

## **Committee: Children and Young People Overview and Scrutiny Panel**

18<sup>th</sup> January 2012

## **Healthier Communities & Older People Overview and Scrutiny Panel**

25<sup>th</sup> January 2012

## **Sustainable Communities Overview and Scrutiny Panel**

26th January 2012

## **Overview and Scrutiny Commission**

7<sup>th</sup> February 2012

# **MEMBERS ARE REQUESTED TO BRING THE NOVEMBER 2011 OFFICERS OPTIONS PACKS TO THESE MEETINGS**

**Agenda item:** 10

**Wards:** All

**Subject:** Business Plan: 2012-16 – Update

**Lead officer:** Caroline Holland

**Lead member:** Mark Allison

**Contact officer:** Paul Dale

### **Urgent report for Children and Young People Overview and Scrutiny Panel:**

Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2012/13 and requires scrutiny of issues relating to the Budget process and Medium Term Financial Strategy 2012-2016. It is important that this scrutiny is not delayed in order that the Council can work towards a balanced budget at its meeting on 7 March 2012 and set a Council Tax as appropriate for 2012/13.

**Forward Plan reference number:**

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### **Recommendations:**

1. That the Panel consider the further information requested by the Overview and Scrutiny Commission and Panels on those budget options not agreed by Cabinet at its meeting in December 2011 and refer comments to the Overview and Scrutiny Commission.

2. That the Overview and Scrutiny Commission considers the comments of the Panels and provides a response to Cabinet when it meets on the 7<sup>th</sup> February 2012.
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1. **Purpose of report and executive summary**

- 1.1 This report requests Scrutiny Panels to review the latest information on the Business Plan 2012-16 and feedback comments to the Overview and Scrutiny Commission.

2. **Details - Revenue**

- 2.1 The Overview and Scrutiny Commission on the 24<sup>th</sup> November 2011 after considering feedback received from Scrutiny Panels during November, scrutinised budget options that were forwarded by Cabinet on 7<sup>th</sup> November 2011 and provided comments to Cabinet.
- 2.2 Cabinet, which met on the 12<sup>th</sup> December 2011, considered the comments from the Overview and Scrutiny Commission on the budget options and

RESOLVED: That

1. the feedback and recommendations from the Overview and Scrutiny Commission and panels are acknowledged;
  2. where the Overview and Scrutiny Commission and panels have accepted the need for specific savings and, having regard to the service implications of these and the Equalities impact assessment, these are progressed for decision by Council on 1 February 2012;
- 2.3 An update report on the Business Plan 2012-16 is being considered by Cabinet on 16<sup>th</sup> January 2012. Appendix 1 to that report provides further information on the remaining budget options which have not been agreed.
  - 2.4 Details of the budget options have been circulated previously and are available on the Council's intranet.
  - 2.5 The comments of the Scrutiny Panels upon these proposals will be considered by the Overview and Scrutiny Commission at its meeting on 7<sup>th</sup> February 2012 which will co-ordinate a joint overview and scrutiny response on behalf of the Panels for Cabinet to consider when it meets on 20<sup>th</sup> February 2012.

### 3. **Alternative Options**

- 3.1 It is a requirement that the Council sets a balanced budget. The Cabinet reports on 12<sup>th</sup> December 2011 and 16<sup>th</sup> January 2012 set out the Council's budget proposals for 2012/13 and progress made towards setting a balanced budget. A further report will present final proposals to Cabinet on 20<sup>th</sup> February 2012.

### 4. **Consultation undertaken or proposed**

- 4.1 Further work will be undertaken as the process develops.

### 5. **Timetable**

- 5.1 The timetable is set out in the following table

16 <sup>th</sup> January 2012	-Cabinet
18 <sup>th</sup> January 2012	- Children and Young People
25 <sup>th</sup> January 2012	- Healthier Communities and Older People
26 <sup>th</sup> January 2012	- Sustainable Communities
7 <sup>th</sup> February 2012	- Overview and Scrutiny Commission
20 <sup>th</sup> February 2012	-Cabinet
7 <sup>th</sup> March 2012	-Council

### 6. **Financial, resource and property implications**

- 6.1 These are set out in the Cabinet reports for 12<sup>th</sup> December 2011 and 16<sup>th</sup> January 2012.

### 7. **Legal and statutory implications**

- 7.1 All relevant implications have been addressed in the Cabinet reports. Further work will be carried out as the budget and planning proceeds and will be included in the budget report to Cabinet on the 20<sup>th</sup> February 2012.

