

CABINET MEETING – 10th October 2012

EXECUTIVE SUMMARY SHEET- PART I

Title of Report:

Budget Planning Framework 2013/2014 and Medium Term Financial Strategy 2013/2014 – 2015/2016

Author(s):

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 2013/2014. The report sets out the headlines and context for the Medium Term Financial Strategy 2013/2014 to 2015/2016 which will be formally considered in due course.

Description of Decision:

Cabinet is recommended:

- to agree the proposed Budget Planning Framework summarised at Section 11 of the report which will guide the preparation of the Revenue Budget for 2013/2014;
- to note that the full Medium Term Financial Strategy 2013/2014 to 2015/2016 will be presented to Cabinet in February

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 2013/2014.

Alternative options to be considered and recommended to be rejected:

There are no alternative options recommended.

Impacts analysed:	
Equality <input type="checkbox"/>	Privacy <input type="checkbox"/> Sustainability <input type="checkbox"/> Crime and Disorder <input type="checkbox"/>
Is this a “Key Decision” as defined in the Constitution? No	Scrutiny Committee
Is it included in the 28 day Notice of Decisions? No	

Cabinet 10th October 2012

**Budget Planning Framework 2013/2014 and Medium Term Financial Strategy
2013/2014 – 2015/2016**

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. The economy has recently faltered, and is currently in a 'double dip' recession, with negative growth in quarter 1 of 2012 of -0.3% and quarter 2 of -0.5%.

Only very low economic growth is predicted over the medium term. The International Monetary Fund have revised world growth for 2012 down by 0.5% to 3.5% with little or no growth in Europe. The Bank of England are predicting no growth for 2012 and 1.7% growth in 2013.

The fiscal outlook therefore continues to remain very challenging over the medium term with an increasingly clear link between public sector finances and the state of the economy. Therefore, as the economy remains very weak, the prognosis is one of deeper and longer public sector funding reductions.

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 rate of inflation (CPI) is forecast to continue to fall and to

reach the Governments target of 2.0% around the end of 2012, remaining near that level until 2015.

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

3.3 Base Rate

The Bank Base Rate has remained at an all time low of 0.5% since March 2009. The high level of concerns over growth in both the UK economy and in particular the Eurozone means that base rates are likely to remain low throughout 2012/2013. A number of forecasters are anticipating a further decrease in base rate with no rise in base rate expected until the last quarter in 2014.

4 Funding Changes - 2013/2014 onwards

4.1 Local Government Resource Review

4.1.1 Beyond 2012/13 the Government Funding position is very uncertain due to the potential significant impact of the Government's Local Government Resource Review.

Business Rates Retention

4.1.2 A new Business Rates Retention system will replace formula grant funding from 2013/14. The system is currently being consulted upon and the final scheme details are yet to be finalised,

Importantly, the basis on which the starting point (baseline formula grant position) will be calculated remains unclear as the Government is considering a number of possible changes to data and weightings used in the current 2012/13 Formula Grant methodology. Given the Council are significant net recipients of redistributed business rates, receiving £58m in funding per annum, the continued lack of clarity makes medium term planning difficult.

Key features of the proposed system include:

- 50% of Business rates will be retained locally (local share) and 50% will form part of the national 'central' share retained by Central Government to be redistributed
- 'top up' councils such as Sunderland will have their allocations fixed but will be index linked to RPI
- Reviews of the system to be kept to a minimum of 7 years (Government prefer a 10 year reset period).
- to avoid disproportionate gains a levy arrangement will be included in the new arrangements (this only affects tariff authorities)
- A safety net arrangement will be included to seek to protect Authorities from significant falls in their Business Rates income.

The Council will continue through ANEC (and directly) to respond to Government consultation papers on the new system.

National Funding Totals

4.1.3 The Government has indicated that it will revise total funding available to reflect the worsening economic position and other known factors resulting in significantly greater funding reductions than those set out in SR10 – currently the position is:

- 2013/14 revised from -0.8% to -12.3%
- 2014/15 revised from -5.8% to -8.7%

4.1.4 Latest indications are that the Local Government Finance Settlement will not be received until mid December which compounds financial planning difficulties .

