

TELFORD & WREKIN COUNCIL**CABINET – 22ND SEPTEMBER 2011****SERVICE & FINANCIAL PLANNING 2012/13 – 2014/15****REPORT OF THE INTERIM CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER****PART A) – SUMMARY REPORT****1. SUMMARY OF MAIN PROPOSALS**

This report updates the financial projections for future years and sets out the process and key dates for the agreement of the Service & Financial Planning Strategy 2012/13 – 2014/15.

2. RECOMMENDATION

That Members note the updated projections for the period 2012/13 – 2014/15 and the proposed timetable and consultation activities summarised in the report.

3. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes/ No	<i>The service and financial planning strategy underpins the delivery of the Council's objectives.</i>
	Will the proposals impact on specific groups of people?	
	Yes/No	<i>This is a contextual report seeking to update members on the financial outlook facing the Council.</i>
TARGET COMPLETION/DELIVERY DATE	<i>The timetable for the development of the Council's 2012/14 – 2014/15 Service & Financial Planning strategy is set out in the text of the report.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	Yes/No	<i>The financial impacts are detailed throughout the report.</i>
LEGAL ISSUES	Yes/No	<i>None directly arising from this report. The S.151 Officer has a statutory duty to monitor income and expenditure</i>

		<i>and take action if overspends/shortfalls emerge.</i>
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	
IMPACT ON SPECIFIC WARDS	No	<i>Borough-wide impact</i>

PART B) – ADDITIONAL INFORMATION

4. INFORMATION

4.1 Current Grant Settlement.

The Council's Service & Financial Planning strategy for the period 2011/12-2013/14 was approved by full Council on 3rd March 2011. This strategy was set in the light of the most challenging Government grant settlement ever received by the Council. Following the local Council elections in May the new administration then put forward '100 day budget' proposals to revise both the current year revenue budget and 4 year capital programme in order to make savings and reduce the level of service cuts required in future. These proposals are currently out for consultation.

Shortly after the General Election, the Government cut the Council's revenue grants for 2010/11 by £3m (with a further £1m cut to capital grants). The final grant settlement for the period 2011/12 – 2012/13 was announced on 31st January 2011 when grants received by the Council were cut by £13.6m in cash terms for 2011/12 with a further cut of £5.3m in 2012/13 – in addition to the £3m cut already announced in June 2010. The system of grant damping was continued resulting in over £4m of grant that the Government calculate should come to Telford & Wrekin being withheld and allocated to other parts of the country in 2011/12-this is reflected in the above grant cut figures.

4.2 Local Resource Review

When the Government announced the results of the Comprehensive Spending Review (CSR) in October 2010 they also announced that the local government finance system would be subject to a fundamental review. This review is known as the Local Resource Review and is likely to see the return of business rate income to local control. Whilst this general principle is supported by the Council the draft proposals have some potential risks for the Council including:-

- The grant settlement for 2012/13 would be frozen as the basis for future funding of the Council for many years. This means that the damping of grant in 2012/13 of over £3m (down from £4.3m in the current year) would be frozen and not unwound which would happen over time under the current system representing a permanent loss to this area of funding which should be available to support the provision of services to local people.
- Similarly, the Council would not benefit from the growth in population which we suspect the 2011 census will confirm compared to the population projections used by ONS and which also significantly reduces the level of Government funding allocated to the people of this area.

- The risk of reduced income from business rates arising from future recessions, the loss of major businesses from the area or significant appeals against rateable values (which can be back-dated for several years) would fall on the Council rather than being managed nationally which currently enables issues that would be significant in a local area to be smoothed over a much wider pool. The Government are aware of the potential volatility and therefore potential impact on services that individual councils provide, and may build-in some kind of mechanism to prevent major shocks to local funding levels. However, increased volatility and risk for Councils is inevitable compared to the current system making future projections of income levels just as difficult, if not more difficult, as under the current system.

In spite of this, overall the proposed changes are to be welcomed as they reinforce the importance of investment in the local economy and this needs to be a key determinant of future investment decisions by the Council. The uncertainty arising from the Local Resource Review, does however, make projections of the likely level of resource available to the Council after 2012/13 very difficult and any projections beyond this year consequently have a high degree of uncertainty.

4.3 Financial Outlook 2012/13-2014/15.

The report approved by Council in March 2011 and updated by the '100 day budget' in July included projections of the financial position for the period through to 2014/15. Grant projections beyond 2012/13 were based on the Departmental Expenditure Limits for Communities & Local Government announced in the October 2010 CSR as no further information was available. These imply a further reduction in grants in cash terms of around £5m bringing the total cash reduction in grants (including the "mid-year" £3m reduction in June 2010) to an estimated £26.7m at a time when inflation is running significantly above the Bank of England's target. In "real" terms the cut to grants during this period is nearer to £40m as we would normally expect the total grant to be increased to meet inflationary pressures rather than cut in cash terms.

