

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1)	Meeting:	Cabinet
2)	Date:	20th February 2013
3)	Title:	Proposed Revenue Budget and Council Tax for 2013/14
4)	Directorate:	Resources

5. Summary

This report proposes a Revenue Budget for 2013/14 based on the outcome of the Council's Financial Settlement. It provides details of:

- The progress of the Budget process since July 2012 (including confirmation of the Local Government Financial Settlement)
- The ongoing principles reflected in the Budget and spending plans
- The Council's recommended Revenue Budget for 2013/14
- Savings proposals from Directorates
- Precepts and levies made on the Council by other authorities
- Proposed Council Tax levels for the coming financial year, and
- Proposed future developments in the 3 year Medium Term Financial Strategy (MTFS) 2013/14 to 2015/16.

As required by legislation, the report also contains the Director of Financial Services (the Council's Responsible Financial Officer) assessment of the robustness of the estimates included within the Budget and the adequacy of the reserves for which the Budget provides.

6. Recommendations:-

1. That Cabinet recommend to Council that on the 6th March 2013:

(a) They approve:-

- (i) a General Fund Revenue Budget for 2013/14 of £221.474m to be allocated to services as set out in this report.
- (ii) No increase (for a third year running) in the Council Tax in respect of this Council's own Budget giving an annual Band D Equivalent Council Tax of £1,230.03

- (b) They note and accept the comments and advice of the Director of Financial Services, provided in compliance with Section 25 of the Local Government Act 2003, as to the robustness of the estimates included in the Budget and the adequacy of reserves for which the Budget provides.

- 2. That Cabinet agree that the precept figures from South Yorkshire Police Authority, South Yorkshire Fire and Rescue Authority and the various Parish Councils and Parish Meetings within the Borough be incorporated, when known, into the recommendation to the Council on 6th March 2013.**

7. Proposals and Details

Background

The Ongoing Financial Challenge

Since the Coalition Government came to power and implemented its Spending Reduction Plans to address the fiscal deficit, Local Government has seen substantial reductions in funding.

The unprecedented reduction in funding has required Rotherham Council to address funding gaps of £30.3m in 2011/12, £20.4m in 2012/13 and £20.2m in 2013/14.

From April 2013 there will be an increase in financial risk transferred to local authorities through the Government's significant and ongoing reforms of both local government finance and Welfare (Benefits) systems. For example – the localisation of business rates retention, the abolition of Council Tax Benefit being replaced by a local Council Tax Reduction Scheme and the ongoing rolling into Formula Grant funding of specific grants at much reduced levels.

In addition the Government is placing greater restrictions on how local authority finances can be used through the Council Tax Excessiveness principles.

The next Government Spending Review (SR) announcement is now expected during the first 6 months of 2013 - we are aware from recent Government statements that significant public sector funding cuts will continue until at least 2018. For 2014/15, the provisional local government finance settlement will see Rotherham Council faced with a 9.1% reduction on 2013/14 funding levels. Nationally, the reduction is 8.9%.

Budget Principles

In July 2010, when the future plans of the newly elected Government for local government were becoming apparent, the Council recognised the importance of keeping its eye on the next few years ahead and avoiding hasty decisions that could cost it and the citizens of the Borough unnecessarily in the longer term.

We started early in redesigning services and budgets and over the last two years this work has reduced the Council's headcount by over 1,000 staff primarily from its support functions (commonly referred to as the 'back office') and management posts. This has also included the strategic re-positioning and reintegration of significant Council Partnerships back into the Council (Rotherham Brought Together (RBT) and 2010 Rotherham Limited).

Since the 2011/12 Budget process the Council has said that its focus must be on the customers it serves, the communities and businesses of Rotherham – and not our organisational structure.

To achieve this end, we identified a clear set of principles for considering Budget proposals. This has, as a **first course of action**, been to streamline our management and administration and to reduce as far as possible our back office costs – to date these costs have been reduced by over 15% with further significant

reductions being proposed for 2013/14. In addition, we have continued to identify areas where better ways of working could result in even greater efficiency and effectiveness. However, faced with such a significant budget deficit, the Council has still to make some tough choices which are reflected in the proposals put forward to Cabinet.

