

SLOUGH BOROUGH COUNCIL

REPORT TO: Overview and Scrutiny Committee **DATE:** 10th November, 2010

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PART I **FOR COMMENT AND CONSIDERATION**

MEDIUM TERM FINANCIAL STRATEGY – (A) MEDIUM TERM FINANCIAL PLAN **2011/12 TO 2014/15**

1. Purpose of Report

To highlight the key announcements in the 2010 Comprehensive Spending Review, and summarise the forecast impact on the Council's Revenue and Capital Budget requirements, for the period 2011/12 to 2014/15, in the light of the information available to date.

2. Recommendations

The Committee is requested to consider and note the following recommendations that Cabinet will be considering at its meeting on 9th November 2010.

- (a) That the outcome of the 2010 Comprehensive Spending Review for local government and the extremely challenging target of an overall 26% cut in government grant over the next four years be noted.
- (b) To note that on the basis of the national picture this outcome looks to be very much in line with our own forecast and financial planning assumptions, although we will not know our actual position until late November/early December.
- (c) That the savings plan for 2011/2012 as set out on appendices A be confirmed and the progress to date be noted
- (d) That the areas of savings allocation for H.R Legal and Internal Audit as summarised in para 5.5 be considered and agreed, and that officers be requested to implement them with immediate effect where possible.
- (e) That the updated projected Revenue Budget for 2011/12 to 2014/15 be noted.

3. Key Policy Priority Implications

- 3.1 The Revenue and Capital budgets are the Council's financial plans for the forthcoming year. As such, the budgets will allocate resources to enable the

delivery of the Council's Key Policy Priorities through the individual departmental and service plans.

4. Other Implications

Financial Implications

- 4.1 These are contained within the body of the report. In the short term the summary application remains as reported at September's meeting: £4.423m savings already committed in 10/11 and anticipated further savings potential of £6.893m in 11/12 secured via a combination of cross cutting corporate initiatives, management reductions, and savings secured from back office functions and support service areas. (Appendices A).

Human Rights Act & Other Legal Implications

- 4.2 The Council has various legal responsibilities around financial matters but, of primary importance: the Council must not plan to spend more than the resources it has available to it in any one year – the Council must set a 'balanced budget'.
- 4.3 The Medium Term Financial Plan (MTFP) presents the projected financial position of the Council for 2011/12 to 2014/15; and includes:
- Recommended growth and savings options, to be considered by Members; and
 - A number of key assumptions (outlined in detail below).
- 4.4 The 2003 Local Government Bill places a duty on the Council to consider the robustness of budget estimates, the adequacy of reserves and the affordability of its capital programme in preparing its budget for the year.
- 4.5 There are no other legal or Human Rights Act implications.

Workforce

- 4.6 If agreed, the savings options to be considered will involve a combination of the deletion of vacant posts alongside voluntary redundancy/ early retirements on the ground of efficiency and reductions in working hours arising from expression of interest submitted by staff under the workforce planning exercise currently underway. Compulsory redundancies may be considered as a last resort, the Council will ensure that HR policies are applied to minimise the impact of redundancies and will look for redeployment opportunities for affected staff.

5. Supporting Information

- 5.1 The Chancellor announced the outcome of the 2010 Comprehensive Spending Review (CSR) on 20 October. The CSR sets out the Government's public expenditure plans for the next four years (2011/14).
- 5.2 Local government appears to be one of the real losers within the settlement with cuts of 26% over the next four years. What is more, it looks as if these cuts are

going to be 'frontloaded' with a third of the cut made in 2011/12 and more than half of the total cut made by 2012/13.

- 5.3 The outcome of the CSR has a significant impact on the Council over the coming 4 years. Initial review indicates the outcome of the CSR broadly in line with the Council's expectations with an estimated 26% reduction in central government funding across the period against our forecast for planning purposes of 27%. The profile of cuts to funding is again broadly in line with expectations although information to date only allows for comparison with the national average position. More meaningful and accurate analyses will not be available until the publication of the Council's specific allocation expected at the end of November.
- 5.4 This paper provides an update on a range of actions to improve income and cut costs which contribute to realising the required cumulative savings over the next 4 years. We have agreed a phased approach to afford the best possible protection we can for as long as we can to our front line customer facing and community based services. Many actions to secure these savings initiatives are underway already; others are being worked up for final approval in late November and early December.