Due to the scale of the cuts to local authority grants and the heavy front loading of those cuts, the strategy for 2011/12 included the use of £9.2m of one-off resources. This allowed time for ongoing proposals to be developed but it is now essential that those savings proposals are brought forward for extensive consultation with the local community to shape the Council's medium term service and financial planning strategy.

The strategy agreed at Council in March 2011 assumed reductions of 20% were made to all staffing and non-staffing spending budgets and also suspended the £2.8m contribution to the single status provision for a one year period. Additional investment of £1.4m in services for looked after children and of £2.95m in adult care services were built in to the projections as was the £1.4m council tax reduction grant (equivalent to a 2.5% tax rise) which is payable until the end of 2014/15.

After adjusting for the use of £9.2m one-off measures used to alleviate pressures in the current year, smoothing the projected further grant cuts in 2013/14 and 2014/15 and rolling the projections on from 2011/12, the budget gap reported in the March Council report translates to:-

2012/13 £m	2013/14 £m	2014/15 £m
19.7	24.7	28.0

These figures represented the base budget deficit that was projected as needing to be addressed, but a number of factors have changed since this report was considered by Council in March and these projections now need to be updated.

100 day Budget Review

One set of key changes are the proposals currently being consulted upon in the “100 day budget review” approved for consultation by the Cabinet in July 2011. These proposals identify significant changes to the capital programme, including not building new civic accommodation. These changes, if approved following the consultation period, would generate savings to protect front line services of:-

2012/13 £m	2013/14 £m	2014/15 £m	Ongoing £m
1.2	1.6	2.7	2.9

Other key changes now to be considered include:-

Inflation

Whilst the budget approved by Council in March 2011 included an element for contractually committed inflation, it did not make provision for general inflation or for any pay awards. Given the current comparatively high levels of inflation and pressure on budgets it is considered prudent to make an allowance of 3% for general inflation (including on income budgets) in 2012/13 and 2% for the following 2 years. An allowance of 2%pa has also been built in for 2013/14 and 2014/15 pay costs. It is however recommended that any allowance for inflation that is agreed is held centrally and only allocated by the Cabinet on the basis of clear need.

Continuing Health Care Cases & Demography

Adult Services budgets are under considerable pressure from the reduced PCT funding of local people with continuing healthcare need, which are then costs falling primarily on the Council along with the impact of a growing population of older people. The budget projections included in the March Council report did include an element for additional Adult Care

pressures (£2.95m over the 3 year period) but this is now considered to be insufficient so an additional allowance has been built in to the projections.

West Mercia Supplies

Whether a sale of the Council's interest in WMS proceeds or not, it seems likely that the current level of dividend and interest budgeted from WMS will reduce significantly.

Single Status

The base budget assumptions include an ongoing allowance of 4% for the additional costs arising from the single status agreement. This amount has been set aside as a provision to meet the expected increased costs since 1st April 2007. The budget for 2011/12 was agreed on the basis that sufficient funding had been set aside and that no further contribution to this provision needed to be made during 2011/12 but that the position would be reviewed for 2012/13 and 2013/14. However, it is still considered to be the case that sufficient funding has been set aside and therefore that no further contribution to the provision is required in 2012/13 or 2013/14.

New Homes Bonus

Projections have been made to reflect what grant the Council may receive in future years.

SUMMARY POSITION

After adjusting for these factors and the saving on insurance premia previously reported through financial monitoring, the updated funding shortfall projections increase to £31.4m by 2014/15:-

2012/13	2013/14	2014/15
£m	£m	£m
21.1	27.3	31.4

School Budgets

Compared to local authorities, school budgets have been comparatively protected, with a cash frozen per pupil budget in 2011/12 supplemented by a pupil premium of £430 for each pupil eligible for free school meals and £200 for each pupil from a service family. However, whilst pupil numbers are stabilising in Telford & Wrekin's primary sector, they continue to fall in the secondary sector, resulting in some comparatively small and shrinking schools having to cope with year on year reductions in funding

The future outlook for Telford & Wrekin school funding will also be dependent upon the results of the government's changes to national school funding. Phase 2 of a national funding consultation is currently underway, the results of which are expected later in the year. Given the comparatively low level of funding per pupil currently allocated to Telford & Wrekin, changes may potentially lead to a better settlement for schools in

the area although without more detailed proposals this cannot be certain. In the expectation of a change in the funding arrangements for schools the Government gave all Local Authorities a one year Dedicated Schools Grant in 2011/12 however, there is now a possibility of any change being put back to as late as 2015/16 with the likelihood of damping arrangements reducing the impact for some years after the new system is introduced.