By adopting a calm and measured approach and planning ahead it is possible for the Council to **protect services for those most in need**. Within the Budget, provision is made to:

- Ensure that safeguarding of children is a top priority through the provision of improved services for children in care and with Special Educational Needs,
- Support vulnerable families and individuals,
- Continue our investment in preventative services and early intervention,
- Reduce the time taken to provide new packages of care and supply equipment, assistive technologies and adaptations to safeguard adults when their life circumstances change,
- Continue to promote new business start ups and stimulate the local economy,
- Help Rotherham Credit Unions continue to provide financial support to residents who are in danger of being made homeless because of the economic downturn, and
- Continue to invest in infrastructure across the Borough – houses, schools, roads, customer services and town centre regeneration.

By adopting these Budget Principles and ensuring that budget proposals protect those most in need in the Borough, means that over 70% (c£14m) of the 2013/14 savings proposals will **not affect front line service delivery**. Equally, the budget proposals will see job losses contained at 50 to 60 full time equivalent posts.

Proposed General Fund Revenue Budget for 2013/14

Set out below is the proposed Net Revenue Budget for 2013/14 resulting from the budget principles referred to above, which is recommended in this report.

Directorate	Proposed Budget 2013/14
	£'000
Neighbourhoods & Adult Services	74,957
Children & Young People's Service	45,414
Environment & Development Services	34,802
Resources	23,955
Central Services (including ITA and other levies)	42,346
TOTAL NET REVENUE BUDGET	221,474

Note: Year-on-year budget comparisons are not provided as significant restructuring across the Council and changes to the funding regime (a number of former specific grants now being incorporated into Formula Grant from April 2013) makes the comparison meaningless.

The Budget outlined above will:

- protect funding that helps to provide vital services for those most in need in our community;
- continue to reduce management, administration and back office costs as far as possible; and
- enable the Council to continue to focus on service transformation, ensuring services continue to be equipped to deliver a high standard that is fully aligned to the Community Strategy and our Corporate Plan priorities and objectives.

In arriving at the proposed 2013/14 above, Directorate specific budget proposals have been considered and put forward, totalling £8.361m:

Children and Young People's Service	-£1.776m
Neighbourhoods and Adult Services	-£2.974m
Environment and Development Services	-£1.411m
Resources (back office)	-£2.200m

Detailed information relating to these proposals are presented in Appendix 1 to this report.

Other key savings proposals contributing to closing the Council's 2013/14 funding gap include:

Reviewing inflationary assumptions (£4m) and MTFS assumptions (£0.9m)
Realising benefits from improved cash flow management (£2.4m)

Maximising opportunities through joint working on Public Health/NHS (£0.8m)
Working with partner organisations to improve efficiency (£1m)
Maximising income from other sources (£0.8m)

The budget proposals also include a target to save £300k from the review of staff terms and conditions. Negotiations are currently taking place with Trade Unions around a number of options which could potentially deliver this saving.

Resources

As well as spending and cost pressures, the level of resources available to the Council is a key factor to consider in the development of the Budget and these are set out below.

Government Grants

From April 2013, the Localisation of Business Rates Retention and the introduction of a Council Tax Reduction Scheme has resulted in changes to government funding received by the Council to support its Revenue Budget. From 2013/14 the Council will retain just under half (49%) of the Business Rates it collects – 50% will be passed to Central Government and the remaining 1% is shared with the South Yorkshire Fire and Rescue Authority.

In the past Councils received Formula Grant composed of Revenue Support Grant (RSG) and a share of the national Business Rates Pool. The level of RSG was determined by an assessment of the Council's relative needs and was determined using a range of data, including population. Under the new local government finance regime the Council receives a Start Up Funding Allocation which is split between RSG and a new Baseline Funding Level which is retained Business Rates income and, in the Council's case, a top-up grant to bring the Council's funding up to the level of assessed relative need.

The Council's Start Up Funding Allocation for 2013/14 is set out in the table below:

	£'000
Revenue Support Grant (RSG)	84,302
Baseline Funding Level (Retained Business Rates)	34,304
Baseline Funding Level (Top Up Grant)	21,780
Total - Formula Grant for 2013/14	140,386

Several funding streams, which in the past were covered by separate specific grants (such as Council Tax Freeze Grant, Early Intervention Funding and Learning Disability and Health Reform Grant), have been subsumed within the above Funding Allocation which also includes Council Tax Reduction Scheme funding that replaces Council Tax Benefit Subsidy.