### 8. **Human Rights, Equalities and Community Cohesion Implications**

- 8.1 All relevant implications have been addressed in the Cabinet reports. Further work will be carried out as the budget and planning proceeds and will be included in the budget report to Cabinet on the 20<sup>th</sup> February 2012.

9. **Crime and Disorder implications**

- 9.1 All relevant implications have been addressed in the Cabinet reports. Further work will be carried out as the budget and planning proceeds and will be included in the budget report to Cabinet on the 20<sup>th</sup> February 2012.

10. **Risk Management and Health and Safety Implications**

- 10.1 All relevant implications have been addressed in the Cabinet reports. Further work will be carried out as the budget and planning proceeds and will be included in the budget report to Cabinet on the 20<sup>th</sup> February 2012.

11. **Appendices – the following documents are to be published with this report and form part of the report**

Report to Cabinet “Business Plan 2012-16: Update” on 16<sup>th</sup> January 2012

12. **Background Papers**

- 12.1 Budgetary Control files held in the Corporate Services department.

13. **Report Author**

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# Cabinet

16 January 2012

**Agenda item:**

**Subject:** Business Plan: 2012-16 – Update

**Lead officer:** Caroline Holland

**Lead member:** Councillor Mark Allison

**Key Decision Reference Number:** This report is written and any decisions taken are within the Budget and Policy Framework Procedure Rules as laid out in Part 4-C of the Constitution.

**Contact officer:** Paul Dale

## **Urgent report:**

Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2012/13 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2012-2016. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 7 March 2012 and set a Council Tax as appropriate for 2012/13.

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## **Recommendations:**

1. That Cabinet reviews the further information requested by the Overview and Scrutiny Commission and Panels on those budget options not agreed by Cabinet at its meeting in December 2011
2. That Cabinet notes the latest information on the revenue budget and provides direction on options for setting a balanced budget
3. That Cabinet notes the latest information on the revenue implications of the draft capital programme 2012-2016 agreed by Cabinet at its meeting in December 2011
4. That, as a result of the technical IFRS requirement to reclassify some capital expenditure as revenue expenditure, the Revenue Reserve for Capital be made available to fund the necessary increases in the revenue budgets.

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## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report provides an update to Cabinet on the Business Planning process for 2012-16 and in particular on the progress made so far

towards setting a balanced revenue budget for 2012/13 and over the MTFS period as a whole, including producing an achievable and affordable capital programme for 2012-16.

- 1.2 The report provides details of feedback on those issues raised by the Overview and Scrutiny Commission and the Panels on those budget options which were not agreed by Cabinet at its meeting on 12 December 2011.
- 1.3 There is also an update on the draft capital programme 2012-2016 and in particular, progress made on providing an assessment of the revenue implications over the MTFS period.
- 1.4 The report sets out the planned timetable which is designed to enable the Council to set a balanced budget and Council Tax at its meeting on 7<sup>th</sup> March 2012.

## 2. **Background**

- 2.1 Cabinet on 12 December 2011 received a report on the business plan for 2012-16 and progress made towards setting a balanced budget. At that meeting, Cabinet

RESOLVED: That

1. the feedback and recommendations from the Overview and Scrutiny Commission and panels are acknowledged;
  2. where the Overview and Scrutiny Commission and panels have accepted the need for specific savings and, having regard to the service implications of these and the Equalities impact assessment, these are progressed for decision by Council on 1 February 2012;
  3. the Council Tax Base for 2012/13 is approved; and
  4. the draft programme as set out in the table in paragraph 5.7.2 of the submitted report is approved, subject to a report back on the revenue implications in January 2012.
- 2.2 As a result of the decisions made by Cabinet on 12<sup>th</sup> December 2011, the current budget gap over the MTFS period is as shown in the following table.

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
<b>Gap (Cabinet 17 October 2011)</b>	<b>15,783</b>	<b>31,734</b>	<b>44,299</b>	<b>51,794</b>
Corporate Services options accepted by Scrutiny	-2,051	-2,561	-2,856	-2,856
Service Review options accepted by Scrutiny	-9,165	-9,714	-11,246	-11,246
Council Tax Freeze Grant	-2,078	0	0	0
Movement in Corporate Provisions	-1,153	-2,627	-2,228	-2,227
<b>Revised Gap</b>	<b>1,336</b>	<b>16,832</b>	<b>27,969</b>	<b>35,465</b>

2.3 The budget options accepted by the Overview and Scrutiny Commission and panels and agreed by Cabinet will now be progressed to Council on 1 February 2012.

2.4 Proposal to Defer Saving (Future Merton and Property - Page 95 Budget Options Pack)

There are some regeneration projects and potential economic development programmes to be undertaken and there is concern that if this saving is taken in 2012/13 there may be insufficient funding available to do this important work. Therefore, it is proposed to defer this saving until 2014/15.

