

BUDGET 2011/12

To: **Cabinet**

Date: **14th December 2010**

From: **LGSS Director of Finance**

Electoral division(s): **All**

Forward Plan ref: **Not applicable** Key decision: **No**

Purpose:

- To provide a financial update to assist in the formation of the Integrated Plan and supporting Budget for 2011/12.
- To provide indicative funding levels in which individual budget exemplifications can be produced.

Recommendation: **Members are asked to:**

- a) Note that due to the delayed Government Grant announcement, that all figures remain indicative and are subject to further change.
- b) Note the financial forecasts and confirm that budget exemplifications should be produced within the indicative funding limits.
- c) Agree that on publication of the Grant Announcement that the Leader, with the support of the Cabinet Member for Resources and Performance and the LGSS Director of Finance makes appropriate representations to Government

Officer contact:		Member contact	
Name:	Nick Dawe	Name:	Cllr John Reynolds
Post:	LGSS Director of Finance	Portfolio	Cabinet Member for Resources and Performance
Email:	Nicholas.dawe@cambridgeshire.gov.uk	Email:	John.Reynolds@cambridgeshire.gov.uk
Tel:	01223 699246	Tel:	01223 699173

1. INTRODUCTION

- 1.1 This paper is designed to inform Cabinet of the latest financial forecasts to enable further progress to be made with forming an Integrated Plan and supporting Budget for 2011/12.
- 1.2 The formation of the Integrated Plan this year is made more challenging due to reductions in funding from Government as a result of the general economic situation and rapidly changing Government policy as the Coalition implements its plans and confirms its priorities.
- 1.3 In terms of the funding situation, the Government completed and reported on the Comprehensive Spending Review (CSR) in October. The CSR settlement for Local Government will lead to average funding reductions in general grant of around £17.9m (12.0%) in 2011/12 and £10.1m (7.4%) in 2012/13. In addition specific grants could be cut entirely or significantly reduced.
- 1.4 The Government has identified funding for social care initiatives and home building incentives; however the majority of the benefit of these funding announcements is taken account of in the funding reduction percentages shown in Section 1.3.
- 1.5 Normally by the end of November the Council would have received formal and detailed notification of its general and specific grant funding from Government. The grant announcement is now expected on the 13th December and a verbal update on the implications of the announcement will be made at Cabinet.

2. APPROACH TO INTEGRATED PLANNING

- 2.1 The Council has a tried and tested approach to Integrated Planning which is recognised as an area of strength by the External Auditors. The basic approach to forming the Integrated Plan and supporting Budget has been maintained this year, with minor improvements as suggested by members, officers and partner organisations.
- 2.2 The Integrated Plan and supporting Budget takes a five-year look forward. This time frame is designed to support a long-term view of priorities, service design and service investment. The first year of the Integrated Plan is firm, the second year is in outline with the third, fourth and fifth year a general forecast.
- 2.3 A review of stated Objectives and Priorities is a core part of the planning process. This review is currently ongoing. Objectives and Priorities provide a template against which resource allocation decisions can be matched.

3. REVENUE COSTS

- 3.1 Returning to financial issues, one of the early stages of forming the Budget supporting the Integrated Plan is to forecast the costs of services required to meet expected needs and deliver the objectives and priorities of the Council. The basic stages in forming a forecast of cost are set out in the following paragraphs.

3.2 Budget Baseline

The starting point for forming the cost forecast is the recurrent budget brought forward from the previous year. This budget is already matched to the existing objectives and priorities, has a known performance and is linked to defined outputs and where possible outcomes. Many service budgets also can be benchmarked to allow comparison with other Authorities.

3.3 Demand and Demography

The need for services changes over time as a result of general changes in population (demography), and changing needs and requirements (demand). Forecasts of future demand and demography impacts are costed, initially on the assumption that the current model of service delivery is maintained. Demand and demography impacts are most pronounced on services for individuals or families, or where there is a significant volume measure such as household waste. It is in the forecasting of demand and demography and responding to these pressures that resource prioritisation decisions are most evident.

3.4 Inflation

The impact of inflation is also forecast using published estimates, local knowledge and Treasury forecasts. In the first instance inflation forecasts are based on current trends continuing and contractual commitments being honoured. The management and driving down of inflation is dealt with later as a “saving”.