Specific Government Grants

Continuing the trend from previous recent years the coalition government has again reduced the number of specific grants available to local authorities. The remaining 2013/14 specific grants that have been confirmed and their value for the Council are set out below:

Specific Grant	2013/14 £'000
Public Health	13,790
Health Community Voice	236
New Homes Bonus	2,749
PFI Education (Revenue)	6,223
PFI Waste/Leisure (Revenue)	1,811
Housing Benefit Administration Grant	1,992
Council Tax Support – New Burdens Grant	179
Social Fund Administration Grant	163
Social Fund – crisis loans and grants	773
Community Right to Bid	8
Community Right to Challenge	9

From April 2013 the responsibility for Public Health transfers to Local Authorities – this is reflected in the transfer of the Public Health Grant included in the table above (£13.790m).

Dedicated Schools Grant (DSG) – The DSG single flat rate per pupil of £5,141.27 for 2012/13 has been revised for 2013/14 as a result of the Schools Funding Reform. 2013/14 DSG will be funded across 3 blocks; Schools, Early Years and High Needs. Instead of the same flat rate, each Block attracts different rates - £4,844.16 for the Schools Block and £3,870.32 for the Early Years Block. These individual rates are lower than the 2012/13 single rate with the funding freed-up being redirected to the High Needs Block based on 2012/13 notional planned High Needs spend.

The School's Pupil Premium is additional funding provided to schools, the value of which is based on 3 elements:

From April 2013 the 'Disadvantaged Premium' will be £900 per pupil compared to £623 for 2012/13. Pupils who have been eligible for Free Schools Meals in the last 6 months will attract this premium.

The Looked After Children Premium for children who have been looked after continuously for more than six months will be £900 per eligible pupil compared to £623 for 2012/13.

The Service Child Premium which funds children of Armed Services personnel has increased to £300 per pupil compared to £250 in 2012/13.

Year 7 Literacy and Numeracy Catch-up Premium was an additional resource for schools directed at additional literacy and numeracy catch-up support during Year 7. Schools are allocated £500 for each pupil not achieving level 4 at Key

Stage 2 in reading and/or maths. The rate per eligible pupil remains at £500 for 2013/14.

Devolved Formula Capital funding for Schools is subject to review as part of the Schools Funding Reform and the LA will not be notified of 2013/14 allocations until this work is complete. The allocation for 2012/13 was £0.853m.

Sixth form funding from the Education Funding Agency (EFA) is yet to be confirmed. (2012/13 was £5.3m)

The level of Council Tax

It is proposed that there will be **no rise in the Council Tax for the third year running**. This will enable the Council to qualify for the Council Tax Freeze grant described below. A zero increase on the tax levied in 2012/13 would mean a **Band D Council Tax (for the Council only) of £1,230.03** and would mean a Band A Tax of £820.02, a Band B Tax of £956.69 and a Band C Tax of £1093.36 per year. **87% of properties in Rotherham are classed as Band A (55%), Band B (19%) or Band C (13%).**

The planned level of Council Tax also takes account of a net £1.413m surplus balance expected on the Collection Fund as at 31 March 2013. This is expected to be generated by the Council continuing to achieve a higher rate of collection for Council Tax than the 97% expected when setting the previous years' tax levels.

As required by legislation (the Local Government Finance Act 1992), and as in previous years, a formal report will be brought to Council on March 6th setting out details of the proposed Council Tax calculations for the Council, parished areas and including the precepts from the South Yorkshire Police and South Yorkshire Fire and Rescue Authorities (which are due to be declared later this month) - it is currently expected that the Police Authority will increase their Council Tax precept by £5 per annum (for a Band D equivalent property) and the Fire and Rescue Authority increase will be within the range of 1.9% to 2%.

