precepting authorities about their local schemes. Local schemes will have to be in place by January 2013. This does not leave long for schemes to be developed, agreed and implemented.

2.18 The total cost of Council Tax benefit in KCC area in 2010/11 was £112.2m. This equates to 14.1% of the overall Council Tax yield for all authorities in the County. If the grant and risk is shared in two tier areas the impact of the 10% reduction could amount to £7.5m to £8m for KCC if local schemes protected all existing benefits. This does not include the added risks of negative impact on collection rates and future increases for those becoming eligible for support under local schemes.

2.19 As with rates retention much of the detail will be in secondary legislation which is unlikely to be approved until the autumn.

Council Tax

2.20 The final proposals in the bill would allow local councils to vary the discounts for second homes and empty properties, abolish Council Tax exemption for repossessed properties, and allow Council Tax to be collected in 12 instalments (currently it is collected in 10 instalments). These changes are aimed at allowing councils to increase the Council Tax yield.

2.21 Other Council Tax exemptions, reliefs and discounts e.g. students, armed forces, single persons, etc., would remain as present.

2.22 The localisation of Council Tax benefit presents the biggest financial risk to this authority, and therefore will need carefully managing over the coming months.

3. Budget Book Presentation

3.1 Over the last two years we have made significant changes to the presentation of capital/revenue budgets and the medium term financial plan (MTFP). In the past the presentation focussed entirely on the resources delegated to each portfolio. Individual portfolios tailored the presentation of their budgets to suit their own circumstances. This complemented the highly devolved nature of the council at the time, but led to criticisms that the budget presentation was introspective and inconsistent.

Revenue Budget

3.2 The revised presentation of the revenue budget started in 2011/12. For the first time the budget was presented as an A to Z of front line services with a clear separation of assessment costs and management/support/overhead costs. This was not presented in portfolio order and the aim was to focus on identifying significant budgets (spending over £1m) and not grouping separate service aspects under generic headings e.g. Highway Services. The aim was to ensure much more consistency in the treatment of costs between individual services matching the principles of “One Council”.

3.3 In 2012/13 we sought to refine some of the A to Z headings to make them more meaningful and introduced individual variation statements for each line in the A to Z. The aim was to make year on year budget changes more transparent although as a consequence the Budget Book is much larger and is more of a reference document.

3.4 For the final version of the Budget Book (blue combed) we will include the budgets delegated to individual heads of service in a similar manner to 2011/12. We think it important that the budget approved by County Council focuses on the amounts proposed to be spent on particular services rather than authorising the delegation to managers.

Medium Term Financial Plan
3.5 For 2012/15 we also made changes to the presentation of the MTFP. The MTFP provides the overall context for the budget and medium term outlook. Unlike the Budget Book the main sections should be read as a comprehensive document (with appendices for reference). As with the revenue budget the aim is to make the document more meaningful for a wide audience and to be more appropriate for "One-Council".

3.6 We have presented a simpler 3 year spending plan identifying the likely resources available, anticipated additional spending demands and the consequential savings/income needed to balance the budget. The additional spending pressures and savings/income are identified under generic themes rather than detailed proposals. Inevitably a three-year plan has virtually limitless permutations and the second and third years need to be viewed as a broad indication of the likely budget situation rather than a definitive statement of policy.

3.7 Within the MTFP we have enhanced the presentation of the additional spending demands and savings/income requirements for the forthcoming year. In particular we have included a more detailed picture of the overall position for the whole council. In effect this is the equivalent of looking through the previous portfolio by portfolio presentation and adding up common amounts e.g. price increases. This presentation aims to provide a clearer picture of the overall budget changes between the current and forthcoming year.

3.8 We have retained the individual portfolio MTFP statements although these now only set out the detail for the first year of the plan. These are designed to provide more detail of the variations in the portfolio revenue budget summary in the Budget Book. We have removed the individual portfolio revenue and capital budget strategies as these are more appropriate to include in directorate plans.