The LGA has devised a model to capturing all known changes to provide an estimate of the likely funding allocations and demand pressures through to 2019/20. The model:

- Predicts reduced government funding nationally
 - Funding 2010/2011 of £29.7bn reduced to £24.2bn in 2014/2015.
- Highlights the dilemma faced by Local Government in addressing
 - National prioritisation of schools, health, concessionary travel
 - Growing demographic adult and children's social care pressures

4.2 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 for Sunderland of current spend in respect of the responsibilities transferring is circa £19.6 million. Whilst the Government have suggested that funding will be protected to reflect current spend levels for the first year following transfer, final allocations will be announced by the Government by the end of December. In addition consultation is underway on the basis of the future funding formula. The consultation has enabled indicative allocations to be calculated from proposed formula recommendations made by the Advisory Committee on Resource Allocation. The analysis indicates a potential substantial reduction in funding for Sunderland of £5.9m per annum if the formula was introduced in its current form. Sunderland have formally opposed the proposed funding allocation which is viewed as unfair and in particular does not take into account existing prioritised spend on Public Health within the city or reflect need appropriately.

4.3 Welfare Reform

The Welfare Reform Bill published in February 2011, set out some of the most significant proposed changes to the welfare system in decades. The Bill contains the provision to replace six working age benefits including Housing Benefit, with

the new 'Universal Credit'. The Spending Review 2010 assumed that welfare reform changes would generate £18bn savings nationally. In the March 2012 budget the Chancellor announced the requirement for a further £10bn of savings from the welfare budget. The Council continues to implement a variety of measures to seek to mitigate against the significant adverse impacts anticipated across the City from these changes.

A key change in the Welfare Reform Bill is the Government proposal to abolish the national Council Tax Benefit system and replace it with a Local Council Tax Support scheme from 1 April 2013. As part of the Spending Review 2010, the Government indicated that as well as the transfer of responsibility, it will cut the level of grant funding for the Local Council Tax Scheme by an average of 10% nationally in 2013/14. However, the reductions vary based on benefit caseload information which the government has provided. For Sunderland the estimated reduction equates to approximately 13% (£3.4m). Exact figures will be finalised as part of the Local Government Finance settlement. Annual allocations are to be provided for 2013/14 and 2014/15 based on Office of Budget Responsibility forecast for spending on Council Tax Benefit. The Government will consider if a new basis of funding is required from 2015/16.

Within Sunderland, there are significant concerns as to the adverse impact a grant reduction of £3.4m will have, as well as the impact the wider welfare reforms will have on the City and its residents.

A Draft Local Council Tax Support Scheme and associated measures was endorsed by Cabinet on 18th September for the purposes of consultation with the major precepting authorities and the public. The proposals aim to mitigate the impact of the Government funding reductions of £3.4m to avoid a further addition to the reductions target required for 2013/14. It is intended the Council's final new scheme will be approved by Cabinet by 31 December 2012

4.4 Schools Funding Reform

New funding arrangements are to be introduced from April 2013 for all schools and academies. This is the first stage of introducing a national funding formula in the next spending review period. The Government through the new formula 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.

Planned changes and data sets to be used are in the main determined and provided by the Department for Education. The limited flexibility that is available has been consulted upon with schools during the period 17th September to 4th October.

Planned changes will result in movement of funding between Schools. In order to provide stability in school funding, transitional arrangements through the Minimum Funding Guarantee are available. The main changes in school funding can be attributed to one or more of the following factors: change in data sets to be used, previous standard fund grant funding being distributed by pupil numbers and not

on historic basis, a single lump sum value in the primary and secondary sectors, and a single funding rate for all primary children.

The outcome of the consultation will be discussed at the October meeting of the Schools Forum.