A Cabinet meeting on 30 January 2013 approved Rotherham's Council Tax Base for 2013/14 of 63,631.44 Band D Equivalent properties after adjusting for expected losses on collection, the impact of introducing the Council's Council Tax Reduction Scheme and revisions to the discretionary discounts and exemptions for empty properties and second homes. These changes have resulted in a reduction of 16.2% in the number of Band D equivalent properties in the Council Tax Base compared to 2012/13

Council Tax Reduction Scheme (CTRS) - To compensate for the reduction in the Council Tax Base arising from the introduction of the CTRS the Council is being allocated Council Tax Support Funding of £17.51m within its 2013/14 Funding Allocation - the resources allocated are 10% less than the estimated cost of Council Tax Benefits in 2013/14. The South Yorkshire Police and Fire and Rescue Authorities will also receive this grant, but the resources allocated to the Council include provision for Parish Councils. The Council has allocated £0.219m funding to parishes in the Borough on the basis of the number and cost of claims in their area to allow them to set the same Band D Council Tax as in 2012/13.

Council Tax Freeze Grant - to support authorities that are not increasing their Council Tax the Government has again put forward an un-ringfenced grant for 2013/14. This will be payable to authorities setting their basic Council Tax for 2013/14 at a level which is no more than the basic amount of Council Tax set for 2012/13. The grant is equivalent to a 1% increase in the 2012/13 tax level - in Rotherham's case the estimated grant is £0.938m, which has been taken into account in determining the Council's Net Budget. This Grant will be paid for two years – 2013/14 and 2014/15. The implications of the grant being withdrawn after 2014/15 year will be reflected in the update to our Medium Term Financial Strategy (MTFS) projections. The Council has accepted this grant to mitigate the impact of an increase in Council Tax on all residents and to particularly protect vulnerable and low income families across the Borough.

Council Tax Reduction Transitional Grant – From April 2013, in line with the Government's Welfare Reform agenda, the Council will implement its Council Tax Reduction Scheme. The Scheme has been designed to protect vulnerable groups by retaining income disregards, allowances and premiums and by taking up the Government's Transitional Grant Support Scheme (£0.468m) the Council has again taken steps to minimise the financial pressure placed on low income families and individuals across Rotherham brought about by the Government's welfare reform. Working age claimants will receive a maximum support entitlement of up to 91.5% of the Council Tax due.

On these planning assumptions the level of Council Tax available to the Council to fund services in 2013/14 will be £78.269m.

Funding the Budget

It is proposed that the financing of the Council's proposed Net Budget of £221.474m for 2013/14 is as follows:-

	£'000
Formula Grant (including retained Business Rates and 11/12 CT freeze grant)	140,386
Collection Fund Surplus	1,413
2013/14 Government Grant to compensate Council for Freezing Council Tax at 2012/13 level	938
Council Tax Support Transitional Grant (2013/14 only)	468
Which will leave to be raised from Council Tax – a standstill on the Council Tax levied in 2012/13	78,269
Funding Total	221,474

Medium Term Financial Strategy (MTFS)

The 2013/14 Revenue Budget will be used as the baseline for the update of the Medium Term Financial Strategy (MTFS) 2013-2016. As part of the process of developing the Budget, the MTFS is being refreshed to take account of ongoing Government announcements. This will include the 2014/15 provisional settlement issued with the 2013/14 Final Settlement on 4th February which shows a planned resource reduction for Rotherham of 9.1% on 2013/14 funding levels. The MTFS will be further updated following the next Spending Review (SR) announcement which the Government has said it will release within the first 6 months of 2013. The refreshed MTFS will also include predictions of the future level of resources available to the Council and the predicted demand for, and cost of, services.

8. Finance

The proposals for the 2013/14 Budget and Council Tax contained within this report are put forward having regard to several factors. These are:

- that the assumptions about the level of resources and reserves available to support the 2013/14 Revenue Budget are sound.
- that the budget proposals upon which the Budget is predicated will be actioned by elected Members and officers, as appropriate, and that this will be done having full and proper regard for the Council's financial position. The prospects for this are good.
- that through the ongoing rigorous challenge of service design and delivery, other scrutiny and strategic and service planning processes the Council will ensure the sustainability of its annual Budget and other financial plans as well as the resilience of its overall financial position. Again the prospects are good.