2.5 Further information was requested on some of the remaining budget options and is set out in Appendix 1 (TO FOLLOW). The total remaining options are summarised in the following table

	2012/13 £000	2013/14 £000	2014/15 £000
Corporate Services remaining options (cumulative)	433	519	920
Service Review remaining options (cumulative)	5,796	10,466	14,922
<b>Total remaining options (cumulative)</b>	<b>6,229</b>	<b>10,985</b>	<b>15,842</b>

2.6 These options will be further scrutinised in January/February 2012.

2.7 **Update on Issues Impacting on the Budget and MTFS**

2.7.1 Local Government Finance Settlement 2012/13

The Provisional Local Government Finance Settlement for 2012-13 was announced on 8 December. Formula Grant allocations and floor damping are unchanged from provisional allocations announced in February 2011. Merton's formula grant for 2012-13 will therefore be £62.021m which includes funding of £2.060m allocated to pay for the second year of the 2011-12 Council Tax freeze.

2.7.2 In addition, HM Treasury issued a Written Ministerial Statement setting out adjustments to the Departmental Expenditure Limits (DEL) resource budgets following the announcement in the Autumn

Statement that public sector pay awards would be capped at 1% following the end of the current pay freeze. Nationally, the budgets have been reduced by £240m in 2013/14 and £497m in 2014/15.

- 2.7.3 The Government has published a consultation paper on the calculation and recovery arrangements for the academies transfer in 2011-12 and 2012-13. The consultation closes on 12 January 2012. The Academies topslice for both 2011-12 and 2012-13 remain unchanged.
- 2.7.4 The provisional principles for determining whether local Council Tax increases in 2012-13 are 'excessive', and could therefore potentially trigger a council tax referendum, have been set at 3.5% for London boroughs, 3.75% for the City of London and 4% for the GLA.
- 2.7.5 A summary of the Provisional Local Government Finance Settlement is included as Appendix 2.

## 2.8 Local Government Resource Review

- 2.8.1 The problem remains of forecasting the level of resources from 2013/14 onwards, which are subject to the outcome of the Local Government Resource Review for which the consultation period ended on 24 October 2011. The Government published its response to consultation on 19 December 2011 and confirmed its intention to introduce business rates retention from April 2013. Alongside its response, the Government is putting before parliament a Local Government Finance Bill to be debated in 2012, which will provide the means to put its proposals into effect. The Government's response will be analysed and a summary provided in January/February 2012.

## 2.9 New Homes Bonus

- 2.9.1 The New Homes Bonus provisional allocations for 2012-13 have been announced and Merton's allocation is £583,807. This, together with the year 1 allocation of £551,861, means that in 2012/13 Merton will receive £1.136m. The MTFs reported to Cabinet in December 2011 assumed a figure of £0.992m so the position is improved by £0.144m. Forecasting the receipts for 2013/14 and beyond is made more complex because the national amount for NHB will be funded from top slicing resources that would otherwise be passed to Local Government as grant or retained NNDR.

## 2.10 GLA

- 2.10.1 The GLA published its consultation budget on 20 December 2011. It is anticipated that the GLA will continue to freeze its precept at £309.82 (Band D). The timetable for the GLA precept to be agreed is that the London Assembly will consider the draft budget on 25 January 2011, and the final budget on 9 February 2011. The Mayor of London will approve the final GLA budget after 9 February 2011.



## 2.11 Council Tax and Council Tax Freeze Grant

2.11.1 The Government have published an estimate of the Council Tax Freeze Grant each participating authority would receive. Grants will be finalised in March 2012 once authorities have reported the tax base underpinning their calculation of council tax for 2012/13. For London the grant is equivalent to a 2.5 per cent Council Tax increase for Borough councils.

2.11.2 The scheme for 2012-13 will comprise a one-off payment of grant, which is payable for one year only. The Localism Bill proposes to give the public the right to veto excessive council tax rises. Councils that set a council tax increase above a ceiling approved by Parliament each year would automatically trigger a referendum of all registered local electors in their area. Provisional ceilings are set out in paragraph 3.1.4.

2.11.3 If Merton freezes its Council Tax for 2012/13, the amount on Council Tax Freeze Grant receivable over the Spending Review period is:

	Grant payable during Spending Review if taking up both freeze offers (£)			
	2011/12	2012/13	2013/14	2014/15
Merton	2,060,597	4,138,529	2,060,597	2,060,597

## 2.12 Council Tax

2.12.1 If Merton sets its basic amount of council tax for 2012-13 at a level which is no more than its basic amount of council tax for 2011-12, it will be eligible to receive a grant equivalent to a 2.5% increase in its 2011-12 basic amount of council tax *multiplied* by the authority's tax base for 2012-13 (rounded to the nearest pound)

The "basic amount of council tax" will reflect as expenditure those amounts which authorities have to pay to other bodies in the form of levies.