In the meantime, the DfE continues to encourage schools to convert to academies. The reduction in funding for Local Authority school functions associated with conversions, which the DfE is proposing to increase in the future, represents a further pressure on the Authority, the scale of which will depend upon the number of converting schools

4.4 Process and Timetable

Restructuring.

Work is continuing on the organisational restructuring process with the objective of reducing total employee costs by 20% with the emphasis on natural wastage, voluntary redundancy and redeployment within the organisation wherever possible. The budget approved for 2011/12 includes ongoing savings already achieved of over £4m from organisational restructuring. The 100 day budget review proposals identified a sum of £0.6m to be made available to help support employees facing compulsory redundancy. A capitalisation direction of £2.9m has been received from the Government enabling statutory redundancy payments to be treated as capital expenditure in line with the application made to Government and a further review of the senior management structure, which has already been reduced by around 50%, is in progress.

Non-staff Expenditure.

Initial proposals for savings on non-staffing budgets are currently being developed with an emphasis on generating efficiency savings, the elimination of waste and savings from better procurement. As well as taking a more business-like approach when entering new procurements the Council is also applying more stringent contract management procedures and will seek to reduce prices paid to suppliers where-ever possible whilst safeguarding the quality of service purchased on behalf of local people. Considerable work has also been undertaken to rationalise office accommodation and reviewing the way that services are delivered in order to generate further savings. The budget agreed for 2011/12 includes ongoing savings of £5.5m from non-employee budgets.

However, given the scale of the cuts to Council grants and inflationary and other pressures, it is inevitable that many savings proposals will have service impacts. It is intended that much more extensive consultation on these proposals will be undertaken than in previous years to enable the community to shape the Council's budget for future years.

Council Tax

If, through consultation with the community some of the choices on service cuts are considered too unpalatable, an alternative option would be to consider some limited increases in council tax. Inflation is currently running at around 4.5% to 5.2% pa depending on the indicator used. This could form a benchmark against which any increase in council tax to offset service cuts could be assessed. Average council tax payable to the Council for the services provided is currently £854pa so each 1% increase in council tax would cost the average household around £8.54 pa or 16 pence per week.

Consultation Activities.

1. Budget Review Survey – A survey on the 100-day budget review proposals is available online at www.telford.gov.uk/budgetsurvey , in hard copy and for use face to face.
2. “Suggestion Box” – gives people the opportunity to have their say on how the Council could do things differently to save money. You can submit your views online at www.telford.gov.uk/suggestionbox and there are suggestion boxes displayed in the main receptions at Civic Offices and Darby House. So far we have received over 300 suggestions for savings.
3. Budget Calculator – an online consultation tool that we have developed in house and is available from the Council’s website at www.telford.gov.uk/budgetcalculator. It is aimed at local people, to give them more of a say on how the Council’s budget is spent. Using a simplified version of the Council’s budget for 2011/12 users can have a go at balancing the budget to reflect their own priorities, seeing what impact any changes will have on service delivery and Council Tax levels. Over 80 responses have been received so far.
4. Face to face engagement at locations throughout the borough, including community events
5. A ‘Your Views Matter’ leaflet has been sent to all households with the electoral forms, promoting current engagement activities, including all our budget consultation.
6. A letter to ward members to make them aware of current engagement activities.
7. Focus groups will be held with representative groups of our community to gain views on the initial savings proposals and particularly views on the potential impacts of the proposals
8. Discussions will be held with users of specific services affected by proposals to identify the potential impacts of the proposals
9. A comprehensive programme of discussion and engagement with community and special interest groups will be undertaken when the final proposals are released for formal consultation.

Key Dates.

October/November – Consultation on initial savings options, particularly with service users, in order to develop a programme for further consultation in December

Cabinet 10th November 2011 – 100 Day Budget Review consideration of consultation responses and agreement of final recommendations to Council
Council 24th November 2011 – Approval of 100 Day Budget Review
Cabinet 8th December 2011 – 2012/13-2014/15 Budget Strategy proposals launched for consultation including a savings programme, any tax increases and use of balances
Cabinet 23rd February 2012 – final recommendations on strategy for 2012/13 – 2014/15
Council 1st March 2012 – Final strategy for 2012/13 – 2014/15 approved, council tax set, capital programme, treasury management strategy and prudential indicators approved.

5. PREVIOUS MINUTES

- Council 3rd March 2011
- Cabinet 26th July 2011

6. BACKGROUND PAPERS

- Service & Financial Planning 2011/12-21013/14 report to Council 3rd March 2011
- 100 Day Review of 2011/12 Service & Financial Planning Strategy

Report prepared by Ken Clarke, Head of Finance, Telephone: 01952 383100