

CABINET MEETING – 5th October 2011

EXECUTIVE SUMMARY SHEET- PART I

Title of Report:

Budget Planning Framework 2012/2013 and Medium Term Financial Strategy 2011/2012 – 2014/2015

Authors:

Chief Executive and Executive Director of Commercial and Corporate Services

Purpose of Report:

This report identifies the key factors influencing the development of the Councils financial plans into the medium term and sets out the budget planning framework for the Council for 2012/2013. The report sets out the headlines and context for the Medium Term Financial Strategy for 2011/2012 to 2014/2015.

The strategy is now in draft form and will be presented to Cabinet in November.

Description of Decision:

Cabinet is recommended:

- to agree the proposed Budget Planning Framework summarised at paragraph 12 which will guide the preparation of the Revenue Budget for 2012/2013;
- to note that the full Medium Term Financial Strategy 2011/2012 to 2014/2015 will be presented to Cabinet in November.

Is the decision consistent with the Budget/Policy Framework?

Yes

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

Adoption of the Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2012/2013.

Alternative options to be considered and recommended to be rejected:

There are no alternative options recommended.

Is this a “Key Decision” as defined in the Constitution?

No

Relevant Scrutiny Committee:

Management

Is it included in the Forward Plan?

No

Cabinet 5th October 2011

**Budget Planning Framework 2012/2013 and Medium Term Financial Strategy
2011/2012 – 2014/2015**

Report of the Chief Executive and Executive Director of Commercial and Corporate Services

1. Purpose of Report

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2. Description of Decision

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3. National Economic Context

3.1 Impact of the Deficit Reduction Plan

There continues to be uncertainty as to the impact that the Government's policy to eliminate public sector debt over the next few years will have, and how this will impact on the economic recovery, especially in areas with greater reliance on public sector jobs and higher grant cuts such as the North East.

The International monetary Fund have revised down UK growth for 2011/12 from 1.7% to 1.1% and for 2012/13 from 2.3% to 1.6%. As a result they estimate the structural debt will be £12bn higher than government estimates - now £94bn.

The fiscal outlook therefore is likely to remain very challenging in the medium term and as a result there is likely to be a compound impact of reductions in financial resources over the period 2011 to 2015.

3.2 Inflation

The Consumer Price Index (CPI) has been above the Government's target level of 2% since December 2009 placing additional pressures on the Council's finances. It is anticipated that whilst non pay volatility will continue there will be continued suppression of pay. The average rate of inflation (CPI) is forecast to be 2.6% in 2012/2013.

The position will therefore continue to be regularly monitored and revised.

3.3 Base Rate

The Bank Base Rate has remained at an all time low of 0.5% since March 2009. Recent weak UK data releases coupled with poorer global economic recovery especially in the Euro-zone and the United States are now seeing markets push back their expectations for interest rate increases. The prospect of a base rate of 0.5% remaining in 2012/2013 remains quite high with only low 0.25% rises in prospect possibly towards the end of 2012.

4. Local Government Finance Settlement

The Local Government Finance Settlement announced in December 2010 follows the framework set out in Spending Review 2010 (SR10). The settlement covers the two year period 2011/2012 and 2012/2013. The Government is consulting on changes to the local government finance system from 2013/2014 further details of which are set out at section 5. This is a key issue for Local Authorities and particularly for Sunderland.

4.1 2011/2012 Summary Position

In overall terms taking formula grant reductions, cost pressures and other grant reductions into account the total reductions required for 2011/2012 were £57.9m. The implementation of savings proposals continues to be rigorously monitored and whilst there are challenges with delivering this significant reduction, at this stage it is anticipated that the savings will be achieved in 2011/2012 and the ongoing position in 2012/2013 secured.

4.2 2012/2013 Latest Position

The provisional Formula grant level for 2012/2013 is to reduce in cash terms by a further £12.293m.

4.3 2013/2014 Onwards

Although Government has indicated at a national level the overall grant reductions in their Spending Review 2010 for local government, it is not possible to accurately estimate the impact on each individual authority's grant allocation. However, using indicative totals from the Spending review, the reduction in grant at that stage is estimated to be £13million, before cost pressures are added. This position is even more uncertain as the outcome of the Government's Local Government Resource Review will not be known for some time and this will inevitably impact on all authorities Formula Grant funding levels. Plans will need to be revisited when the position is clarified.