2.12.2 Therefore, the levy set by the Wimbledon and Putney Commons Conservators will need to be factored into Merton's Council Tax calculation.

2.12.3 The average council tax for Merton in 2011/12 was £1,106.57 and in order to qualify for Council Tax Freeze Grant in 2012/13 this level will need to be maintained in 2012/13. Based on the Council Tax Base agreed by Cabinet on 12 December 2011, the latest position is as set out in the following table:

	2011/12	2012/13
Council Tax Base	74,486	74,816
Budget Requirement (net of Collection Fund contribution)	£149.041m	£144.810m
Less:		
Formula Grant	£66.617m	£62.021m
Council Tax Requirement	£82.424m	£82.789m
Average Council Tax	£1,106.57	£1,106.57
Band D Council Tax (exc. WPC)	£1,102.99	£1,102.77

### 3. Schools Funding 2012-13

3.1 On 13 December 2011 the Department for Education announced the details of the school funding settlement for 2012-13. This included details of the local authority Dedicated Schools Grant allocations and the level of the Pupil Premium.

#### 3.2 Key Points – National

- DSG is kept at flat cash per pupil for 2012/13 and the same pupil number methodology will be used as for 2011/12. Final DSG pupil numbers and allocations will not be provided to local authorities until June 2012. Funding in the interim is to be based on 2011-12 pupil numbers.
- The Pupil Premium has increased nationally for 2012/13 to £1.25 billion. The level has increased to a flat rate per deprived pupil of £600 and its coverage extended to all pupils who have been eligible for Free School Meals at any point in the last 6 years. Illustrative allocations for boroughs are given in the Annex in Table Three.
- Early Intervention Grant has increased at the London regional level by 3% between 2011/12 and 2012/13 and is 19% of the national total for 2012/13.
- Schools capital funding, including basic need, maintenance and devolved formula funding, has increased by 8% for London at the regional level against a reduction of 11% nationally for 2012/13.
- Basic need allocations to London have risen by 28% from 2011/12 and represent 33% of the total £800 million national allocation.
- Funding for 16-19 in 2012/13 will see an increased number of places provided for nationally and £107 million for maintenance and building needs of sixth form colleges and demographic pressures

for new 16-19 places in schools, Academies and sixth form colleges.

### 3.3 Key Points - Merton

3.3.1 Currently the Children, Schools and Families Department (CSFD) has a gross revenue expenditure of £178.9 million. This expenditure is funded as follows:

	£ Million
Dedicated Schools Grants	123.6
Pupil Premium Grant	1.7
Early Intervention Grant	7.6
Young People's Learning Agency	5.1
Other grants	0.7
General Fund	36.5
Client Income	3.7
Total Income	<u>178.9</u>

The current funding regime ends on 31<sup>st</sup> March 2012.

#### 3.3.2 **Non-Dedicated Schools Grant:**

Officers are currently compiling budgets based on delivering core statutory services and in conjunction with setting service plans for 2012/13 within a balanced budget.

There is still uncertainty about some grant settlements for 2012/13. Any changes will be incorporated into the budgets as soon as they become available and measures put in place to adjust spending accordingly.

#### 3.3.3 **Dedicated Schools Grant (DSG):**

The DSG is triggered based on the numbers of full time equivalent pupils registered as part of the annual January census. Following confirmation of the 2012/13 funding levels, the following information and assumptions will be used:

The funding will be maintained for 2012-13 at the same level it was for 2011-12 (£5,424.57 per pupil).

To provide three-year budget information to schools officers will assume 0% inflation in 2013-15.

#### 3.3.4 **Minimum Funding Guarantee**

Minimum Funding Guarantee (MFG) is a prescribed per pupil formula which protects the reduction in an individual schools budget on a per pupil basis. In the previous funding period schools were provided with a MFG of negative 1.5% per pupil and this will be maintained in 2012/2013.

As part of the School Finance Regulations 2012 consultation, the DfE is proposing to make changes to the MFG disapplication process. The Authority will incorporate any changes resulting from the consultation in the formula.

### **3.3.5 Schools Forum**

The Local Authority (LA) is required to consult the schools forum and take into account its views before the formula is finalised and settings and school budget shares determined for 2012/13. In addition the LA must seek the forums approval to any relaxation of the central expenditure limit within the DSG. The forum can request that schools be consulted on any of the issues put before it in order that a wider range of schools views can be taken into account in formulating decisions.

