

**CONSIDERATIONS**

**PART 1 – APPROVING THE GENERAL FUND ESTIMATES**

**GENERAL FUND SUMMARY**

1. The General Fund summary showing the cost of providing services to the general public is attached as **APPENDIX B1**.

**LOCAL AUTHORITY FINANCE SETTLEMENT**

2. The final settlement for formula grant for 2012/13 was published on 31 January and confirmed the figures already announced last year, as 2012/13 is the second year of a two year settlement.
3. The figures are for two years and not for the four years of the Government’s Spending Review. The two year settlement is “a transitional settlement using an inherited system” pending the outcome of the local government resource review (retained business rates).
4. The Spending Review forecast a 28% reduction in grant over four years. The reductions were then front-loaded such that almost all the forecast reduction occurred in the first two years.
5. The figures for formula grant are:

	Formula Grant	% change year on year	% change cumulative	Adjusted to like for like basis	% change year on year	% change cumulative
Year	£ million			£ million		
2010/11	7.823			7.106		
2011/12	6.026	Minus 23%		5.973	Minus 16%	
2012/13	5.239	Minus 13%	Minus 33%	5.239	Minus 12%	Minus 26%

6. The above figures are in cash terms and, therefore, the % decrease is greater in real terms.

**NEW HOMES BONUS**

7. The new homes bonus is a new grant from 2011/12 based on:
  - Net additions to the number of dwellings (the main factor)
  - Increases in affordable housing
  - Empty homes brought back in to use; and
  - Increase in gypsy and traveller pitches.

8. Each year's grant is payable for six years and so the grant accumulates for six years and then levels off in year seven:

		Financial year						
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Year of grant	2011/12	924	924	924	924	924	924	
	2012/13		893	893	893	893	893	893
	2013/14			950	950	950	950	950
	2014/15				950	950	950	950
	2015/16					950	950	950
	2016/17						950	950
	2017/18							950
	Total	924	1,817	2,767	3,717	4,667	5,617	5,643

9. The new homes bonus is a welcome and vital grant for this Council as Housing Planning Delivery Grant and housing growth funding (via Cambridgeshire Horizons) have ended. The Council received £1.841 million and £1.954 million from HPDG and housing growth funding in 2008/09 and 2009/10 respectively.

### **COUNCIL TAX FREEZE GRANT**

10. The grant is payable to billing (i.e. districts, etc.) and major precepting authorities (i.e. counties, police and fire), but not to parish councils.
11. In 2011/12, the Government offered a council tax freeze grant, which all councils accepted, on the condition that they did not increase their council tax in 2011/12. The grant compensated councils for foregoing an assumed 2.5% increase and was payable for the four years of the Spending Review so there will be a loss of income when the grant ends in 2015/16 unless the council tax is increased in that year by an additional 2.5%.
12. In 2012/13, the Government is also proposing to pay a council tax freeze grant to all councils which do not increase their council tax in 2012/13. The proposed grant again compensates councils for foregoing an assumed 2.5% increase. The grant will be calculated as:

council tax for 2011/12 £115.46  
 multiplied by number of band D dwellings for 2012/13 60,793  
 equals council tax income of £7,019,160  
 multiplied by 2.5%  
 equals council tax freeze grant of £175,480

13. **However, the grant for freezing the council tax in 2012/13 is only payable for one year.**
14. The council tax freeze grant is only payable for one year so there will be a loss of income in 2012/13 because the grant is based on a 2.5% increase whereas the Council was proposing a 3.5% increase and in each subsequent year:

		Reject one year grant			Accept		Loss of
		Increase council tax			one year grant in 2012/13		income
		by 3.5% every year			then increase by 3.5%		from
							accepting
Year	Tax base	Council tax	Council tax	Council tax	Council tax	Council tax	grant
			income			income	
2011/12	60,057	£115.46		£115.46			
2012/13	60,793	£119.50	£7,264,830	£115.46	£7,019,160		£70,191
				grant	£175,480		
2013/14	61,648	£123.68	£7,624,849	£119.50	£7,367,004		£257,845
2014/15	62,624	£128.01	£8,016,659	£123.68	£7,745,564		£271,095
2015/16	63,578	£132.49	£8,423,640	£128.01	£8,138,783		£284,857
2016/17	64,613	£137.13	£8,860,398	£132.49	£8,560,771		£299,627

