

Updated Medium Term Financial Strategy and Budget Build 2011/12

EXECUTIVE MEMBER: Councillor Elaine Woodburn

LEAD OFFICER: Joanne Wagstaffe, Corporate Director – Resources
and Transformation

REPORT AUTHOR: Barry Williams, Interim Technical Accountant

WHY HAS THIS REPORT COME TO THE EXECUTIVE?

The Comprehensive Spending Review (CSR) announced on 20 October gave high level indicators of government spending for the next four years. The broad effects of this review were considered by the Executive on 1 November 2010. This report brings together the initial results of the CSR and budgetary assumptions from the budget build to date to update the Medium Term Financial Strategy (MTFS).

RECOMMENDATION:

1. Members are asked to consider the budget gap identified within the MTFS forecast for the period 2011/12 – 2014/15, noting that it is indicative only at this stage and that the final position will not be known until the Government announce the Formula Grant and other grant allocations in early December.

1. INTRODUCTION

- 1.1 The CSR announced on 20 October gave high level indicators of government spending for the next four years. The Local Government Association has provided guidance on the effects of the spending review on the Council, particularly on the level of grant likely to be received by the Council. This guidance indicates that core funding from Formula Grant and Area Based Grant will fall from £8.251m in 2010/11 to £5.899m in 2011/12 – a reduction of 28.5% overall. Part of this reduction relates to the transfer of an estimated formula grant totalling £646,000 to Cumbria County Council for concessionary travel and when this is allowed for, the percentage fall in core funding through grant for next year reduces to 22.4%.
- 1.2 One of the key parts of the grant settlement which remains unclear is whether the government will maintain the damping system within the calculation. Copeland is currently on the grant “floor” i.e. it has had its grant settlement protected to an extent through the damping system to ensure that its formula grant is not reduced by more than a specified percentage determined by the Department of Communities and Local Government. If the damping mechanism is not retained then it is likely that the grant position of the Council will be worse than stated. The actual grant determination for the Council is expected to be released in early December and until this information is

received, all assumptions over the level of grant to be received can only be indicative at this stage.

1.3 The MTFS has been updated to reflect the indicative findings of the CSR and also amended to include more up-to-date financial forecasts. The revised MTFS forecast is attached at appendix A to the report.

1.4 Service review proposals are not included in the MTFS forecast at this stage.

2. THE MAIN CHANGES TO THE MTFS

2.1 Format

The MTFS statement has been reformatted to more easily identify spending that is solely to be funded from government grants and council tax. The budget used for the forecast of the funding shortfall over the next four years is £13.104m, which is the base budget for 2010/11, excluding reserve funding expenditure. Information on known potential calls on earmarked reserves over the next four years are contained within paragraph 2.6.

2.2 Revised MTFS – 2011/12 base budget adjustments for salaries and related costs

- Employers national insurance rates are to increase from 6 April 2011, at an estimated cost of £30,000 p.a. to the Council.
- Salary savings identified as reductions to the base budget in 2010/11 have been included in the forecast. This comprises the deletion of the 2010/11 pay award provision of £73,000, the deletion of the pay and workforce strategy budget of £141,000 and the inclusion of a 1% turnover saving for 2011/12 at a cost of £84,000. The existing vacancy management budget of £250,000 has also been deleted, giving an overall additional net reduction of £48,000 to the base budget for 2011/12.
- Pay increases for 2011/12 and 2012/13 of £250 p.a. have been included for all staff who earn below £21,000 p.a. (pro-rata for part-time staff). The cost is estimated at £93,000 for 2011/12 and £187,000 for 2012/13, including employers national insurance and pension contributions. For years 2013/14 and 2014/15, a pay award of 2.5% p.a. has been included for all staff adding a further £586,000, including employers national insurance and pension contributions, to the pay bill by 2014/15.
- The forecast of the likely increase in employers contributions for pensions following the recent actuarial valuation of the Cumbria County Council Pension Fund has been increased to 2.8% following information received on 4 November from the Fund actuary, at a cost of £164,000 p.a.

- Salary savings totalling £101,000 arising from stage 1 of the service review process and approved by the Executive in August, have been deducted from the 2011/12 base budget.
- Overall the movement on salaries and related costs is as follows;

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
<u>Increases</u>				
Vacancy Management budget	250	250	250	250
Pay Awards	93	187	474	773
Increase in Pensions contribution rate	164	164	164	164
National insurance increase 2011/12	30	30	30	30
	537	631	918	1,217
<u>Reductions</u>				
Delete Pay Award 2010/11	(73)	(73)	(73)	(73)
Delete Pay & Workforce Strategy	(141)	(141)	(141)	(141)
Staff turnover saving (1%)	(84)	(84)	(84)	(84)
Stage 1 service reviews	(101)	(101)	(101)	(101)
	(399)	(399)	(399)	(399)
Net Increase	138	232	519	818

