

**Updated Revenue Budget Strategy 2011/12 to 2014/15****SUMMARY**

- 1.1 This report takes into account the ongoing impact of the Coalition Government's revenue and capital budget announcements on 10 June 2010, the content of the Emergency Budget on 22 June 2010, and the Comprehensive Spending Review – CSR – announcement on 20 October 2010 for the period 2011/12 to 2014/15.
- 1.2 Cabinet agreed to bring an updated report to the 26 October 2010 Cabinet meeting, following the CSR announcement. Whilst the broad picture is now available, the detailed impact will not be fully identified until Government departments have issued their detailed budget announcements.
- 1.3 Government Departments will produce detailed announcements on their specific budget allocations during November 2010. Following these announcements we will be able to clarify the overall budget position for future years. Whilst we have attempted to calculate the financial impact of the announcement on the Council's budget, the information available to us is at a high level and has required a level of interpretation and a number of strong assumptions. Even though analysis has been undertaken, the figures produced at this stage can only be used as a general guide.
- 1.4 There is still insufficient information to establish the full impact on area based grant and specific grants. Some grants are being rolled into formula grant and we have attempted to estimate the impact of these from the headline information available. The CSR does not detail the grants which have not been rolled into formula grant and it is possible that some of these could be abolished when the department details are released. This would have a further material impact on the level of resources available to the Council if this were the case.
- 1.5 Legally the Council only has to set a balanced revenue and capital budget for one year, but 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. As the CSR is for a 4 year period, the budget strategy within this report covers the 4 year period 2011/12 to 2014/15.
- 1.6 In terms of mainstream grant, the Council's original and fairly pessimistic assumptions were relatively accurate. However, what we did not anticipate was the front-loading of the reduction, which has given the Council a significant funding problem in 2011/12.
- 1.7 The estimated net reduction in formula grant following the CSR announcement is £28.94m. Including saving requirements to balance the existing medium term financial strategy and meet the challenges of further service pressures the total savings required over the next four years are estimated to be approximately £56m,

when service inflation is taken into account.

- 1.8 The actual impact of the complicated formula adjustment will not be known until December. As a result it is necessary to undertake an assessment from a broad perspective from the national funding allocations in order to guide budget planning.

RECOMMENDATION

- 2.1 To note the latest funding position and budget strategy for 2011-15
- 2.2 That further updates are provided to Cabinet as further details are released to enable the budget strategy to be updated
- 2.3 That separate reports be presented to subsequent meetings on capital, housing and benefit changes outlined in the CSR.

REASONS FOR RECOMMENDATION

- 3.1 The Council is required to set balanced revenue and capital budgets for 2011/12 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.

SUPPORTING INFORMATION

4.0 Introduction

- 4.1 The Comprehensive Spending Review 2010, sets out Government spending plans for the four year period to 2014/15, with the intention of eliminating the UK's £109bn structural deficit by 2014/15, reducing Public Sector Net Borrowing to 1.1% of GDP by 2015/16, which will be achieved more from reduced expenditure and than from increased taxation.
- 4.2 Prior to the Spending Review it was expected that the Government as a whole would have to cut its expenditure by 25% in real terms by 2014/15. However, the impact across Government departments has been quite different and the Department for Communities and Local Government (CLG) – from whom councils receive most of their income – has been subject to cuts of 33%.
- 4.3 The CSR announcement predominantly concerns Central Government. Where possible the impact of this on councils in general and on Derby City Council in particular has been estimated in this report. The full detail however will not be known until the Local Government Finance Settlement in early December, at which point there will be a Government announcement on the level of Formula Grant and specific grants for each council.

5.0 Assumptions following CSR

Formula Grant

- 5.1 The Government's Formula grant system determines the majority of the non-schools funding received by local authorities. For the next CSR period this will be based on 4 years and cover 2011-15. Although there is a negative impact on funding, this will allow local authorities to plan with greater certainty up to 2014/15.
- 5.2 The headline announcement impacting on the Local Government sector are spending reductions of 28.4% in real terms over the four year period 2011/12 to 2014/15. As Police and Fire Service reductions have been held at 4% per year over the 4 year period, the proportional impact on local authorities' increases. Formula Grant, which is Derby City Council's largest source of income, comes via CLG and this is projected to decrease by 37.5% in real terms and 29.3% in cash terms by 2014/15. This is particularly severe, especially as the reduction is substantially 'front-loaded', with a cash terms reduction of 14.2% being imposed in 2011/12.
- 5.3 The budget strategy in July 2010 assumed a 30% overall real terms reduction in formula grant in anticipation of the governments announcement of 25% cuts across the public sector. This reduction was also based on an equal split for each year. The latest announcement includes a different phasing of reductions to existing formula grant with a significant impact in 2011/12.
- 5.4 The phasing of the formula grant reductions are:

Financial Year	CSR - % cash terms reduction
2011/12	14.2
2012/13	8.1
2013/14	1.6
2014/15	5.3

Specific & Area Based Grant

- 5.5 Although some specific grants are being rolled into Formula Grant, which gives councils some flexibility in managing on a decreased resource base, some specific grants are not referred to at all in the CSR papers. Initial reports suggest that many of these grants will not be reduced to the same extent as Formula Grant. In addition there is £2bn additional funding for social services pressures, half of which is to fund responsibilities transferring from the health sector, so the net effect on councils might not be as severe as the raw Formula Grant reduction figures suggest.

Other funding

- 5.6 An additional grant has also been confirmed that will allow councils to achieve a Council Tax freeze – as opposed to a 2.5% increase - in 2011/12. This had been anticipated in our earlier strategy report.

5.7 The Dedicated Schools Grant has been given real terms growth of 0.1% pa over the Spending Review period. The Department for Education has also indicated that there will be a new capital bidding round opened up in December, addressed at demographic pressures and maintenance needs.

5.8 In addition to announcements on specific sources of funding, the Chancellor also announced a number of new initiatives that will impact of the finances of councils. These include:

- Tax Incremental Financing – to allow councils to borrow for regeneration schemes and finance the borrowing from increased business rate revenues. There is a forthcoming white paper on local growth.
- New Homes Bonus – as an incentive to encourage councils to grant planning approval for house-building the government will match-fund for six years any additional council tax raised from new homes.
- The Public Works Loan Board (PWLB) has from 20 October 2010 increased its lending rates by approximately 0.90%, to disincentivise borrowing by councils and to raise income for Government. The impact of this has been taken into account in the overall funding position.
- A major announcement affecting local government employees relates to increases in pension fund contributions. Lord Hutton will produce his final report on pensions in late November, but in the meantime it has been decided to increase employee contribution rates by 3 percentage points by April 2014.
- Changes to how PFI grant is treated means that planned PFI schemes might not now go ahead. We continue to investigate any impact on our PFI schemes.

5.9 One thing that is not covered in Spending Review announcements is any changes that the Government proposes to make that will impact on the distribution of the Formula Grant between Councils. These could also impact heavily on councils and will be announced at the time of the Local Government Finance Settlement in December 2010.

6.0 Financial Impact on Derby City Council

6.1 The main areas of revenue funding impact on Derby City Council from the CSR announcements are: formula grant, area based grant now within formula grant and the additional personal social services grant.

6.2 Formula Grant - the estimated Formula Grant decrease over the Spending Review period is equivalent to approximately a £31.54m reduction in Derby City Council's grant.

6.3 Area Based Grant - some of the pressure on formula grant will be mitigated by the profile of various specific grants that are being rolled into Formula Grant from Area Based Grant. As the reductions here are not as severe, the Council's pre-Spending Review assumptions on these now appear to have been too pessimistic. Over the Spending Review period we are now predicting a £2.3m reduction.

- 6.4 Personal Social Services - PSS - Grant - the announcement of a £1bn grant should provide additional resources to Derby for pressures stemming from demographic changes. As these pressures have already been anticipated locally, this grant represents genuinely additional resources. The estimated share of this grant for Derby by 2013/14 is £4.9m additional resource
- 6.5 The estimated net reduction of these grants is £28.94m, which is £2.0m worse than the anticipated change in grant in the July strategy report.

Grant	Change
Formula	-£31.54m
Area Based/Specific	-£2.30m
New PSS Grant	+£4.90m
	-£28.94m