15. The table above assumes that councils will be limited to increase of 3.5% in future years unless they are prepared to risk having to hold a referendum. This assumption is in line with earlier forecasts agreed by Council in February 2011.
16. On the 16 December 2011, the Department for Communities and Local Government confirmed that authorities will be required to seek the approval of their local electorate in a referendum if, compared to 2011/12, they set council tax increases that exceed 3.5% in 2012/13 (4% for police and fire authorities; parish councils are not included in the referendum threshold for 2012/13).
17. The estimates for 2012/13 assume that there will be no council tax increase in that year and that the grant of £175,480 for freezing the council tax in 2012/13 will, therefore, be accepted.
18. Ongoing savings of £100,000 have been incorporated in the 2012/13 estimates to compensate for the loss of income. Savings of £100,000 have also been incorporated in 2012/13 to maintain the General Fund working balance at the minimum of £2.5 million at the end of the five year period of the MTFs so Appendix B1 shows total savings of £200,000.

## REVENUE ESTIMATES

19. The General Fund summary up to the year ending 31 March 2013 is submitted for Members' approval as Appendix B1.
20. The figures in Appendix B1 show the original estimate 2011/12 for Net District Council General Fund Expenditure of £14.969 million decreasing marginally to £14.949 million in the revised estimate 2011/12.
21. The figures in Appendix B1 also show the original estimate 2011/12 for Net District Council General Fund Expenditure of £14.969 million decreasing to £14.692 million in the estimate 2012/13, a decrease of £0.277 million in cash terms (minus 1.9%).
22. Appendix B1 shows the General Fund balance decreasing from £7.4 million as at 31 March 2011 to a revised estimate of £6.5 million as at 31 March 2012 and then decreasing further to an estimated £6.2 million as at 31 March 2013. This decrease in

balances is sustainable over the period of the Medium Term Financial Strategy as shown in the next section of the report but longer term pressures remain as described below.

23. **Appendix B3** sets out details of “precautionary” items of expenditure totalling £465,000. These are items of expenditure over which there is some doubt as to whether they would occur in 2012/13, but if they did, the Council would be required to meet them. It has been assumed that expenditure of £75,000 will be incurred on precautionary items in 2012/13 on the basis that there has been limited use of precautionary items in the previous year and that in previous years most additional demands have been met by virement.

## COLLECTION FUND BALANCE

24. The Council's Collection Fund includes transactions relating to the Council Tax.
25. Regulations provide that the balance on the Collection Fund at 31st March 2012, whether in hand or overdrawn, must be transferred to the Billing Authority and the major precepting authorities in the same ratio as their 2011/12 precepts.
26. It is estimated that the balance at 31 March 2012 will be a deficit of £531,890 of which £66,070 will be transferred to the District in 2012/2013.

## PART 2 – SETTING THE COUNCIL TAX

### CALCULATION OF THE TAX

27. The Council Tax figures quoted in this report relate to the tax on a Band D property occupied by two or more adults unless otherwise indicated. Council Tax benefits and discounts are excluded.
28. The figure for a Band D property is arrived at by dividing the amount of the council tax requirement by the tax base of band D equivalents. A tax base of 60,793.0 for 2012/13 has been approved by the Executive Director (Corporate Services).
29. If the Council approves the council tax requirement of £7,019,160 for 2012/13, then the tax on properties in bands A- to H will be:

Valuation Band	Range of values as at 1 <sup>st</sup> April 1991	Ratio to band D	Council Tax
A-		5/9	£64.14
A	Up to and including £40,000	6/9	£76.97
B	£40,001 - £52,000	7/9	£89.80
C	£52,001 - £68,000	8/9	£102.63
D	£68,001 - £88,000	-	£115.46
E	£88,001 - £120,000	11/9	£141.12
F	£120,001 - £160,000	13/9	£166.78
G	£160,001 - ££320,000	15/9	£192.43
H	More than £320,000	18/9	£230.92

30. The full amount of the tax is arrived at by adding the requirements of the County Council, the Police and Fire Authorities and the relevant Parish to the District figure and

these figures, together with a full list of parish precepts, will be presented to the Council meeting on 23 February 2012.