2.3 Revised MTFS – 2011/12 other base budget reductions

- Responsibility for Concessionary Travel transfers to Cumbria County Council on 1 April 2011. The full cost of the statutory concessionary travel scheme to Copeland in 2010/11 has therefore been deducted from the 2011/12 base budget as grant funding through the Revenue Support Grant has also been reduced. This adjustment assumes a neutral position on Copeland's budget. However most of the consultation options assumed a cost following the transfer of the function, depending on the option chosen and the final position will not be known until December.
- Other non-salary budget savings totalling £252,000 arising from stage 1 of the service review process and approved by the Executive in August, have been deducted from the 2011/12 base budget. No reductions have been made in respect of the remaining service review proposals currently under consideration.
- Savings arising from the introduction of the Revenues and Benefits Shared Service have been maintained at £84,000 p.a. although the service is still bedding down and formal budget projections for next year have not yet been received. Any changes to this forecast will be incorporated into the budget build for 2011/12 when notified.

- Continuing savings or increases in income totalling £68,500, identified as part of the 2010/11 budget monitoring process and not part of the service review process have been included in the forecast. These comprise;
 - Reduction in bank charges £11,000,
 - Increase income from property rents £10,000,
 - Increase Development Control fees £30,000,
 - Increase income from market rents £15,000,
 - Reduce spending on Copeland Care & Repair £2,500,
- The Local Government Association expects a small increase in Housing Benefits and Council Tax Benefits grant over period of the CSR. These small increases have been incorporated into the MTFS at this stage but will need to be reviewed when actual grant notifications are received.
- No increases in fees and charges have been assumed at this stage, as these form part the service review process. When the results of this process are agreed, the MTFS will be updated to reflect agreed increases in fees and charges.
- Treasury Management projections have previously assumed that there will be an improvement in investment returns in 2011/12 realising an additional £138,000 in interest receipts for the year. Experience this year shows a completely different position with interest rates on short-term investments running at less than 1% p.a. which will result in a budget shortfall of some £200,000 this year. It is therefore unlikely that the anticipated improvement in returns will take place in 2011/12.

2.4 **Revised MTFS – 2011/12 other base budget increases**

- Continuing budget pressures totalling £139,000, which have been identified within the 2010/11 budget monitoring process, and agreed by the Executive in August, have been included in the forecast. These pressures relate to:
 - Energy conservation £46,000
 - Building Control data capture £10,000
 - Loss of Planning Delivery Grant £63,000
 - Loss of search fee income £20,000
- The Housing Benefits budget has been reviewed in the light of actual experience over years 2007/08-2009/10. The level of subsidy received in these years has remained at about 98% of benefits paid. The budget for 2010/11 assumed a level of subsidy of 99% of benefits paid, which although only a difference of 1% against actual subsidy received in past years, equates to a reduction in grant of some £167,000. This reduction has now been included within the revised budget forecast for 2010/11 and carried through to the MTFS for years 2011/12 – 2014/15. At this stage no assumptions have been made over potential increases in the level of benefit claims due to any further downturn in the economy. However assuming a

98% benefit subsidy rate in the future, a £1m increase in housing benefits will result in a net cost increase of £20,000 to the Council.

- Inflation at 2% p.a. has been provided on all non-salary costs from 2011/12, based on previous MTFS projections. Current inflation rates are however higher than this with the Consumer Price Index and Retail Price Index running at 3.1% and 4.6% respectively (September 2010). A 1% increase in non-pay inflation would add an estimated £100,000 p.a. to the budget, if applied to all non-pay costs across the Council.

2.5 **Further Budget Pressures**

Two potential significant budget pressures have been identified for 2011/12.

i) Local Development Plan

The current estimated cost of drawing up the local development plan in 2011/12 is £558,000. The level of reserves available to meet this cost is £352,000 resulting a cost to the General Fund of £206,000 for the year. This sum is £80,000 more than the base budget provision for this activity.

ii) Recycling

Cumbria County Council currently pay the Council approximately £1.02m a year as part of the recycling reward scheme. This is based on a payment to the Council of up to £83.20 per tonne for recycled waste, which is significantly higher than the statutory minimum of £54.54 per tonne. There is the potential for the County Council, given their budget pressures, to revert to the statutory minimum payment, which would cost the Council income of £260,000 p.a.

At the moment neither of these pressures are included within the MTFS forecast as they are subject to the wider service review process.

2.6 **Funding from Reserves**

Funding from earmarked reserves for 2011/12 has been included in the MTFS in respect of LABGI funding for business development (£127,000) and support for Working Neighbourhoods (£413,000) based on planned utilisation information from services. A further ongoing commitment for reserve funding of £130,000 exists in relation to Pensions Increases Costs from 2009/10, which is therefore included in all four years of the MTFS.

