



OUTLINE MEDIUM TERM FINANCIAL STRATEGY 2012/13 TO 2014/15

SUMMARY

- 1.1 This report outlines the medium term financial strategy – MTFS - for the revenue and capital budget over the next three year period 2012/13 to 2014/15.
- 1.2 The key issues covered include:
 - the current financial climate and funding implications, outlined in section 4
 - future Government funding beyond 2012/13, outlined in paragraphs 4.3 and 5.2
 - the 2011/12 in year forecast position, outlined in paragraphs 4.4 and 5.2
 - risk planning, outline in sections 5 and 6
 - revenue reserves, outlined in section 7
 - the approach to delivering savings to set a balanced budget, outlined in section 8
 - the 2012-15 capital strategy, outlined in section 9
 - the next steps and budget timetable, outlined in section 10.
- 1.3 Actions to address the existing budget gaps in 2012/13 and 2013/14 will be developed during the next few months and scrutinised by Cabinet, prior to consultation in the autumn.
- 1.4 The funding position facing the Council over the next three years will be investigated further to ensure that the service levels adopted for future years are in line with the funding available.
- 1.5 An ambitious timetable has been set for delivering the MTFS. This is a positive step to ensure that actions are implemented in time to support prompt delivery of budget savings.

RECOMMENDATIONS

- 2.1 To note the estimated financial position and funding gaps for 2012-15, and the assumptions included within these forecasts, as set out in section 4.
- 2.2 To note the budget risks associated with the MTFS, as set out in section 5.
- 2.3 To approve the proposed financial methodology to identify service savings over the next three years, as set out in section 8.
- 2.4 To approve the outline timetable set out in paragraph 10.5.

- 2.5 To recommend that Full Council approve this strategy on 7 September 2011.

REASONS FOR RECOMMENDATIONS

- 3.1 To gain Cabinet approval to the approach to formulating the budget plan for 2012-15, in order to develop savings options for consultation later in the year.

SUPPORTING INFORMATION

4. Medium Term Financial Strategy Planning

- 4.1 The current Medium Term Financial Plan - MTFP - was approved by Full Council on 2 March 2011. This set a confirmed balanced budget for 2011/12, along with indicative balanced budgets for 2012/13 and 2013/14.
- 4.2 The current MTFP was set against a backdrop of significant funding reductions to Local Authorities, both during 2010/11 and from 2011/12 onwards. Funding for 2011/12 and 2012/13 was announced by Government in December 2011, allowing Local Authorities to plan for this timeframe. Funding beyond 2012/13 is uncertain, and likely to reduce in line with the 4 year Comprehensive Spending Review - CSR - predictions.
- 4.3 From 2013/14 Local Authorities are subject to a 'Resource Review', which is currently being considered by Government. This review will consider the options for how Local Authorities will be funded in the future. An example of a possible change is how Non Domestic Rates are retained or redistributed.
- 4.4 The current MTFP identified £57m of savings over three years – 2011/12 to 2013/14. For 2011/12, £24.7m of savings have been identified and are currently being tracked for delivery. This will be monitored and managed through Directorate Action Plans and reported to the one Derby, one council Board and Cabinet on a regular basis. Further savings of £18.7m in 2012/13 and £13.6m in 2013/14 need to be delivered. Following recent considerations the 2012/13 savings requirement has increased by approximately £2m in this MTFS as explained in paragraph 4.8
- 4.5 The funding position for 2012/13 shows a reduction in formula grant by £9.53m from the 2011/12 base position. This figure is relatively firm, but will only be confirmed in December 2011.
- 4.6 For planning purposes the funding position for 2013/14 and 2014/15 has been reduced by a further £5m in each year. This is reflected in Table 1. These assumptions are an early estimate based on the Governments announcement of 28% funding reductions in real terms over a 4 year period. We will continue to model the funding impact as further intelligence emerges.
- 4.7 The outline position assumes a consistent level of specific grants. The risk of further reductions is outlined in paragraph 5.2.

- 4.8 Council Tax was frozen for 2011/12, with a corresponding grant received from Central Government. This grant is confirmed for a 4 year period only. The existing MTFP assumed a Council Tax increase of 2.5% per year from 2012/13 onwards. For planning purposes the Council Tax level for 2012/13 has been held at 2011/12 levels. This adds a further £2m to the 2012/13 savings to be found which will be considered during the budget planning process.
- 4.9 The MTFP includes the one-off funding of redundancy and early retirement costs to support a reduction in the Councils overall staffing establishment.
- 4.10 Table 1 shows the draft MTFP for 2012/13 to 2014/15, along with the current financial year for information.