4.5 Academies Top Slicing

In addition to the School Funding Reform, the Government is consulting on funding Academies and local authorities for the functions that devolve to Academies. The consultation sets out the additional reduction to Local Authority funding and the transfer of resources to the DfE from April 2013.

The national total has been determined, using the 2011/2012 estimated levels of expenditure, as £1.22bn. The potential implication to Sunderland is a grant reduction of up to £1m. The Local Authority has concerns around the use of the 2011/2012 data as it does not reflect reductions implemented in 2011/2012 and 2012/2013 and therefore overstates the spend that is currently being incurred by Local Government. These concerns have been reflected in Sunderland's response to the consultation.

4.6 Spending Review

The Government has not yet confirmed the date of the next spending Review although speculation is mounting that it could be brought forward to 2013.

5 Summary Outlook

At this stage, given the changes in the economic position and indications from Government regarding further additional reductions to that announced in CSR10 in the report, the outlook for local government funding continues to be bleak and subject to both unprecedented reductions and change.

6 Local Government Finance Settlement

The Local Government Finance Settlement announced in December 2010 covered the two year period 2011/2012 and 2012/2013. As set out at paragraph 4.1 the Government is consulting on changes to the local government finance system from 2013/2014. This is a key issue for Local Authorities and particularly for Sunderland.

6.1 2012/2013 Summary Position

In overall terms taking formula grant reductions, cost pressures and other grant reductions into account the total reductions required for 2012/2013 were £28.1m to be achieved through:

- £6.00m further reconfiguration of back office support
- £0.49m from further review and maximisation of utilisation of ICT
- £1.09m from implementation of smarter working
- £15.58m from the continued implementation of Directorate Three year Improvement Plans

- £4.90m use of Corporate and one off resources

The implementation of savings proposals continues to be rigorously monitored and as we progress through the second year of the SR10 spending review there are challenges with delivering this significant reduction. However, at this stage it is anticipated that the savings will be achieved in 2012/2013 and the ongoing position in 2013/2014 secured apart from unavoidable pressures outlined at 8.1.2. More detail in respect of the 2012/2013 position is set out in the Revenue Budget Second Review 2012/2013 report elsewhere on this agenda.

6.2 2013/2014 and Beyond

Government indicated at a national level the overall grant reductions in the Spending Review 2010 for local government and indicated that it will revise total funding available to reflect the worsening economic position. However, it is not possible to accurately estimate the impact on each individual authority's grant allocation for 2013/14 and 2014/15. This position is even more uncertain given the position in respect of the Local Government Resource Review as set out at paragraph 4.1.

Using the indicative totals from the Spending Review and associated information, the reduction in grant is estimated to be £11.9m for 2013/14 and £9.7m, for 2014/15. However, recent national illustrative planning figures would suggest reductions in grant of £14.2m for 2013/2014. These forecasts are both before cost pressures are added. The significant variations in potential grant loss create difficulties from a financial planning perspective. Plans will need to be revisited when the position is clarified.

6.3 Other Core Grant Funding

The Government are proposing to incorporate a number of Core grant funding allocations into the new Business Rates Retention system including Formula Grant, Early Years Intervention, Learning Disabilities, Health Reform, and Preventing Homelessness. Final funding allocations will not be made available until the government releases its detailed information as part of the local government finance settlement for 2013/14, where it is hoped that indicative allocations will also be made available for 2014/15 to help with longer term financial planning.

7 Local Income Position

7.1 Council Tax

The Localism Act received royal assent on 15th November 2011 and provides for the provision of referendums to veto excessive council tax increases. 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.

As part of the settlement the Government has issued guidance on capping rules for increases. For 2012/13 the cap was set at 3.5%. In accordance with the Localism Act any increase above these levels may require a referendum:

At the present time there is no national provision for a 'freeze' for 2013/2014 and therefore if this position remains the Council Tax position will require consideration as part of the budget process

7.2 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.