3.5 New Services and Unavoidable Pressures

Commitments to service developments previously agreed are built into the cost forecast. A limited number of priority investments may also be called for to accelerate delivery against priorities where this is thought appropriate and affordable. The Council is also subject to other cost pressures arising mainly from Government policy e.g. the transfer of responsibility for the concessionary bus fare scheme. If these cost pressures are truly unavoidable they are built into the cost forecast.

3.6 Cost of Capital

The Council's Capital Programme generates a revenue cost in the form of debt payments (interest and principal). This is because some of the capital programme is funded through supported borrowing from Government, where the costs of borrowing form part of the grant allocation and where the Council itself decides to borrow prudentially to deliver a project.

3.7 Total Costs

3.7.1 Based on current forecasts the costs of delivering services over the next five years (**before savings and efficiencies**) are shown below.

£000	11/12	12/13	13/14	14/15	15/16
CYPS	101,301	94,976	90,659	89,899	88,128
ES	43,778	39,713	37,741	36,105	34,837
ES Waste	21,654	22,145	21,115	21,854	23,105
CAS	182,165	173,231	169,248	173,285	174,740
Corporate	22,978	18,960	17,229	16,771	15,791
LGSS	10,951	9,239	8,504	7,706	6,537
Debt	34,295	38,084	39,900	42,219	44,061
Levy	384	399	414	430	446
Other	811	146	1,475	1,532	-6
Total	418,317	396,893	386,285	389,801	387,639

3.7.2 The forecast cost changes on a value and percentile basis for 2011/12 (**before savings and efficiencies**) are shown below.

£000	Base	Inflation	Demand	Other	Total
CYPS	92,871	1,214	7,366	- 150	101,301
ES	41,065	672	225	1,816	43,778
ES Waste	18,210	545	449	2,450	21,654
CAS	167,663	3,699	10,075	728	182,165
Corporate	22,478	545	27	64	23,114
LGSS	10,713	74			10,787
Debt	29,116			164	29,280
Levy	369	15			384
Other	-2,305			8,296	5,991
Total	380,180	6,628	18,142	13,368	418,317

%		Inflation	Demand	Other	Total
CYPS		1.3%	7.9%	-0.2%	109.1%
ES		1.6%	0.5%	4.4%	106.6%
ES Waste		2.2%	6.0%	0.4%	108.6%
CAS		3.0%	2.5%	13.5%	118.9%
Corporate		2.4%	0.1%	0.3%	102.8%
LGSS		0.7%	0.0%	0.0%	100.7%
Debt		0.0%	0.0%	0.6%	100.6%
Levy		4.1%	0.0%	0.0%	104.1%
Other		0.0%	0.0%	0.0%	0.0%
Total		1.7%	4.8%	3.5%	110.0%

4. REVENUE FUNDING

4.1 To set against the forecast cost of services, estimates have been prepared relating to the funding available to the Council. Details of these forecasts related to the cost budget are set out below.

4.2 Government Funding

Government funding is provided by means of a general formula grant and by means of specific grants. All forms of Government funding are expected to be constrained for the duration of the Integrated Plan.

4.3 General Formula Grant

Pending confirmation of the level of general formula grant, the funding forecast is based on the CSR announcement and other intelligence. Based on the “floor” funding position of the Council, cuts in grant are expected across the planning period, these cuts being most pronounced in 2011/12 and 2012/13.

4.4 Specific Grants

Pending confirmation of the level of specific grant, the funding forecast is based on the CSR announcement and other intelligence. Based on the “floor” funding position of the Council, cuts in grant are expected across the planning period, these cuts being most pronounced in 2011/12 and 2012/13. The impact of specific grant and the cost budgets they support are currently excluded from the overall cost/funding position shown in this report.

4.5 Grant in Lieu of Council Tax Increases

The Secretary of State has made an outline announcement that a special grant will be paid to Authorities in 2011/12 if no increase in

council tax is made. The value of this grant has been assumed to be equivalent to a 2.5% council tax increase.

4.6 Local Funding

The Council, subject to certain constraints, can raise funding locally to discharge its duties and deliver its priorities.

4.7 Fees and Charges

For the purposes of producing a forecast it has been assumed that general fees and charges will rise in line with inflation over the planning period, i.e. circa 2.5% per annum.

4.8 Council Tax and Council Tax Base Growth

Current forecasts are based on taking the Secretary of State's special grant in lieu of a council tax increase in 2011/12 with no further increases in council tax modelled. Tax base growth has been based on forecast returns from Districts and predictions of home building rates in future years.