This report recommends:

- The Council Tax **to remain at £1,230.03 at Band D equivalent for the fourth year running** (i.e. no increase on the 2010/11 level),
- a General Fund Revenue Budget for Rotherham Council in 2013/14 of £221.474m.
- For information, the following general assumptions with respect to inflation have been provided for within the Budget:
 - An overall 1% increase in staff pay in line with the Local Government Employers' Organisation proposals.
 - A general price inflation rate of nil %, and where known in relation to specific items of expenditure, a specific provision for inflation if significantly different. **In line with Council policy, it is expected that all such pressures will be contained within Directorate Cash Limit budgets.**
 - Average income inflation of 2.5%.

9. Risks and Uncertainties – Report of the Director of Financial Services

The Chief Financial Officer of an Authority (in Rotherham Council's case the Director of Financial Services) is required by Section 25 of the Local Government Act 2003 to report to the Authority when it is making the statutory calculations required to determine its Council Tax, and the Authority is required to take that report into account. The report should deal with:

- The robustness of the estimates included in the Budget; and
- The adequacy of reserves for which the Budget provides.

The report does not have to be a separate document and so I have included my comments in this report and Cabinet is asked to take account of them.

The budget setting process has been challenging given the unprecedented scale of the funding reductions required and the timescales in which to achieve them. Delivery of £20.2m savings following delivery of over £50m savings in the previous two years presents a significant challenge (to all Councils) in formulating a robust and sustainable budget and preserving a financially resilient overall financial position.

By establishing a clear set of budget principles and taking a calm and measured approach and planning ahead, the Council has put itself in a strong position to ensure that the Budget proposals are robust and deliverable, whilst ensuring that vital public services continue to be available to those in our community that are most in need of them. Overall, the Council is successfully reconfiguring its services to align activity with the likely level of available funding.

The Council continues to have a strong track record of delivering savings and making further efficiencies year on year while maintaining high service standards. It also has a strong financial governance framework to ensure that the Council continues to manage closely the delivery of the proposals in the Budget so as to preserve the resilience of the Council's overall financial position.

From April 2013 the Localisation of Business Rates and the introduction of the Council Tax Reduction Scheme both transfer significant financial risks from Central Government to a local authority which could put pressure on collection rates which will have a direct impact on future resources available to the Council. In Rotherham we have a strong track record of collecting both business rates and council tax income and therefore I believe the collection level assumptions included in setting this budget adequately reflect this increase in risk.

As Director of Financial Services for the Council, I consider that the budget proposals and estimates included within the proposed Budget are robust. The MTFs will be kept under continuous review with particular reference to giving early consideration to developing the 2014/15 budget.

Reserves

The Council holds a level of uncommitted reserves that could be drawn on, if required, to support the 2013/14 Budget and to give time for serious action to be taken to bring the Budget back into balance, so as to ensure its sustainability for the future.

I have conducted a detailed review of the level and purpose of the Council's reserves, together with their operational arrangements (in line with recommended best practice). The review, incorporating a risk assessment of each reserve, has guided my decision regarding the prudence of the level of reserves available to draw upon, if necessary, during 2013/14.

The Council's reserves are expected to be £48.9m by 31st March 2013, and this is broadly in line with the Council's current financial plan.

The majority of reserves (£41.8m) are mostly held as ring fenced to particular statutory services including Schools and Housing Revenue Account and to meet long term contractual PFI obligations (£31.9m). The balance is earmarked for specific needs.

This means that approximately £7.1m is generally available to safeguard the Council against the potential financial risks in the financial plan. Based on an assessment of those risks and the likelihood of them occurring I consider this to be a prudent level. However, given the speed of government funding and policy change over last 2 to 3 years and the need to continue to deliver unprecedented funding reductions it will be imperative that the adequacy of the reserves position is monitored carefully as part of the ongoing assessment of the financial risks facing the Council.

10. Policy and Performance Agenda Implications

A balanced and sustainable Budget and a financially resilient overall financial position is fundamental to the delivery of the Council's planned level and range of services during the coming financial year in support of its stated key priorities.

11. Background Papers and Consultation

- Council Tax Base Report 2013/14 – Council 30th January 2013
- Local Government Financial Settlement – 4th February 2013

Consultation with SLT, elected Members and Trade Unions.

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