4.4 Other Core Grant Funding

The Government has notified the Council of a number of core grants for 2012/2013 and the main changes are detailed below:

4.4.1 Early Intervention Grant

The provisional Early Intervention Grant (EIG) allocation for 2012/2013 of £15.937m represents an increase of £0.286m on the 2011/2012 allocation, which at 1.8% is the floor position. This reflects a specific increase in funding to support the expansion of the 2 year old offer from April 2012 and it is therefore proposed that this increase in funding is passported to Children's services for this purpose.

4.4.2 Learning Disabilities Funding (£262,000 increase) and NHS Support for Social Care (£185,000 decrease)

As in 2011/2012 investment plans will incorporate these pressures therefore it is proposed that grant will be taken into consideration at a corporate level.

4.4.3 Safer and Stronger Communities

A notified reduction of £153,000 in 2012/2013 represents year 2 of the planned three year reduction. In accordance with the approach for 2011/2012, it is proposed these grant reductions be passported to the related services.

4.4.4 Transition Grant

The Council does not qualify for any Transition Grant in 2012/2013 resulting in a reduction in resource available of £267,000.

5.0 **Future Funding Changes - 2013/2014 Onwards**

5.1 Local Government Resource Review

The Council's resource position for both 2013/2014 and 2014/2015 is not yet known. The Government is currently consulting local government on the proposals. This includes in particular the potential basis for future local retention of business rates. The position and proposed Council response are included elsewhere on this agenda and there is significant potential risk (particularly financial) for Sunderland in the proposals.

The Council are significant net recipients of redistributed business rates. Reference is made in the consultation document to creating a fair starting point by fixing the 2012/2013 baseline. This is in order that Council's such as Sunderland do not lose out as the current redistributed amount manifests itself in Formula grant funding distributed on the basis of need for essential services. However, moving on from the baseline position it is not clear how Council's such as Sunderland with high levels of deprivation and increased service pressures as a result of a growing elderly population will be resourced to support this increasing need. If business rates resource is retained or utilised to support economic growth in areas with low business rate bases or infrastructure there will still be a funding gap as a result of increased need.

Key issues including proposals around tariff and top up authorities and setting the right baseline are key to ensuring risks such as further financial risk and loss of resources are avoided when the new system is implemented.

Other aspects of the local Government Resource review are yet to be announced regarding a review of the Formula grant distribution methodology.

5.2 Public Health Transfer of Funding

The White Paper Healthy Lives, Healthy People, sets out how Local authorities will have a new role in improving the health and wellbeing of their population. There will be ring-fenced public health funding from within the overall NHS budget, dedicated to support this. The funding along with responsibility for the function will be transferred to local authorities through a ring fenced grant payment from April 2013.

The value of funding to be transferred to local authorities is currently being quantified through a national exercise and Government is reviewing the basis on which funding will be allocated to individual authorities.

5.3 Welfare Reform

The Welfare Reform Bill represents the biggest change to the benefits system in 60 years. In summary, the Bill aims to reduce the overall spending on the welfare system, and ensure that those on benefits are not better off than those with modest incomes.

One significant impact on Council resources will arise from proposed changes to Council Tax Benefit which is currently paid in line with Government guidance. From April 2013, the Council must design, implement and pay Council Tax Benefit based on its own local scheme. It is proposed that funding will only be provided at 90%, therefore the scheme will need to take this reduced level of funding into consideration. In addition the additional risk being passed to local authorities will need careful handling.

In addition the potential impact of other proposed areas of welfare reform on living standards of city residents may require consideration of provision of funding to assist with excessive hardship.

5.4 Schools Funding

A national review is currently being undertaken on the future distribution of school funding. The Government is seeking to develop a clear and transparent funding formula that supports the needs of pupils and enables Schools and Academies to be funded on a broadly comparable basis.

Any planned changes will result in movement of funding between Schools and areas. In order to provide stability in school funding, transitional arrangements will be applied to ensure that the reforms are introduced at an appropriate speed that is manageable for Schools. The current funding system for Schools will continue in

2012/2013 and the consultation will consider the right time to introduce the new system.

5.5 Academies Top Slicing

In addition to the School Funding consultation, the Government is reconsidering the reduction to Local Authority funding and the transfer of resources to the DfE made as part of the two year local government settlement for 2011/2012 and 2012/2013, to reflect the transfer of central services from local authorities to Academies. The consultation sets out the evidence the Secretary of State will use to consider the appropriate level of transfer and the proposed basis for calculation of the transfer.