### **3.3.6 Sixth Form and Further Education**

The Authority is still awaiting detailed funding information for the period from August 2012. Until the final information is received it is assumed that the level of funding will be maintained for 2012-13 academic year. Merton's Funding Formula currently passports this funding directly to the schools concerned (excluding the SEN element) and this will continue.

### **3.3.7 Early Years Single Funding Formula**

In 2011/12 Merton implemented its Early Years Single Funding Formula (EYSFF). Due to the expected changes in the grant-funding regime the authority decided not to make any changes to the 2012/13 formula. The EYSFF is the method by which Merton distributes the delegated budget for school nursery class places and funded 3 and 4 year old places across the Maintained and Private, Voluntary and Independent (PVI) sector.

There are no proposed changes to the EYSFF and there is no proposed inflation for any elements that make up the formula.

## **4. CAPITAL MONITORING 2011/12 AND DRAFT PROGRAMME 2012-2016**

### **4.1 Impact of Capital on Revenue Budget**

- 4.1.1 On 12 December 2011, Cabinet approved a draft Capital Programme 2012-16, subject to a report back on the revenue implications in January 2012. As previously reported, there are three main areas of variance relating to capital expenditure and financing which will lead to

a net reduction in borrowing and investment costs: capitalisation, debt redemption, and cost of borrowing (net of investment income). The cost of borrowing and level of investment income will vary, dependent on changes in factors such as interest rates, cash flow and level of capital expenditure which, based on previous experience, is subject to slippage.

- 4.1.2 Cost of Borrowing (net of investments): In the financial monitoring report to Cabinet on 12<sup>th</sup> December 2011, the department's year end forecast of capital outturn (based on October 2011 data) was £44.428m, against the revised budget for 2011/12 of £57.946m. Since then based on November data, the budget managers' forecast year end variance in the 2011/12 capital programme is £13.414m. With a revised budget of £57.971m, this means a capital outturn of £44.557m in 2011/12.
- 4.1.3 Borrowing costs is one of the key areas that have been identified by officers as needing to be reviewed in order to close the revenue funding gap over the period of the MTF5 2012-16. Schemes have been rigorously reviewed and substantial reprofiling and reductions identified, which were considered by Cabinet on 12<sup>th</sup> December 2011. The draft Capital Programme was approved by Cabinet subject to a report back on the revenue implications in January 2012. The details for 2011/12 set out in this report reflect the review which has taken place.
- 4.1.4 Most of the revenue impact of reducing the capital programme in 2011/12 has been included in previous forecasts as it has previously been anticipated that there will be no need for external borrowing in the current financial year and this remains the case.
- 4.2 Revenue expenditure, formerly in the Capital Programme
- 4.2.1 It was also reported to Cabinet that a review has been carried out of capital items which should be classified as revenue expenditure. This found that a number of schemes which had previously been funded as capital should, based on the latest IFRS guidance, be funded from revenue instead. The amounts so far identified that were formerly included in the capital programme that need to be funded from revenue are summarised in the following table:-

**Revenue formerly in Capital Programme:**

		2011/12	2012/13	2013/14	2014/15	Total
		£000	£000	£000	£000	£0
E&R	Greenspaces	176	10	10	10	206
E&R	Highways, Bridges, Footpaths etc.	540	153	273	198	1,164
E&R	Leisure Centres and Other Facilities	56	0	0	0	56
E&R	On and Off Street Parking	503	0	0	0	503
E&R	Waste Operations	60	60	60	60	240
<b>E&amp;R</b>	<b>Total</b>	<b>1,335</b>	<b>223</b>	<b>343</b>	<b>268</b>	<b>2,169</b>
CS	Business Improvement - IT	22	313	0	0	335
CS	Facilities Capital Works	1,381	800	750	500	3,431
<b>CS</b>	<b>Total</b>	<b>1,403</b>	<b>1,113</b>	<b>750</b>	<b>500</b>	<b>3,766</b>
<b>C &amp; H</b>	<b>Media Fund</b>	<b>287</b>	<b>267</b>	<b>257</b>	<b>247</b>	<b>1,058</b>
<b>CSF</b>	<b>Primary Expansion</b>	<b>260</b>	<b>300</b>	<b>150</b>	<b>100</b>	<b>810</b>
<b>Summary ( Appendix 11 Cabinet 12 December)</b>		<b>3,285</b>	<b>1,903</b>	<b>1,500</b>	<b>1,115</b>	<b>7,803</b>
<b>Additions</b>						
<b>E&amp;R</b>	Capitalised salaries (not in cap.prog.)	93				93
<b>CS</b>	Capitalised salaries (not in cap.prog.)	85	85	85	85	340
	<b>Revenuisation</b>	<b>3,463</b>	<b>1,988</b>	<b>1,585</b>	<b>1,200</b>	<b>8,236</b>