4.9 Overall Funding Forecast

4.9.1 Based on current forecasts the funding available for services over the next five years is shown below.

£000	11/12	12/13	13/14	14/15	15/16
Grant *	137,000	126,900	124,900	119,200	113,500
C. Tax	231,000	234,300	238,200	243,800	249,500
Total	368,000	361,200	363,100	363,000	363,000

* including Area Based Grant

5. MATCHING FUNDING TO PRIORITIES

5.1 Based on current forecasts and modelling, the difference between the costs of services and the funding available for services is significant and is shown overleaf. The total of the year on year savings targets is £160.6m

£000	11/12	12/13	13/14	14/15	15/16
CYPS	13,435	10,065	6,435	7,214	6,849
ES	6,680	3,281	2,726	2,495	2,879
ES Waste					
CAS	24,783	19,143	11,733	14,287	13,170
Corporate	3,571	2,265	1,307	1,474	1,267
LGSS	1,883	893	941	1,297	531
Debt					
Levy					
Other					
Total	50,352	35,647	23,142	26,767	24,696
%	-16.0%	-10.9%	-7.0%	-7.8%	-7.0%
C'tive	50,352	136,351	245,492	381,400	542,004

5.2 Based on costs and application of savings, the cash limits that should be used to produce indicative budgets and exemplify savings are shown below.

£000	11/12	12/13	13/14	14/15	15/16
CYPS	87,866	84,911	84,224	82,685	81,279
ES	37,098	36,432	35,015	33,610	31,958
ES Waste	21,654	22,145	21,115	21,854	23,105
CAS	157,382	154,088	157,515	158,998	161,570
Corporate	19,407	16,695	15,922	15,297	14,524
LGSS	9,068	8,346	7,563	6,409	6,006
Debt	34,295	38,084	39,900	42,219	44,061
Levy	384	399	414	430	446
Other	811	146	1,475	1,532	-6
Total	367,965	361,246	363,143	363,034	362,943

6. EXEMPLIFICATION OF SAVINGS

- 6.1 The Council is duty bound to produce a balanced budget and therefore savings need to be exemplified to bridge the gap between forecast costs and forecast funding levels.
- 6.2 The scale of savings required far exceeds the level of savings delivered in previous years. This challenge is made more difficult because the Council is already comparatively efficient and because the level of council tax is also comparatively low.
- 6.3 Savings proposals are currently being worked up and will be considered in detail in January's Cabinet meeting.

6.4 The general themes underlying the current search for savings include:

- A close examination of the benefits and affordability of universal services.
- Consideration of developing service models that would encourage ownership, collaboration and co-production by local communities.
- Procurement and contract efficiency.
- A recognition of the importance of effective prevention and early intervention.
- Using the innate efficiency that arises from self directed support.
- Reducing overhead and management costs and the sharing of services.

6.5 It should be remembered that the vast majority of savings made are required in order to fund the cost pressures as set out in Section 3.

7. IMPACT

It is too early to determine the precise impact of the required savings on the workforce. However based on the overall financial challenge facing the Council and the proportion of spend on the workforce it is currently estimated that up to 450 people could be at risk of redundancy during 2011/12 (from a total number of 6,300). Clearly this will be subject to a formal consultation process where the Council will explore ways of mitigating this impact.

8. CAPITAL

Funding for capital projects received from Government is likely to fall by 40% over the next four years. Details will be published over the next month. Currently capital plans are being reviewed and re-prioritised in the light of the likely funding cut.

9. CONSULTATION ON OPTIONS

To ensure the Integrated Plan and supporting Budget is understood and influenced by the public, partners and other interest groups, a formal consultation process has been launched. The findings of the consultation alongside equality impact statements will be considered alongside the resource prioritisation and savings options in January.

10. SIGNIFICANT IMPLICATIONS

10.1 Resources and Performance

- The main body of the paper concerns itself with resource and performance issues. There are no further implications to consider.

10.2 Statutory Requirements and Partnership Working

- The Budget proposals for the Council are formed in dialogue and consultation with partners. This dialogue continues.

10.3 Climate Change

- There are no climate change implications resulting from this report.

10.4 Access and Inclusion

- There are no access and inclusion implications arising from this report.

10.5 Engagement and Consultation

Engagement and consultation forms an integral part of the Integrated Planning process.

There are no background papers