As part of 2011/2012 settlement the Council had its formula grant reduced by £674,000. The revised methodology and the increase in the number of Academies nationally could see this sum potentially increasing in 2011/2012 and 2012/2013.

6. Local Income Position

6.1 Council Tax

The Localism Bill currently before Parliament provides for the provision of referendums to veto excessive council tax increases. Once it becomes law, this effectively places a limit on council tax increases and if councils exceed the government limits then the public will be able to vote to agree or veto any considered 'excessive' increase. There is no national provision for a 'freeze' beyond 2011/2012 and therefore the Council Tax position will require consideration as part of the budget process.

6.2 Options for Future Funding

A more rigorous approach will be included in the budget process regarding a more commercial approach to Authority business and driving external funding/resources opportunities.

The reduction in both revenue and capital funding requires the Council to focus on new and existing opportunities for funding including through:

- Charging arrangements
- Capital Funding such as Bonds, Tax Increment Funding, asset backed partnerships, European support
- Trading opportunities
- Alternatives to revenue funding such as social impact bonds
- Renewable/green Energy Resale

This will be used as a checklist for the Council and services to maximise opportunities for funding priority spending by

- Maximising the Council's use of its resources and assets to drive activity, lever resources and maximise benefits to the City

- Ensuring that opportunities from existing, new and developing financing funding and regeneration models are accessed where appropriate.

6.3 Reserves and Balances

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

In accordance with the approach adopted to date all earmarked reserves will be revisited as part of the budget process to ensure they still accord with the Council's priorities and overall funding position.

7. Spending Pressures and Commitments

It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2012/2013. Noting that at this stage in a number of cases specific cost detail requires finalisation and will be subject to review and refinement throughout the budget setting process:

7.1 Replacement of One-off Resources in 2011/2012

In meeting the funding gap for 2011/2012 directorates utilised £5.420m of one off resources such as reserves or delegated surpluses. This therefore represents an ongoing pressure into 2012/2013.

7.2 Pay and Pensions

7.2.1 Pay

The Government built its assumptions of a two year pay freeze for public sector workers (2011/2012 and 2012/2013) into its SR10 spending plans, except for those workers earning less than £21,000 a year. Beyond 2012/2013 prudent assumptions will be made at this stage for planning purposes.

7.2.2 Pensions

The results of the Actuarial review of the Local Government Pension Scheme 2010, was implemented in 2011/2012 covering three years to 2013/2014. There is no increase in deficiency payment for 2012/2013, and an increase of 5.3% for 2013/2014.

The Government has agreed to implement the recommendations from the Hutton Review and is currently in negotiations with the relevant public sector unions to agree measures that will help reduce the costs to the tax payer of funding pensions for public sector workers and is aimed at making them more affordable.

The Council is currently awaiting details of the proposed revised pension schemes for Teachers and LGPS members in order to assess the financial impact any changes will have on future year's budgets.

7.3 Energy Prices

Energy and vehicle fuel prices continue to be particularly volatile. It is therefore proposed that prudent provision be included for continued annual increases in

charges for gas, electricity and vehicle fuel for the medium term.

7.4 Waste Disposal

The impact of cost variations in relation to waste disposal have been factored into the Medium Term Financial Strategy including landfill tax, volume of waste, recycling implications, and the impact of implementing the Waste Disposal Strategic Solution.

7.5 Recycling Vehicle Leasing

Inclusion of funding to meet the additional costs of leasing vehicles to support the 'blue bin' scheme which is replacing the existing 'kerb it' scheme is proposed. This will allow for the provision of rear end loading vehicles to accommodate the new bin.

7.6 Carbon Reduction

The Carbon Reduction Commitment Energy Efficient Scheme (CRCEES) is a mandatory carbon trading scheme, that came into effect on 1st April 2010. Participation is a legal requirement for organisations that used a minimum of 6,000 MegaWatt hours of electricity during the calendar year 2008. Sunderland City Council is required to participate in the scheme. The first sale of allowances will be in April 2012, based on 'footprint' data from 2010/2011 with an anticipated cost of £540,000 (£320k excluding schools).