8 Spending Pressures and Commitments

It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2013/2014. Noting that at this stage in a number of cases specific cost detail require finalisation and will be subject to review and refinement throughout the budget setting process:

8.1 Replacement of One-off Resources and Budget Pressures in 2012/2013

8.1.1 In meeting the funding gap for 2012/2013 the Council utilised £2.272m of one off resources (reserves). This therefore represents an ongoing pressure into 2013/2014.

8.1.2 As highlighted in the latest revenue budget monitoring report for 2012/2013 ongoing pressures of £3.673m arising in respect of adult social care will need to be addressed in 2013/2014. In addition savings planned in respect of end to end service reviews indicate a shortfall of £2.135m at the end of 2012/2013, which will need to be replaced with alternative savings in 2013/2014.

8.2 Pay and Pensions

8.2.1 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 the Government has indicated a limit on public sector pay of a 1.0% pay increase. For planning purposes a prudent provision has been built into the MTFS from 2013/2014.

8.2.2 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 an increase of 5.3% for 2013/2014.

The Government has agreed to implement the recommendations from the Hutton

Review and revised details have now been agreed with the Unions and they are currently balloting their members and recommending acceptance of the new scheme.

The cost implications of the new scheme will need to be fully reflected in the next actuarial review to be carried out in 2013 which will help inform the council assessment of the financial impact on future year's budgets.

8.3 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.

8.4 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.

8.5 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 announced additional funding for Primary Care Trust's for the period of the spending review 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.

8.6 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.

8.7 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.

8.8 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.

9 Spending Priorities

9.1 Priorities from Consultation

9.1.1 The Budget Consultation for 2012/2013 was undertaken within the context of the need to significantly reduce spending for a second year in light of the Government funding reductions. The findings demonstrated general support amongst respondents for the direction of travel of services and for the councils overall approach to making savings.

9.1.2 The proposals for the 2013/2014 Budget Consultation process are set out elsewhere on today's Cabinet agenda. The approach adopted will broadly follow that adopted last year which explored views of residents about the direction of travel for services in response to the changing financial landscape.

10 Summary Resource, Pressures and Commitments Position

10.1 The total reduction in resources and spending pressures represents the estimated gross funding gap. However at this stage there is significant uncertainty in relation to:

- The general economic climate and public sector finances (direct connectivity between the economy and public finances)
- Fundamental changes to the Local Government Funding Regime
- Settlement confirmation probably not available until early December
- Significant other changes within the system (Welfare Reform, Health; Schools etc)

10.2 It is clear that the next three years will be much more challenging than the last three years. The challenge is significant and unprecedented given the compound impact of reductions over a prolonged period, with the prospect of significant reductions being required year on year over the medium term with a continued reduction in Council resources and capacity over the 2013-2016 period in prospect.

10.3 The table below summaries the best estimate of the resource and pressures position for next year taking account of the issues set out in paragraphs 4 to 8 above. Clearly this forecast is volatile due to the uncertainty surrounding the settlement and a number of other key financial issues.

	2012/13	2013/14
Total Savings Requirement	£28.1m	£32.0m

10.4 As outlined the savings requirement for 2013/2014 and beyond remains uncertain because of the impact of the Local Government Resource Review which will not be known until the end of this year. The resource gap is compounded by the fact that cost pressures need to be funded as do ongoing issues from 2012/2013 as set out in 8.1.2. In respect of the latter, Directors will continue to seek to mitigate this

position during this year. Clearly therefore the savings requirement will be subject to further change given the large number of uncertainties.

11 Budget Planning Framework

11.1 Current Strategy

The Council's approach over the last three years has been to deliver savings through the Sunderland Way of Working. The approach has been extremely successful and delivered all targets while supporting the most vulnerable residents in the city. It has enabled economic regeneration to attract new businesses to invest in the city, despite the prevailing economic conditions.

The savings programme transformed the Council into a more efficient and effective organisation and protected as far as possible frontline services through:

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

The approach provides us with a strong platform for the next three years.