3.9 For the final version of the MTFP we will include all the appendices including a new presentation of key fiscal indicators. These indicators will aim to be more meaningful measure of the Council's financial strength than the accounting ratios presented in previous plans.

Capital Budget
3.10 We have also made presentational changes to the capital medium term financial plan. Rather than showing the estimated costs year by year we have focussed on the total cost of projects and how the planned spending over the next 3 years is to be financed.

4. Process for 2013/14 Budget and Consultation
4.1 We have already identified that although the draft budget was launched earlier than previous years this did not extend the time available for formal consultation. The main difficulty with launching draft budget earlier has been lack of certainty over Government grants. We improved informal consultation

as part of the process and in particular established IMGs for all POSCs building on the work with the Corporate POSC IMG.

4.2 Under the proposals in the Local Government Finance Bill we will be less reliant on grants in future as more funding will be raised locally and the top-up to business rates will be fixed with an RPI uplift. This should enable us to launch the draft budget earlier as the main uncertainty will be the local tax base and we can resolve this by modelling different scenarios.

4.3 We also need to consider the best way to engage with Kent residents to seek views about budget priorities. In the past we have opted for an in depth session with a small representative group of residents. This session has been run by independent market researches Ipsos MORI.

4.4 One of the budget savings for 2011/12 removed the corporate budget for public consultation and individual services had to make provision for consultations within their own budgets and business plans. In 2011/12 we were able to run a similar workshop session run by Ipsos MORI, with 40% less budget than in previous years. In order to achieve this we carried out the recruitment of volunteers through Community Engagement Managers, did not pay a fee to those taking part on the day and commissioned a scaled down report from MORI. One of the main criticisms of the 2011/12 exercise was that we recruited volunteers who are already engaged within their localities, with other public bodies or with KCC.

4.5 Options for future consultation on the budget will be developed in partnership with the Communications and Engagement Division, who will produce a full Consultation and Communications Plan to achieve the Council's objectives and key messages. The anticipated outcomes being:

- Members and senior officers are informed of Kent resident's priorities through early engagement with residents and key stake holder representatives before the development of formal budget proposals
- Kent residents feel informed about the budget and how priorities are set through consultation and communication
- Ensure legal requirements met through formal consultation

4.6 Due to the complexity of local government finance (which are unlikely to be made any less complex under the new arrangements) we have previously avoided on-line simulations on the grounds they can never be kept sufficiently succinct to keep participants engaged whilst covering topics in sufficient depth.

5. Recommendations

5.1 Members of the POSC are asked to:

(a) Note the potential impact of the Local Government Finance Bill

(b) Comment on the presentation of budgets and consultation arrangements including further developments for 2013/14

Background Documents

1. Cabinet 25th January 2012 – Budget 2012/13 and Medium Term Financial Plan 2012/15
2. County Council 9th February 2012 – Budget 2012/13 and Medium term Financial Plan 2012/15 (including Council Tax setting 2012/13)

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Appendix 1

Hypothetical Examples

	County			District		
	Baseline £m	2013/14 £m	2014/15 £m	Baseline £m	2013/14 £m	2014/15 £m
NDR Baseline	84.0			28.0		
Top Up/Tariff	173.6			-22.5		
Top Up/Tariff Inflation Uplift (3%)		178.8	184.1		-23.1	-23.8
NDR Change (3% Inflation)						
2% Growth		88.2	92.6		29.4	30.9
No Growth/Decline		86.5	89.1		28.8	29.7
2% Decline		84.8	85.7		28.3	28.6
Resources with 2% Growth	257.6	267.0	276.7	5.5	6.3	7.0
		3.7%	3.7%		13.1%	12.4%
Resorces with no Growth/Decline	257.6	265.3	273.2	5.5	5.7	5.9
		3.0%	3.0%		3.0%	3.0%
Resources with 2% Decline	257.6	263.6	269.8	5.5	5.1	4.7
		2.3%	2.4%		-7.1%	-8.0%