7.7 Adult Services Demand Issues

The increasing longevity of the national and specifically, the city's, population continues to place pressure on Adult Social Services budgets. In addition, client expectations and increasing demand to support clients with complex cases to enable clients to maintain independent living, is requiring reconfigured services and additional investment. With these pressures in mind the Government has announced additional funding for Primary Care Trust's over the coming four years, with an expectation that the funding is passported to Local Authorities for investment within Social Care services.

The impact of additional cost pressures and necessary investment have been factored into plans on an initial basis.

7.8 Children's Services Demand Pressures

There continues to be increasing demand pressures in relation to safeguarding and specifically external placements and prudent provision will be made as appropriate to strategy.

7.9 Winter Maintenance

Following the severe winters over the last two financial years additional costs have been incurred in respect of winter maintenance. It is therefore considered prudent to include a sum of £0.800m for planning purposes in line the additional cost incurred in each of the last two years.

7.10 Port Dredging

Dredging of the Port is required yearly to maintain advertised depths in order to enable the Port to continue to operate commercially. This will follow initial dredging works to be carried out in 2011/2012 and will be included from 2012/2013.

7.11 Economic Downturn

Whilst significant resources have already been earmarked to support service pressures and actions in response to the economic downturn as part of the previous years' budgets, given the continuing uncertainties, this will need to be kept under review and appropriate provision made throughout the budget process.

7.12 Integrated Transport Levy

For planning purposes further savings in respect of the ITA levy for 2012/2013 are based on an additional 5% saving being achieved in accordance with the approach agreed by the Tyne and Wear Joint Services Committee during the 2011/2012 budget setting process.

7.13 Invest to Save Programmes

In order to address demand pressures particularly in respect of adult social care and the transformation programme, up front investment to support the future generation of service provision at less cost will be required. The one off costs have been factored into plans and will be updated as plans develop.

7.14 Capital Financing

Prudential borrowing has been provided for within the medium term financial position in relation to known investments over that period, together with a provision to provide future flexibility at this stage to enable strategic priorities of the Council to proceed, in the future.

7.15 Workforce Planning

A range of workforce planning measures are in place to support the smooth implementation of savings proposals. Costs arising from voluntary early retirement can be accommodated from specific resources earmarked for this purpose. In addition the Medium term financial position provides a provision related to the cost of SWITCH. Transitional costs as a result of implementing this strategy are continually refined and reviewed.

8. Spending Priorities

8.1 Priorities from Consultation

The key priorities which emerged through the budget consultation process for 2011/2012 were:

- Community safety
- Refuse collection
- Road and footpath maintenance
- Clean streets
- Facilities for young people
- Affordable decent housing
- Enabling people with a disability, illness or health condition to live independently through access to services and facilities
- Community integration

Resources allocated as part of the 2011/2012 budget recognised these priorities with additional funding earmarked to support highways, the city centre, adult social

care modernisation and recognition of community safety priorities in the context of reduced government grant funding.

The proposals for the 2012/2013 Budget Consultation process are set out elsewhere on today's Cabinet agenda. The approach adopted will broadly follow the approach adopted last year including setting out the latest overall funding position and Council approach to address this through the Sunderland Way of Working and exploring views of residents about the direction of travel for services in response to the changing financial landscape.

Service Priorities

Directorates are currently developing three year Improvement Plans as part of their service planning processes. This will include the identification of key service priorities and action plans. These will need to be considered as they are developed to identify any financial implications.

9. Summary Resource, Pressures and Commitments Position

- 9.1 The table below summarises the resource and pressures position taking account of the issues set out in paragraphs 4 to 7 above.
- 9.2 The total reduction in resources and spending pressures represents the estimated overall savings requirements at this stage as follows:

| | 2011/12 | 2012/13 | 2013/14 to 2014/15 |
|--------------------------------------|---------|---------|-----------------------|
| Latest estimated savings requirement | £57.9m | £25.33m | £33.73m |

- 9.3 In evaluating the overall resource position it should be noted that the position in respect of savings requirements beyond 2012/2013 remains uncertain because of the unknown impact of the Local Government Resource Review which will not be known until the end of this year. Figures are included on the basis of best forecasts at present and will inevitably be subject to change.

10. Strategy for meeting the Savings Requirement

10.1 Productivity and Efficiency Strategy

The Council's Productivity and Efficiency Strategy 2011/2012 to 2014/2015 provides the framework for developing plans for future service delivery, ensuring that the main priorities are to support the most vulnerable residents in the city and enable economic regeneration to attract new businesses to invest in the city, despite the prevailing economic conditions. The strategy supports the aim of ensuring the most productive use of resources is maintained during this period of financial restraint.