3. **OPTIONS TO BE CONSIDERED**

- 3.1 Decisions on options to cover the forecasted budget gap arising from this exercise are required to feed into the budget setting process. There have been no assumptions included within this forecast over budget reductions arising from the current service

review process. Further information on this process will be presented to the December meeting of the Executive.

- 3.2 The forecast of the level of grant to be received for 2011/12 and later years is only indicative at this stage.
- 3.3 Final decisions on the 2011/12 budget can only be made when the actual grant notification for that year is released by the Department of Communities and Local Government in early December 2010.

4. CONCLUSIONS

- 4.1 The position of the MTFS outlined in this report is subject to change when the service review is finalised.
- 4.2 The current budget shortfall for 2011/12 before service review and other changes highlighted in this report are incorporated is approximately £1.9m.
- 4.3 There will be changes to these figures once the final grant settlement is released by the Government in December 2010. The final grant settlement is a key part of the budget setting exercise for 2011/12, as changes to the level of government grant funding will affect the level of either budget savings or the use of reserves required to set a balanced budget.

5. WHAT ARE THE LEGAL, FINANCIAL AND HUMAN RESOURCES IMPLICATIONS?

- 5.1 This report does not have any direct implications of this kind, as these will be considered through the service review process.

6. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

- 6.1 The results of the Comprehensive Spending Review will be matched in December with the final grant notification from the Department of Communities and Local Government and significant variations reported to members.
- 6.2 Service Review proposals will also be incorporated into the forecasts as part of the budget setting process.
- 6.3 The results of the budget setting process and the grant settlement will be presented to the Resource Planning Working Group and the Executive on 13 December 2010.

7. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

- 7.1 The key measurable outcome is the budget requirement for the Council for 2011/12, which will determine the manpower, financial and other resources it will have available to provide services for the year.

List of Appendices

Appendix A–Medium Term Financial Strategy update

List of Background Documents:

HM Treasury – Comprehensive Spending Review 2010

	2010/11	2011/12	2012/13	2013/14
	£	£	£	£
<u>Funding from Grants & Council Tax</u>				
Base budget	13,104,230	13,104,230	13,104,230	13,104,230
<u>Budget Reductions</u>				
Concessionary travel		-645,915	-645,915	-645,915
Stage 1 service reviews ;				
Salaries		-101,000	-101,000	-101,000
Other		-252,000	-252,000	-252,000
2010/11 pay award provision not required		-73,105	-73,105	-73,105
Pay & Workforce Strategy budget not required		-141,000	-141,000	-141,000
Ongoing non-salary savings deducted from 2010/11 base budget		-68,500	-68,500	-68,500
Turnover Saving (1% of salary budget)		-84,000	-84,000	-84,000
Revenues & Benefits shared service		-84,000	-84,000	-84,000
Increase in specific grants (LGA Forecast)		-72,000	-54,000	0
<u>Budget Increases</u>				
2010/11 continuing budget pressures		139,000	139,000	139,000
Deletion of Vacancy Management budget		250,000	250,000	250,000
Pay & price inflation				
Pay £250 flat rate 2011/12		70,000	70,000	70,000
Pay £250 flat rate 2012/13		0	70,000	70,000
Pay 2.5% 2013/14 & 2014/15		0	0	215,650
NI increase 2011/12		30,000	30,000	30,000
NI increase on pay awards		9,310	18,620	47,301
Pension increase 2011/12 (2.8%)		164,000	164,000	164,000
Pension increase on pay awards		14,070	28,140	71,486
Housing Benefits - increased cost		167,080	167,080	167,080
Inflation (2% applied to all non salary costs)		201,051	406,123	615,296
Treasury management		200,000	200,000	200,000
	13,104,230	12,827,221	13,143,673	13,694,524
<u>Funding from reserves</u>	2,770,922	670,000	130,000	130,000
	15,875,152	13,497,221	13,273,673	13,824,524
Rounded (£'000)	15,875	13,497	13,274	13,825
FUNDING [Grants 2011/12 to 2014/15 all LGA Assumptions]				
RSG/NNDR	7,222	5,872	5,496	5,450
PFI Grant	837	837	837	837
Area Based Grant	1,029	27	24	22
Council Tax - freeze 2011/12, 2.5% increase thereafter	4,008	4,008	4,108	4,211
Council Tax Surplus	8	0	0	0
Council Tax "Freeze" Grant	0	100	100	100
	13,104	10,844	10,565	10,620
Reserves	2,771	670	130	130
	15,875	11,514	10,695	10,750
Shortfall	0	1,983	2,578	3,075

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2014/15
£
13,104,230
-645,915
-101,000
-252,000
-73,105
-141,000
-68,500
-84,000
-84,000
-72,000
139,000
250,000
70,000
70,000
439,691
30,000
77,099
164,000
116,518
167,080
828,653
200,000
14,134,751
130,000
14,264,751
14,265
5,144
837
20
4,316
0
100
10,417
130
10,547
3,718