Table 1 – Draft MTFP 2012-15

	<i>Current Year 2011/12 £000's</i>	<u>Draft MTFP 2012-15</u>		
		2012/13 £000's	2013/14 £000's	2014/15 £000's
FUNDING				
- Formula Grant	113,114	103,583	98,583	93,583
- Council Tax	81,888	82,020	84,679	86,847
- Specific Grants	26,762	27,375	27,975	27,975
Total Resources Available	221,764	212,978	211,237	208,405
BUDGET				
- Prior Year Base Budget	240,070	233,336	212,846	206,007
- Adjust for temporary costs		(8,015)	(1,300)	(2,100)
- Inflation Estimates	1,747	1,948	3,153	3,500
- Pressures	8,242	5,046	2,783	tbc
- Savings	(24,738)	(14,771)	(8,365)	tbc
- Additional budget to support temporary costs	8,015	1,300	2,100	tbc
Budget (prior to movement in reserves)	233,336	218,844	211,217	207,407
- (Use of) / Contribution to reserves	(11,572)	132	5,230	0
Further savings to find	0	(5,998)	(5,210)	998
Total Budget	221,764	212,978	211,237	208,405
<i>Note:</i>				
<i>Total Savings requirement</i>	<i>(24,738)</i>	<i>(20,769)</i>	<i>(13,575)</i>	<i>tbc</i>

- 4.11 Actions to deliver indicative savings for 2012/13 and 2013/14, as approved by Full Council on 2 March 2011 continue to be developed in readiness for implementation.

5. Financial Risks

5.1 There is a number of service and corporate issues and new developments which could generate a revenue budget pressure as outlined below, although at this stage no pressure has been included in the draft MTFP. These will be considered further during the course of the budget process, together with any further service pressures that may emerge. On confirmation of any emerging pressures, consideration will need to be given as to whether the pressure is added to the overall budget position thereby increasing the budget gap or whether the pressure must be contained within indicative Directorate revenue budget cash limits.

5.2 The areas of potential risk are:

Funding Position Risks

- **Formula Grant** – there is a risk that the formula grant, or whatever form this grant becomes beyond 2012/13, may be lower for Derby than estimated. We will continue to model scenarios which reflect a range of reductions
- **Specific Grants** – like formula grant, but possible even more volatile as seen with the in year 2010 grant reductions, there is a risk of these grants being removed from the system, or rolled into the formula. This has historically had a detrimental effect on Derby's funding levels.
- **Council Tax Grant** – we will continue to explore whether there will be grant funding for freezing council tax for a further year.
- **Academies** – the Council lost a significant amount of funding in 2011/12 to support the national academies model. This approach may unfortunately continue in future funding settlements.

Prior Year Risks

- **2011-12 Monitoring** - the balanced budget for 2011/12 requires £24.7m of budget savings to be delivered. Early warning, detailing potential risks of delivery and/or other emerging pressures in the year are being closely managed. High risk savings which may impact on future financial years are being considered as part of the 2012-15 MTFS.

Cost Change Risks

- **General Inflation** – inflation is running at higher levels than originally assumed in the current MTFP. Modelling is underway to assess the level of risk exposure due to inflationary pressures, and how these will be address within existing budgets.
- **Energy and Fuel Price Increases** – this area of inflation is particularly volatile and will require close analysis.
- **Pension costs** - uncertainty over the actual employer contribution rates for the Local Government Pension scheme at the next actuarial revaluation in 2013.
- **Implementation of Job Evaluation Single Status pay** – an annual contingency budget of £0.5m in 2011/12 rising to £2.5m from 2013/14 is maintained in the revised budget position together with a corporate reserve of £4m by 2013/14. At this stage no additional budget change is proposed and will be considered further as the implementation of single status progresses.

Capital Programme risks relative to the revenue budget

- **Capital Programme** - the Capital Strategy for 2012/13 to 2014/15 has a direct impact on the Treasury Management revenue budget. This is in terms of the cost of borrowing required to support capital investment and the opportunity cost of reduced cash balances rather than the use of capital receipts and reserves. Decisions on the future capital programme will need to take into account the overall priorities and affordability in revenue as well as capital terms.
- **Treasury Management budget** - the budget includes assumptions on the level and timing of borrowing and level of cash balances available for investment, dependant on the final approved capital programme and actual spend profiles. In addition, forward estimates of borrowing and investment rates have been included and are subject to fluctuation due to the financial markets. Any changes to the level, timing or funding source for the capital programme, and any corporate capital programme allocations not financed from external grants or contributions will have a revenue budget implication.