- 6.6 However, more important is how the reduction has been profiled by CLG. Previously we had assumed a straight line reduction of Formula Grant and Area based grant over the four years but most of the reduction is front loaded, giving an additional and unexpected pressure in 2011/12 of approximately £6.7m.
- 6.7 Other areas for which the full picture is not yet available include:
- Public Health Grant - The new Public Health Grant is being given to Councils as part of a transfer of responsibilities from the health sector and will provide additional funding for Derby, but until the cost of the services has been estimated it is difficult to say whether this pressure has been funded or not.
 - Raising additional local taxes - The new initiatives concerned with raising both the domestic and non-domestic tax bases initially sound good news to Derby. However, from an equalisation perspective Derby is fairly certain to lose out in net terms. These initiatives reduce the nationally available resources used to support mainstream local government expenditure. By allowing these to be retained locally, Derby will have lost out on Formula Grant. This loss has been factored into the Grant figures announced, so recouping these losses through house building or regeneration schemes will provide additional income to the Council. At this stage this has not been factored into the budget strategy.
 - Borrowing Rates - The changes in PWLB rates has had an immediate impact on Derby's forecast borrowing costs. Over the next few years the Council is planning to borrow approximately £170m to fund its capital programme. As agreed in the July strategy report this programme is under review. An additional 0.9% in interest rates equates to a long-term annual cost of approximately £1.5m by 2014/15. The additional cost in 2010/11 can be contained within the existing budget but from 2011/12 the additional cost will be around £0.6m. This has been factored into the budget projections.
 - PFI - The Council has a Housing PFI scheme in the pipeline, which aimed to provide social housing at three different sites within the city. This was to be funded by central Government but now it is uncertain whether this will proceed. We await further announcements on this.
- 6.8 Finally, it should be noted that the constraints set on both Formula Grant and council tax will have a severely detrimental effect on high-g geared authorities such as Derby. High-g geared authorities rely largely on Formula Grant for resources, and so most of Derby's overall resources will be reduced, whereas low-g geared authorities, which rely largely on council tax could find their overall resources increasing over the Spending Review period. This is known as the problem of relative gearing.

7 2011 - 2015 forecast revenue position

- 7.1 The forecast revenue position includes a number of key elements:
- £0.92m of net pressures were identified in the July strategy report
 - There are £13.6m indicative budget savings already required as part of the existing medium term budget strategy
 - Creation of a further redundancy reserve to fund exit costs – with a net nil budget effect over the four years
 - In addition, we have identified significant estimated spending pressures of £7.6m
 - An estimated position in inflationary increases over the next 4 years, over and above the anticipated level in the indicative budget is £3.55m, £3.2m of which is in 2013/14 and 2014/15 which did not form part of the existing medium term budget strategy for 2010-13.
 - section 5 of this report predicts a £28.94m reduction in formula and grant funding by 2014/15.
 - A further pressure on our borrowing costs following the announcement of a 0.9% increase to PWLB rates from 20 October 2010, which equates to a further pressure of £1.5m.
- 7.2 The latest estimated overall saving requirement, split by financial year are shown in Table 1, with the total value of permanent savings required to balance the four year budget position of £56.11m

Table 1 – Total Savings Required

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	TOTAL £m
Budget movement identified prior to CSR					
Changes already identified in 27 July Strategy report	0.59	0.33			0.92
Indicative budget savings - including One Derby One Council Transformation savings	7.90	4.70	1.00	-	13.60
Additional redundancy reserve to fund exit costs	3.00	-	(1.00)	(2.00)	-
Estimated new service spending pressures	4.00	1.30	1.30	1.00	7.60
Estimated Service Inflation changes	0.51	(0.14)	1.54	1.64	3.55
Changes following CSR					
Estimated Funding reduction	13.03	7.53	2.01	6.37	28.94
CSR impact – pressure of increased capital financing costs	0.60	0.40	0.20	0.30	1.50
Total Impact - Savings to be delivered	29.63	14.12	5.05	7.31	56.11
Total over 4 years					26.10%

- 7.3 Prior to the CSR announcement the proposals identified to meet the budget gap, in advance of consultation and formal approval, had almost delivered a balanced budget position, in particular for 2011/12. Following the CSR announcement, this has now affected the balancing of the 2011/12 position, and created a further £7m gap.

Updated timetable

- 8.1 An updated financial planning timetable to deliver a balanced and affordable four year revenue budget strategy and capital programme, in line with the Corporate Plan and Council priorities, is attached at Appendix 2
- 8.2 A series of Chief Officer and Cabinet Member “Star Chamber” portfolio meetings will take place in the November to develop and scrutinise service budgets and budget proposals and develop options to close the budget gap.
- 8.3 The budget proposals will be considered by the Scrutiny Commissions before Council Cabinet makes the budget and council tax recommendations to Council on 15 February 2011.
- 8.4 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 on 15 February 2011. Specific plans are currently being developed.