### **PART 3 - MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

31. The MTFS has updated the projections for future years to incorporate the latest figures, which are shown in **Appendix B2**.
32. The Strategy is dependent on the assumptions that are built in to it and these include:
  - a) being able to identify and implement ongoing savings of £470,000 per annum;
  - b) additional expenditure of around £125,000 for benefits is ongoing in future years. This arises from a reduction in Government grant from 100.5% to 100.1% on £34 million in 2012/13 and was not anticipated in the previous MTFS reported to Cabinet last November;
  - c) the £50,000 for Council actions as recurring expenditure each year and the £150,000 for support for the economic downturn as one-off expenditure spread over 2011/12 and 2012/13 only;
  - d) reducing the present contributions of £138,000 to the Travellers Reserve when the Reserve reaches £1 million in 2015/16;
  - e) only three years' income from New Homes Bonus being shown in the MTFS, with the first two years being used to meet General Fund expenditure and to replace previous income from Housing and Planning Delivery Grant and Cambridgeshire Horizons grant, and the third year being transferred to a reserve for non-recurring expenditure on infrastructure, community facilities, etc.

The contributions to this reserve will total £3.8 million by 31 March 2017 and the only use so far identified is for £50,000 for improving the digital infrastructure.

Only three years' income is being shown as:

- there may be a new government within the six year period which may change the bonus;
  - the 80% allocated to district councils may be reduced;
  - the new homes bonus is a replacement for Housing Planning Delivery Grant (HPDG) which was capped so the new homes bonus may also be capped in future years; and
  - the housing trajectory may be too optimistic;
- f) further reductions in general grant (formula grant/retained business rates in 2013/14 and 2014/15 in line with Spending Review totals;
  - g) no allowance for additional income due to growth from 2013/14 onwards for retained business rates (which replaces formula grant), despite South Cambridgeshire being a growth area, as the scheme has not yet been determined and rates of set aside, levy, etc., have not been quantified. An allowance for a 2.5% increase for inflation has been assumed for 2015/16 and 2016/17;

- h) an increase in council tax of 3.5% each year from 2013/14 onwards; the Finance Task and Finish Group recommended that council tax increases should be quoted in £ and pence; and
  - i) an increase in the tax base (number of band D equivalent dwellings) in line with the housing trajectory in the Annual Monitoring Report approved by the Sustainability Planning and Climate Change Portfolio Holder in December.
33. The result is that by the end of the projection period, 31 March 2017, the General Fund balance is £2.6 million (credit balance). However, the medium term position of a £1.8 million deficit/use of balances on the General Fund in 2016/17 indicates that there can be no relaxation in the search for savings or in pressing for fairer funding and more certainty over future years' new homes bonus.

## **OPTIONS**

34. Options, which can be modelled if requested, for the medium term financial strategy include one or a combination of the following:
- i. finding further revenue savings and/or capital savings financed from revenue;
  - ii. agreeing to a pay award for 2012/13 and later years which is lower than 2.5%. A lower pay award would save money in 2012/13 and each subsequent year assuming that the saving went into balances, There would clearly be no saving if the lower pay award was recycled into job evaluation or if there was a corresponding reduction in formula grant from the Government;
  - iii. using the third year of new homes bonus to meet general fund expenditure instead of non-recurring expenditure and/or incorporating a fourth year for new homes bonus for 2014/15.
  - iv. anticipating income from retained business rates collected from 2013/14 onwards on the basis that an area like South Cambridgeshire should benefit from the proposed system. However, there are so many variables in the proposed system such as set aside, adjustments, proportionate shares, tier splits, and the operation of levies and safety nets that it would be difficult to quantify any such income with any certainty;
  - v. increasing the council tax by 3.5% in 2012/13 and rejecting the one year council tax freeze grant (as evaluated in paragraph 14).
  - vi. increasing the council tax by more or less than 3.5% from 2012/13 onwards; and
  - vii. running the General Fund balance down below the recommended minimum of £2.5 million.