4.2.2 This expenditure will need to be funded from revenue and will need to be incorporated into the MTFS 2012-2016. This will be largely a technical adjustment in 2011/12, as the Revenue Reserve for Capital that was agreed to be used to fund the 2011/12 capital programme could be made available to fund the increases in the revenue budgets. Following the Cabinet approval on 12 December 2011 of the draft Capital Programme 2012-16, this use of the Revenue Reserve for Capital needs to be formally approved and therefore a proposal to this effect is included in the recommendations to this report. The impact in future years will need to be built into the setting of the 2012/13 budget and the revision of the MTFS.

4.3 Revenue Impact of the Capital Programme on 2011/12

4.3.1 The total revenue impact in 2011/12 of the reviewed draft capital programme approved by Cabinet, coupled with reduced interest costs resulting from debt redemption and adjusting for not being able to capitalise are summarised in the following table:-

	<b>Budget 2011/12 £000</b>	<b>Actual 2011/12 £000</b>	<b>Variance 2011/12 £000</b>
<b>MRP/Borrowing costs</b>	20,857	14,258	(6,599)
<b>Interest Receivable</b>	(250)	(676)	(426)
<b>Capitalisation</b>	(1,500)	0	1,500
<b>Net</b>	<b>19,107</b>	<b>13,582</b>	<b>(5,525)</b>

#### 4.4 Capital Receipts

4.4.1 The potential sources of capital receipts for this authority are sales of properties, and the authority's entitlements under the contracts with Merton Priory Homes and Raven Housing Association to Right to Buys, and the VAT shelter.

4.4.2 Capital receipts have a financial benefit to the authority as they increase cash reserves and hence reduce the authority's need to borrow. As at 31 December 2011, the Council has £7.850m of capital receipts available.

#### 4.4.3 Future Capital Receipts

It is always difficult to predict the level of future capital receipts, even in a very stable economic environment. The authority's Department of Environment and Regeneration has a detailed disposal programme, which is regularly reviewed by the Capital Programme Board. However, this can only be a programme of marketing activity and not a timetabled list of budgeted capital receipts. In the table below, the future disposal receipts included are those where a contract has been signed or where the contract negotiation is near conclusion. The anticipated receipts from the VAT shelter have also been included, although prudent adjustments have been made based on the timing of receipts to date.

4.4.4 In addition to those capital receipts below taken into account, providing there is no deterioration in market conditions, it is anticipated that there will be future capital receipts, which will improve the financial position. No external borrowing is planned until 2015/16, with the current draft programme, and potentially it may be possible to also avoid borrowing in that financial year. The current forecast of capital financing charges is based upon a planning assumption that they are purely used to reduce the need to borrow and remain unapplied. The approach to usage of available capital receipts will be reviewed as the budget process concludes and the position on available capital receipts will need to be updated in the preparation of the 2013-17 Capital Programme and MTFs.

	<b>Capital Receipts currently taken into account (£m)</b>			
	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Merton	<b>5.515</b>	<b>2.956</b>	<b>3.041</b>	<b>2.602</b>

#### 4.5 Use of Internal Balances

The forecast net investment balances (investments less temporary borrowing) at 31 March 2012 are approximately £65m. The interest rates that can be earned on short-term investment balances are still low (less than 1%) and hence it is financially more beneficial for the authority to use its available cash to fund capital expenditure rather than to externally long-term borrow at 4% to 5% from the PWLB. This use of cash balances is currently common among local authorities. By using this cash the authority is effectively borrowing cash that supports the revenue reserves. Therefore, at the point in the future when these reserves are required, the authority will need to externally borrow in order to make the cash available. Use of revenue reserves is not planned in the current MTFS strategy and, at the present time, the benefit of the interest rate differential between borrowing and lending rates makes the strategy of internal borrowing worthwhile. However, the strategy will be kept under review in the light of interest rate changes and any proposed changes to the strategy reported to Cabinet.

The use of internal borrowing, supplemented where necessary with temporary external borrowing (external temporary borrowing rates remain low), means that it is estimated there will potentially be no need to increase the long-term external borrowing of the authority over the current MTFS period.

#### 4.6 Revenue impact of the draft capital programme on the MTFS

4.6.1 As a result of the radical review of the capital programme and taking into account the projections of capital receipts and cash flow going forward, the revenue impact of the draft capital programme has reduced.