The Comprehensive Spending Review Headlines

- 5.5 The Chancellor announced the outcome of the 2010 Comprehensive Spending Review (CSR) on 20 October. The CSR sets out the Government's public expenditure plans for the next four years (2011/14).
- 5.6 Of the £81 billion of savings required by 2014-5, over £30 billion were announced in detail at the June Budget, including:
- £11 billion of welfare reform savings
 - £3.3 billion from a two year freeze in public sector pay starting in 2011/12
 - £6 billion of efficiency savings in 2010-11 and
 - £10 billion from lower debt interest payments compared to the cost had there been no consolidation.
- 5.7 The Spending Review sets out the remaining spending reductions required to deliver the government's consolidation plans.
- 5.8 The Spending Review announces further savings and reforms in welfare, environmental levies and public service pensions, as well as departmental spending plans for the four years until 2014-15.
- 5.9 The relative winners, with real increases are:
- International Development
 - Health
 - Education.
- 5.10 The relative losers, with real cuts well above the average are:

- Local Government
- Housing
- Environment
- Treasury.

5.11 The Government's commitment to protect spending on health, education and overseas aid will see the other departments on average incur real budget cuts of around 19% over the Spending Review period.

5.12 Local government appears to be one of the real losers within the settlement with cuts of 26% in real terms over the next four years.

5.13 The remainder of this report concentrates on the implications for local government funding generally and for this Council in particular.

Revenue

5.14 The spending review sets out real terms reductions of 26% in local authority budgets over the next four years.

5.15 Local authority core funding from DCLG falls from £28.5bn in 2010-11 to £22.9bn in 2014-5.

5.17 The amount of budget allocated to formula grant out of the total budget of £28.5bn across the 4 years is shown as:

Formula Grant	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Amount £bn	28	25	23.4	23.2	21.9	
Reduction £bn		3	1.6	0.2	1.3	6.1
% decrease		10.71%	6.40%	0.85%	5.60%	22%

5.18 We are going to have to wait until the Provisional Settlement in late November to see the implications for the authority. In working out the budgetary impact on our authority we need to take account of:

- Specific Grant Transfers. Will the distribution of specific grants be the same as it currently is, or will specific grants be incorporated into the relative need formulae?
- Formula Grant Floor.
- Average change in Formula Grant. Will the assumed reductions be evenly distributed between classes?

5.19 On this basis the reduction in formula grant in Year 1 could be between 11%-15%.

5.20 Grants totalling £7bn have been freed up or unringfenced from 2011-12. The number of ringfenced grants will reduce from 90 to under 10. Specific grants that will remain outside Formula Grant will be:

- Early Intervention Grant
- Public Health Grant (new grant from 2013-14)

- Learning Disabilities
- PFI Grant
- Dedicated Schools Grant
- New Homes Bonus (new grant)
- Council Tax Freeze Grant (new grant)
- Housing Benefit and Council Tax Benefit Administration Grant
- Preventing Homelessness.

Capital

- 5.21 Total capital spending falls in real terms by 29% from £51.6bn in 2010-11 to £40.2bn in 2014-15.
- 5.22 Capital funding to councils is expected to fall by 45%, though after taking account of spending financed by councils' own budgets, the fall is expected to be 30%.
- 5.23 CLG Communities budget falls 74% from £6.8bn to £2.0bn but includes funding for 150,000 new affordable homes. The Government hopes that its New Homes Bonus, which aims to incentivise house-building by match funding the Council Tax on every new home for each of the following six years, will prevent a housing shortage and encourage the building of 150,000 affordable homes over the spending review period.

Housing and Benefit Reform

- 5.24 Cuts to the 'communities' part of CLG, including halving the housing budget. The Review pledges to make social housing "more responsive, flexible and fair so that more people can access social housing that better reflects their needs", and will involve major changes to the way we work and deliver services. Key points include cuts to new affordable housing grants programme, welfare reform, but the protection of Disabled Facilities Grants and Homelessness Prevention Grants and the introduction of new "affordable rents".
- 5.25 Council house rents for new tenants will increase to up to 80% of the market rate – which in some areas could double what is currently charged – with the extra money going towards building new affordable homes. These changes will probably result in housing waiting lists growing further, as well as a huge scaling back of urban regeneration and social cohesion initiatives.
- 5.26 Changes have also been clearly highlighted around the future roles of the Homes and Communities Agency, the Tenant Services Authority, the Audit Commission, the private sector, support services for vulnerable groups, local government and housing benefit.
- 5.27 For Housing Services this spending review has significant and long lasting implications. It not only sets out key decisions about capital and revenue funding which will impact for many years to come but also provides the basis for this Government to set out how it wants to approach future housing policy.

- 5.28 The new Universal Credit will include all out of work benefits (including Housing Benefit). The plan is for the new benefit to be available from 2013 for some new customers. Existing customers will be transferred across in stages and this is expected to be completed by April 2017.
- 5.29 Council Tax Benefit will not be included in Universal Credit and will be abolished. It will be replaced by April 2013 with a new and cheaper (10%) "rebate scheme". The details of this are currently unclear;
- 5.30 There will be an overall cap on benefits paid to a family starting in 2013. The figure of £500 per week has been suggested. Local Authorities will have a key part to play in imposing the cap.
- 5.31 Some subsidy grants (and in particular the amount paid to local authorities for administering the scheme) are likely to be substantially reduced by around 7% per annum. Local authority involvement in the welfare state is anticipated to start to diminish in around 2015 with the Housing Benefit scheme being finally abolished at the end of March 2017.
- 5.32 Whilst this report does not go into any detail on the specific areas of Housing and Benefits it will be the subject of further briefing papers for Members.