Other Risks

- **Dedicated Schools Grant - DSG** - and other school grant funding streams - we are assuming a continuation of current definitions, though the distribution between authorities may change. It is worth noting that it is becoming progressively more difficult to charge wider children's services budgets to the DSG as its rate of growth also slows down.
- **New legislation, Central Government initiatives and Council Strategies** – no increases have been included at present.
- **One off costs** – there are likely to be one-off costs to support the funding of VR/VER packages and CR costs over the MTFP period. The level of these will be determined as saving options are developed.

6. Managing Budget Risks

- 6.1 Contingency budgets are included in the revised budget position for specific material budget risks as follows:
- pension contributions and national insurance increases
 - job evaluation - single status
 - waste disposal costs.
- 6.2 In addition, a permanent 'budget risk' contingency budget and a one-off reserve continue to provide further resources. These are held to cover budget uncertainties and unforeseen pressures in the year they could arise, whilst a permanent funding solution is found. As there is uncertainty over the future economic position, these reserves and contingencies are needed to manage our exposure to risks.

7. Revenue Reserves

- 7.1 The general reserve of £7.1m continues to be held at approximately 2% of the budget requirement (including the Schools Budget), in line with recommended best practice.

- 7.2 There are a number of service and earmarked revenue reserves totalling £41.4m held for defined purposes to support one-off spending. These reserves will be reviewed in light of the funding position to confirm or reassess the purpose for which they are being held.

8. Delivery of Savings & Key Principles

- 8.1 The revised budget position based on current estimates and assumptions includes unidentified savings in 2012/13 of £5.998m with a further £5.210m in 2013/14. It is proposed that a strategic approach is needed to develop options to close the gap through Chief Officers in conjunction with Cabinet Members. These will be undertaken through thorough budget scrutiny, service reviews, capital investment prioritisation and value for money assessments across the Council. Directorates have been tasked to identify what service delivery would look like over the following three years and what savings this would release. At this stage all service area opportunities will be explored and refined prior to budget consultation in the Autumn.
- 8.2 In order to address the significant budget reductions we will need to question the services we provide, how we provide them, to what level they are provided or subsidised, and who should provide them in the future. A thorough review of this commenced in 2011 and will continue to form the basis for savings proposals.
- 8.3 Key principles to underpin the budget strategy and deliver savings are proposed below:
- We will review and determine at what level we provide statutory services
 - We will explore alternative service delivery models including:
 - Voluntary sector support
 - Private sector outsourcing
 - Shared services with other public sector bodies
 - We will reduce inefficiency in all areas
 - We will ensure payment for services is at an appropriate level
 - We will deliver relevant service at the optimum level of subsidy
 - We will determine the level of assessment and eligibility for our services
 - We will review our commitments against the capital strategy which impact on levels of revenue funding
 - We will review our levels of reserves
 - Partners will help in our work to support budget reductions.
- 8.4 In line with the existing strategy the proposed range of revenue savings to be developed during the coming months include:
- Efficiency - service efficiency savings as part of the planned one Derby, one council - ODOC - programme.
 - Borrowing - a review of the capital programme, including scheme phasing – leading to a possible reductions in borrowing, thereby reducing the reliance on the revenue budget to support the capital programme.
 - Base reviews - targeted base reviews across Directorates - to identify service changes.
 - Charging - a review of charging policies – leading to an acceptable level of charges for Council services.
 - Subsidy - a review of the level of subsidy within existing budgets – leading to a decision on the optimum level of subsidy the Council should provide for services.

- Eligibility - a review of eligibility criteria – leading to possible changes to the levels of service provided.
- Grants - a review of grants to outside bodies and contributions to partnerships – to assess the service benefits and future allocations.
- Contracts – a challenge of costs within existing and future contracts.

8.5 Progress, timing and estimated implications of savings options being developed will be tracked during the budget process. Savings options will be prioritised for delivery in 2012/13, 2013/14, or 2014/15 after consideration of dependencies and actions that would be required for implementation to ensure that savings targets built into the budget are realisable.