4.6.2 The change in capital financing costs from those included in the MTFS reported to Cabinet in December are summarised in the following table. The potential impact of dealing with the need to undertake reversionisation over the MTFS period is also shown: The precise treatment of the reversionisation will be reviewed as the budget is finalised.



	2012/13	2013/14	2014/15	2015/16
	£000s	£000s	£000s	£000s
Change in financing costs since Cabinet	(3,558)	(4,203)	(4,712)	(5,260)
Revenuisation (Cabinet Dec inc. £0.2m p.a.)	1,788	1,385	1,000	1,000
<b>Change</b>	<b>(1,770)</b>	<b>(2,818)</b>	<b>(3,712)</b>	<b>(4,260)</b>

4.6.3 There have been recent announcements of grants relating to the Children, Schools and Families programme which have yet to be taken into account. Furthermore, it does not include any allocation from the extra £600 million announced in the chancellor's autumn statement for basic need, which is over the 3 years 2012/13 to 2014/15. The amount to be allocated to each authority is not yet known. However, if the same formula were to be used as the basic need allocation recently announced then the authority would expect to receive £2m+. When the actual allocation for each authority is announced, the financial effects will be reported to Cabinet. However, it should be noted that any benefits will not have a material revenue benefit until 2015/16 when the forecast begins to include planned external long-term borrowing.

4.7 The surplus projected each year is as a result of the steps taken by the Capital Programme Board to reduce the Capital Programme by a thorough review. This review looked at the necessity of the expenditure budgeted and whether, even where expenditure was agreed as necessary, it could be reprofiled to later in the programme. The results of this review were that savings were identified of £20.5m (11.4%) over the whole of the programme. In addition, of the capital programme remaining in 2012/13, £20.8m (30.0%) was reprofiled into later years.

4.8 The Capital Programme as agreed will continue to be reviewed and appropriate adjustments proposed for the final report to Cabinet and Council. Updated information on grants (CSF, TFL etc) will need to be included as will any further adjustments as a result of some reviews just being completed.

4.9 The radical review and paring of the capital programme will enable some flexibility in respect of dealing with the significant revenue gap over the MTFs period, which has still to be addressed.

## 5. **BALANCES AND RESERVES**

5.1 On 29<sup>th</sup> December 2011, the DCLG issued a press release on Council Reserves. It noted that "overall, English local authorities expect to be holding £10.8 billion in reserves on 31 March 2012. At the same time last year, their forecasts for 31 March 2011 totalled £11 billion.

All councils should keep sufficient sums of money in reserve so that they have a financial cushion to meet sudden unexpected costs. Local Government Secretary Eric Pickles said:

"Most councils have maintained significant reserves, which will give them room to manoeuvre on their finances in future years, and help them to support budgets, and deliver efficient local services."

Looking at the data for London boroughs, based on Government returns, using forecasts for 2011/12 of non-schools reserves as a percentage of revenue expenditure, Merton's forecast of 5.7% is the 5<sup>th</sup> lowest in London (10<sup>th</sup> lowest in 2010/11)

5.2 Revenue Reserves

The Council's General Fund balances were £10.513m as at 31<sup>st</sup> March 2011 (£10.649m in 2009/10).

5.3 The Schools' General Fund balance has increased by £1.8m to £8.0m. The Housing Revenue Account balance fell by £0.6m to £4.05m.

5.4 Earmarked revenue reserves as at 31<sup>st</sup> March 2011 were £33.829m. Some of these were earmarked to support the 2011/12 revenue budget:-

	£m
Budget Funding Gap	4.282
VAT Reserve	0.752
Section 117	0.100

5.5 In addition, Performance Reward Grant received in 2010/11 of £1.7m has been allocated by Merton Partnership to invest in local community projects.

5.6 The revenue reserve for capital purposes is available for dealing with revaluations and/or investment in capital projects. This will be determined as part of closing procedures for 2011/12 and formulation of the business plan/budget for 2012/13 but it is recommended that the reserve is made available to fund revaluation expenditure in 2011/12.

5.7 More comprehensive details on reserves and balances will be included in the report to Cabinet on 20 February 2012.

5. **CONSULTATION UNDERTAKEN OR PROPOSED**

5.1 All relevant bodies have been consulted.

6. **TIMETABLE**

6.1 In accordance with current financial reporting timetables.

7. **FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

7.1 All relevant implications have been addressed in the report.

8. **LEGAL AND STATUTORY IMPLICATIONS**

8.1 All relevant implications have been addressed in the report.

9. **HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

9.1 Not applicable

10. **CRIME AND DISORDER IMPLICATIONS**

10.1 Not applicable

11. **RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

11.1 Not applicable

12. **APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

Appendix 1 – Further information on remaining budget options (**TO FOLLOW**)

Appendix 2 – Provisional Local Government Finance Settlement – Summary of main points

13. **BACKGROUND PAPERS**

13.1 Budgetary Control files held in the Corporate Services department.

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## **PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2012-13**

The Provisional Local Government Finance Settlement was announced on 8 December 2011.