11.2 New Transformation Framework to drive change

A New Framework will take this approach to the next stage to drive through further change - set in the context of the Community Leadership role of the Council and a reduced funding envelope. The Council's principles and values will remain at the heart of the approach.

Key elements of the Framework include:

- Demand Management - Developing the strategies and policies that enable the Council to manage demand and deliver services in a different and more agile way within communities;
- Cost of Supply and Customer Services Network (CSN) development - Increased focus on the CSN as the gateway and connector of demand and supply for services with the aim of targeting resources to areas of greatest need alongside continued delivery of efficiencies within Council services;
- Development of Alternative Service Delivery Models for services – continuing to look at the most effective and efficient models of provision for services over the medium term;
- Strategic Services and Fixed Assets – further and continual review to meet the future needs of the Council and its communities and maximise use of Council assets

11.3 Addressing the Savings Requirement

11.3.1 It is proposed the following revised budget planning framework as set out below is adopted:

- General Issues

- Budget planning to be based on high level position outlined at paragraph 10 and updated in light of the Local Government Settlement in December;
- The impact of schools organisational and funding changes be updated as more information emerges;
- Provision for spending commitments be included at this stage on the basis set out at paragraph 8 and kept under review;
- Spending priorities be considered in line with the finding of the budget consultation and emerging service improvement plans as set out in paragraph 9;
- Budgets be prepared on the basis that all spending pressures not specifically identified above as commitments be accommodated within Directorate cash limits;
- All commitments against Delegated surpluses / reserves to be reviewed;
- The position regarding Council Tax to be considered as part of the budget process
- Commitments against general balances as set out in Appendix A be noted and updated throughout the budget process.

- Current Budget Savings Programme:

In accordance with the budget planning framework agreed for 2012/2013

- Original permanent planned savings for 2012/2013 will be achieved or an alternative must be delivered on an ongoing basis in 2013/2014;
 - Savings originally identified for 2013/2014 will be achieved. Alternative savings will need to be identified by Directorates where a proposal has become unviable;
- Adoption of the New Transformation Framework
 - Developing a programme of activity based around the new key emerging elements of Business Transformation set out at paragraph 11.2;
 - Revisiting /refocusing of existing plans to put in place a new programme including an updated approach to workforce planning;
 - Consideration of the challenges and opportunities arising from the transfer of the Public Health function;
 - Pressing forward with consideration of plans for new models of service delivery & improving services;
 - Directorates be requested to bring forward additional savings plans to enable a programme of additional key service reviews to be proposed;
 - Continued focus on Progressing Regeneration, Funding Leverage & Commercial Opportunities.

11.3.2 The framework will be robustly managed to ensure to ensure financial resilience is maintained

12 Reasons for Decision

12.1 The Budget Planning Framework forms an essential part of the process of the preparation and compilation of the Revenue Budget for 2013/2014.

13 Alternative Options

13.1 There are no alternative options recommended.

14 Impact Analysis

14.1 Impact assessments of Directorate actions to ensure the achievement of savings targets and a balanced budget position will be undertaken within Directorates as each action is developed.

15 Background Papers

15.1 There were no background papers relied upon to complete this report.

Statement of General Balances

	£m
Balances as at 31st March 2011	12.419
Use of Balances 2011/2012	
- Contribution to Revenue Budget (approved as part of 2011/2012 budget)	(4.849)
Sub total	7.570
Other Additions to and Use of Balances during 2011/2012	
- Debt Charges and other Contingency Savings (Reported Second Revenue Review October 2011)	4.000
- Transfer to Strategic Investment Reserve to support transitional costs (Reported Second Revenue Review October 2011)	(4.000)
Estimated Balances 31st March 2012	7.570
Use of Balances 2012/2013	
- Contribution to Revenue Budget	(2.272)
Additions to Balances 2012/2013	
- Transfer from Strategic Investment Reserve to support transitional costs	2.272
Estimated Balances 31st March 2013	7.570