This will progress through the continued development of individual Directorate improvement plans and service review / diversification plans to identify future

medium term pressures and the potential for savings aligned to the delivery of the Councils vision and Corporate Outcomes Framework through:

- Specific efficiency savings arising from the Business Transformation Programme;
- Reviewing services to gain a comprehensive understanding of customer need and the most cost effective way of meeting that need through service reviews, including through modernising and improving services across the Council and the Sunderland Way of Working;
- Seeking opportunities through new financial models;
- Directorate cash limits being tightly drawn and prompting the identification and reinvestment of efficiency savings.

10.2 Current Budget Savings Programme

The current savings programme aims to transform the Council into a more efficient and effective organisation and protect as far as possible frontline services through:

- The Business Transformation Programme – focussing on back office services
- Service Reviews and Directorate Modernisation programmes.

It should be noted however, that at this stage whilst targets are in place detailed plans require further development to deliver the savings set out for future years in respect of the Business Transformation programme.

11. Addressing the Savings Requirement

11.1 Options for Savings

Reflecting the approach of the Productivity and Efficiency Strategy set out at paragraph 10, it is proposed the following approach be adopted to securing the existing budget savings programme and identification of additional budget savings proposals:

- Current Budget Savings Programme:
 - Original permanent planned savings for 2011/2012 will be achieved or an alternative must be delivered on an ongoing basis in 2012/2013;
 - In accordance with the budget planning framework agreed for 2011/2012 savings originally identified for 2012/2013 will be achieved. Alternative savings will need to be identified by Directorates where a proposal has become unviable;
 - BTP Work streams to be reviewed to accelerate as appropriate;
 - Current service review programmed savings will be achieved or alternative savings identified by Directorates where necessary.
 - Opportunities for achievement of additional savings through BTP and Service Review Programme be identified;
 - Directorates be requested to bring forward additional savings plans arising from proposed implementation of 3 year Improvement Planning activity to enable a programme of additional key service reviews to be proposed;

- Opportunities for new charges and changes to existing charges be identified;
- External Funding opportunities be pursued and match funding considered for priority areas;
- The position regarding Council tax will be considered as part of the budget process.
- The SWITCH outputs and programme will be considered as part of the budget process;
- All commitments against Delegated surpluses / reserves will be reviewed;

12. Budget Planning Framework 2012/2013

12.1 Summary of Budget Planning Framework

The following budget planning framework for 2012/2013 is proposed:

- that provision for spending commitments be included at this stage on the basis set out at paragraph 7 and kept under review;
- that the spending priorities be considered in line with the finding of the budget consultation and emerging service improvement plans as set out in paragraph 8;
- that budgets be prepared on the basis that all spending pressures not specifically identified above as commitments be accommodated within Directorate cash limits;
- that options for savings to address the funding gap be progressed as set out at paragraph 11.1;
- that commitments against general balances be noted and the scope to utilise balances temporarily be explored.

13. Consultation and Equalities Impact

A framework for evaluating the potential equality impact of the Council's proposals in respect of the 2012/2013 budget and future years will be prepared taking into account:

- The Public Sector Equality Duty and the Equality Act 2010
- The Council's Improvement Plans.

14. Reasons for Decision

- 14.1 The Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2012/2013.

15. Alternative Options

- 15.1 There are no alternative options recommended.

APPENDIX A

Statement of General Fund Balances

| | £000 | £000 |
|--|-------------|---------------|
| Revised Estimate of Balances as at 31st March 2011 | | 12,419 |
| | | |
| Additions / Variations to Revised Estimate Balances | | |
| | | |
| | | |
| Unutilised Contingencies and non delegated budgets | | 4,458 |
| | | |
| Transfer to Earmarked Reserves | | |
| Service Pressures Reserve | (1,000) | |
| Development Reserve | (1,500) | |
| Strategic Investment Reserve | (1,958) | (4,458) |
| | | |
| | | |
| Balances 31st March 2011 | | 12,419 |
| | | |
| Use of Balances 2011/2012 | | |
| Contribution to Revenue Budget | | (4,849) |
| | | |
| Estimated Balances 31st March 2012 | | 7,570 |