The level of formula grant Merton is to receive is £62.021m. This is the same as announced last year as part of the two year finance Settlement, but the Council Tax Freeze grant allocations for 2011/12, which are ongoing, have been included in Formula Grant allocations.

Therefore, Merton's formula grant for 2012/13 is £59.961m + £2.060m Council Tax Freeze Grant.

There are no indications that the funding for Council Tax Freeze Grant will be rolled into formula grant on a permanent basis.

Formula Grant allocations at the local authority level for 2012-13 remain unchanged from provisional allocations announced in February 2011.

### **PFI Grant**

The PFI grant allocations originally announced as part of the Settlement data were incorrect. Revised figures were released on 19 December 2011 confirming that Merton's PFI grant in 2012/13 is unchanged from £4,796,938.

### ***Local Services Support Grant, 2012-13***

Final local authority allocations of Local Services Support Grant for 2012-13 will be provided later in this financial year when confirmation of the Community Safety Fund element of the funding becomes available.

### **Council Tax Referendums**

The provisional principles relating to 'excessive' council tax increases were announced alongside the Settlement. Authorities wishing to set local council tax levels in excess of these principles will be required to hold a local referendum to approve the increase. The final principles will be confirmed alongside the final Local Government Finance Settlement next year.

The legislation covering the requirement for a council tax referendum and how proposed council tax increases in excess of published principles must be dealt with is enshrined in Schedule 5 of the Localism Act, 20117.

In broad outline, the regulations require the following:

#### *1) Preparation and contingency planning*

Where a billing authority wishes to increase council tax in excess of the principles set by the Secretary of State for that financial year, it must also produce a contingency plan/budget in which council tax is increased up to the level of the specific principle only.

#### *2) The actual referendum*

A billing authority must hold the referendum no later than the first Thursday of May of the financial year or on any other date as specified by Secretary of State.

*3) The result*

The billing authority must inform the Secretary of State of the result of the referendum. If the referendum is successful, (ie, the original council tax increase is approved) the original spending plans apply.

If the referendum is unsuccessful, the contingency spending plan/budget takes effect, and new bills/refunds will need to be issued to reflect the new council tax level. The contingency plan will also come into force if the billing authority does not hold the referendum on time or at all. If, in either of these cases, a contingency calculation is not ready, authorities are restricted from transferring funds from their collection fund to the general fund from the latest date on which the referendum could have been held until such calculations are ready.

*4) Precepting authorities*

The GLA would have to notify billing authorities if they are intending to increase the precept rate in excess of the principles set. If this were to occur, the billing authorities (London boroughs) would all have to hold a referendum on the same date, either on the first Thursday of May of the financial year or another date specified by the Secretary of State. Billing authorities will be able to recover expenses incurred in connection with these referendums from the precepting authority. Votes would be counted London-wide and the London-wide majority would determine the result of the referendum, rather than each borough having to approve the increase on their own.

**Cap on Public Sector Pay: 2013/14 and 2014/15**

In addition, HM Treasury issued a Written Ministerial Statement setting out adjustments to the Departmental Expenditure Limits (DEL) resource budgets following the announcement in the Autumn Statement that public sector pay awards would be capped at 1% following the end of the current pay freeze. Nationally, the budgets have been reduced by £240m in 2013/14 and £497m in 2014/15. The Government has published a consultation paper on the calculation and recovery arrangements for the academies transfer in 2011-12 and 2012-13. The consultation closes on 12 January 2012. The Academies topslice for both 2011-12 and 2012-13 remain unchanged. The provisional principles for determining whether local Council Tax increases in 2012-13 are 'excessive', and could therefore potentially trigger a council tax referendum, have been set at 3.5% for London boroughs, 3.75% for the City of London and 4% for the GLA.

***£250m CLG Weekly Bin Collection Fund***

There is currently very little detail available with regards to this. More information is expected to be made available together with a broad prospectus and invitation to bid early in 2012. The fund is split into three years, £50m in 2012-13, £100m in 2013-14, and £100m in 2014-15. Bidding is likely to be a multiple step process, with the initial £50m expected to be released to successful councils in the summer 2012.

The deadline for responding to the settlement consultation is 16 January 2012.