9. Capital Strategy – 2011-15

- 9.1 The current capital programme for 2011-15, as approved by this Cabinet is approximately £292m. A significant amount of the programme is ring-fenced or committed to schemes in progress, with other elements of the programme being more flexible.
- 9.2 The current programme assumes the continuation of un-ring-fenced funding, in relation to transport, social care and children's services. For 2012/13 this will not be confirmed until December 2011, with future years announced in December 2012. Financial modelling will need to take this uncertainty into account.
- 9.3 In line with the capital review and prioritisation process undertaken last year, the existing programme will be reviewed as part of the MTFS for 2012-15. Details of this review have yet to be confirmed and will be developed by Cabinet and Chief Officer Group - COG - over the summer, prior to scrutiny and consultation in the Autumn.

10. Next steps and budget planning timetable

- 10.1 The Council's corporate priorities are central to the budget planning process as they guide resource allocation in line with our overall vision for the city. The new Derby Plan will be used to guide decisions within the budget process.
- 10.2 A series of Chief Officer and Cabinet Member 'Star Chamber' meetings will take place in the Autumn to develop and scrutinise service budgets and budget proposals and develop options to close the budget gap.
- 10.3 The budget proposals will be considered by the Scrutiny Commissions before Council Cabinet recommends the budget and council tax to Full Council. The content, format and timing of budget information provided to the Scrutiny Commissions in the previous budget process was well received, so it is proposed that a similar process is followed this year.
- 10.4 The budget proposals will also be communicated for consultation to the public via the website and Neighbourhood Boards, to other Council committees, partners and the business community before the final recommendations to Council Cabinet. Specific plans on how we engage are currently being developed.

- 10.5 An outline timetable is proposed in Table 3, including steps already completed. This shows a necessarily early start to the MTFS and an ambitious target to approve the budget by the end of December 2011. If this is achieved, this will help to facilitate full year savings in 2012/13 and reduce the incremental impact in that year.

Table 3 – Outline MTFS Timetable

Key dates	Meeting	Key Issues
Early June	COG, Finance Managers	<ul style="list-style-type: none"> Strategic planning day Sustainability of savings already taken Priority/non priority areas
Early July	Cabinet, COG, Finance Managers	<ul style="list-style-type: none"> MTFP update Consider Priority Areas Agree process for Star Chambers
Late July	Cabinet, COG, Finance Managers	<ul style="list-style-type: none"> Agree Capital Strategy Agree Directorate targets
July – August	Directorates	<ul style="list-style-type: none"> Development of pressures/savings Preparation for Star Chambers
Early September	Cabinet, COG, Finance Managers	<ul style="list-style-type: none"> Star Chambers Connectivity to Council priorities
Late September	Cabinet, COG Finance Managers	<ul style="list-style-type: none"> Putting it all together Agree consultation process
October	Various	<ul style="list-style-type: none"> Budget consultation
November	Scrutiny, Cabinet	<ul style="list-style-type: none"> Scrutiny of budget proposals Cabinet approval for budget package
December	Cabinet, Council	<ul style="list-style-type: none"> Cabinet – final adjustments to budget Full Council approval. Council tax setting

OTHER OPTIONS CONSIDERED

- 11.1 There is a statutory requirement to set a balanced budget for 2012/13. A range of options to achieve this will be considered during the budget planning process.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	Roger Kershaw – Strategic Director of Resources Adam Wilkinson – Chief Executive
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For more information contact: Background papers: List of appendices:	Martyn Marples – Director of Finance & Procurement 01332 643377 e-mail martyn.marples@derby.gov.uk None Appendix 1 – Implications
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IMPLICATIONS

Financial

- 1.1 As detailed in the report.

Legal

- 2.1 The Council is required to set balanced revenue and capital budgets for 2012/13 by March 2011. Under the Prudential Code established by the Local Government Act 2003, it is also required to demonstrate the affordability of its revenue budget for the two subsequent financial years, after taking into account its plans for capital expenditure.

Personnel

- 3.1 No new implications assumed at this stage.

Equalities Impact

- 4.1 Equality Impact Assessments will be completed throughout the budget process as necessary.

Health and Safety

- 5.1 No new implications assumed at this stage.

Carbon commitment

- 6.1 No new implications assumed at this stage.

Value for money

- 7.1 Value for money will be a key consideration when assessing the levels of continues service for 2012/13 onwards

Corporate objectives and priorities for change

- 8.1 As set out in the report.