OTHER OPTIONS CONSIDERED

- 9.1 None

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	
---	--

For more information contact: Background papers: List of appendices:	Martyn Marples 01332 255334 e-mail martyn.marples@derby.gov.uk None Appendix 1 – Implications Appendix 2 – Budget Planning Timetable
---	--

IMPLICATIONS

Financial

- 1.1 As detailed in the report

Legal

- 2.1 The Council is required to set balanced revenue and capital budgets for 2011/12 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 None.

Health and Safety

- 5.1 None.

Carbon commitment

- 6.1 None.

Value for money

- 7.1 As set out in the report.

Corporate objectives and priorities for change

- 8.1 As set out in the report.

APPENDIX 2 – Timetable

Date	Key Stage	Revenue	Capital	Corporate Planning
20 October 2010	Comprehensive Spending Review announcement			
26 October 2010	Council Cabinet	Updated Revenue Strategy		
10 November	Council Cabinet Part 2 meeting		Updated Capital Strategy	Draft outcomes emerging from the work undertaken by the Partnership and proposals on the draft Corporate Plan
16 November 2010	Budget Scrutiny Process – Children and Young People Star Chamber meeting	Star Chamber approach involving Leader, Chief Executive, Interim Strategic Director of Resources, Director of Finance & Procurement, Cabinet Members, Interim Strategic Director of Children and Young People and Head of Finance		
17 November 2010	Budget Scrutiny Process – Neighbourhoods Star Chamber meeting	Star Chamber approach involving Leader, Chief Executive, Interim Strategic Director of Resources, Director of Finance & Procurement, Cabinet Members, Strategic Director of Neighbourhoods and Head of Finance		
18 November 2010	Budget Scrutiny Process – Chief Executive’s Office Star Chamber meeting	Star Chamber approach involving Leader, Chief Executive, Interim Strategic Director of Resources, Director of Finance & Procurement, Cabinet Members and Head of Finance		
19 November 2010	Full Council	Approval of Updated Revenue and Capital Strategy		
23 November	Cabinet			Draft outcomes emerging from the work undertaken by the partnership and proposals on the draft plan

Date	Key Stage	Revenue	Capital	Corporate Planning
26 November 2010	Budget Scrutiny Process – Resources and Corporate Budgets Star Chamber meeting	Star Chamber approach involving Leader, Chief Executive, Interim Strategic Director of Resources, Director of Finance & Procurement, Cabinet Members and Head of Finance		
30 November 2010	Budget Scrutiny Process – Adult, Health and Housing Star Chamber meeting	Star Chamber approach involving Leader, Chief Executive, Interim Strategic Director of Resources, Director of Finance & Procurement, Cabinet Members, Strategic Director of Adults, Health and Housing and Head of Finance		
From November 2010 to January 2011	Corporate Planning			Partnership commencing work on delivery planning Consultation with Cabinet members and Opposition parties on Corporate Plan
December 2010 (exact date TBC)	Budget consultation and final proposals	Budget consultation launch to all members of Scrutiny Commissions		
11 January 2011	Corporate Plan Scrutiny			First draft of the Corporate Plan to Citizens Advice Bureau and Scrutiny Management Commission
18 Jan 2011	Resources Commission	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
January 2010 (exact date TBC)	Partners and Business	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	

Date	Key Stage	Revenue	Capital	Corporate Planning
24 Jan 2011	Adults, Health and Housing Commission	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
25 Jan 2011	Children and Young People Commission	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
3 Feb 2011	Schools Forum	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
27 Jan 2011	Neighbourhoods Commission	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
January 2010 (exact date TBC)	CJC/CSC	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
January 2010 (exact date TBC)	Diversity/50+ forum members	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
1 Feb 6pm	Scrutiny Management Commission	Scrutiny of Revenue Budget Proposals 2011/12 to 2014/15	Scrutiny of Capital Budget Proposals 2011/12 to 2014/15	
January / February 2011	Finance	Draft revenue budget and Council Tax prepared	Draft capital programme prepared	
15 February 2011	Council Cabinet	Council Cabinet considers 2011/12 Revenue Budget and Council Tax and Indicative Revenue Budget 2012/13 to 2014/15	Council Cabinet considers 2011/12 to 2014/15 Capital Budget	Final draft of the Corporate Plan to be reviewed by Cabinet
2 March 2011	Full Council	Full Council approves Revenue Budget and Council Tax and Corporate Plan		
April 2011	Finance / Performance	Detailed budgets published		Communication of Corporate Plan to all employees