Other

- 5.33 The DCLG will allocate up to £200m of capital in 2011-12 only to allow councils to restructure their services - for example by capitalising redundancy costs.
- 5.34 The arrangements for the council tax freeze grant have been clarified: £700m has been set aside to allow councils to set a zero council tax increase for 2011-12, and for councils taking up this offer, the funding for this single first year freeze will be built into grants across four year settlement period.
- 5.35 In addition to the general formula grant, the Council receives some specific grants e.g. administration grants for benefits and business rates, grant to encourage recycling. It is likely that these grants will also be squeezed putting further pressure on the Council's budget.
- 5.36 The CSR responds to the interim recommendations of John Hutton's Independent Public Service Pensions Commission. In essence, the Government maintains a commitment to defined benefit pensions but wants employees to make a greater contribution. The Government is obviously keen to make substantial savings on the cost of public sector pensions. The CSR is aiming for savings of £1.8bn by 2014-15, which is equivalent to an average three percentage point increase in employee contributions. More detail will follow in the Hutton Report.
- 5.37 The State Pension Age will increase to 66 for both men and women from December 2018 to April 2020.

- 5.38 Following the faster increase to 66, the Government is also considering future increases to the State Pension Age to manage the ongoing challenges posed by increasing longevity, and will bring forward proposals in due course.
- 5.39 Concessionary fares will have their eligibility age linked to the state pension age.
- 5.40 Sure Start services will be protected in cash terms and will be refocused on early intervention on families who need the most support
- 5.41 Schools funding will rise by 0.1% real p.a. this includes the pupil premium.
- 5.42 Transport grants will fall by 28% over the four years in cash terms; there will be 4 grants rather than 30; bus subsidies will be cut by 20%
- 5.43 Working Neighbourhoods Fund, Growth Area Funding and Thames Gateway funding will be scrapped, but bids will be invited for a £1.4bn regional growth fund
- 5.44 PWLB loans will have a 1% increase in rates.

NB The estimated Formula Grant decreases indicated above refer to the 'national average' position, SBC 'specific local' position may vary from this;

The Revenue Budget – Latest Projections

- 5.45 The latest Revenue Budget projections, arising from SBC's current Medium Term Financial Plan for 2011/12 to 2014/15, are set out overleaf. Whilst reviewing these figures, several key assumptions must be noted:

- The updated MTFP assumes a 24% fall in cash terms in the Council's Formula Grant allocation between 2010/11 and 2014/15 (which reflects the application of the national 22% reduction in cash terms, taking into account the police impact.) This assumption is solely based on initial analyses of the national picture emerging from the spending review and is therefore liable to change. Further information, concerning future funding settlements, are expected to be published late November.

The model assumes the Council's pay and prices inflationary uplifts will be managed in accordance with the coalition government's expectations and policies (i.e. it is assumed a pay freeze will occur in 2011/12 and 2012/13; and service contract increases will be based on the Consumer Price Index (CPI). However, independent analysts are suggesting inflation could be higher, also our contracts are not all locked into CPI. This is an area that remains under review

- The 2010/11 Revenue Budget is assumed to break-even (i.e. The Council's actual expenditure will match its actual income for 2010/11) even though it has been subject to in-year cuts by the coalition government. This assumption is being constantly monitored. If the Council overspends there will be a consequent impact on the level of cash reserves and also the budget requirement for the coming year.

- The Collection Fund is assumed to be in balance across all three years. The collection fund is the fund administered by the Council into which all council taxes and business rates are paid; and from which payments are made to the General Funds of precepting authorities and to the national business rate pool. It is therefore assumed that the Council obtains all local taxation due.
- Income from council tax will be static in 2011/12 and 2012/13, based on the coalition government's stated ambitions to freeze council tax across these two years. Although additional government funding that will be provided for the financial year 2011/12 has been allowed for.
- Thereafter, the MTFP assumes any increase in council tax will be limited to 2.0% per annum. No assumption has been made for the increase in new properties being built in SBC, which would impact on the level of council tax income generated. Articles in the national press suggest that house-building and mortgage lending rates are currently at a significant low.

SBC Revenue Budget Projection 2011/12 to 2014/15

Slough BC Medium Term Financial Model - 2010/ 11 to 2014/ 15

Details	Latest position post CSR 20-Oct-10				
	10/11 £'000	11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000
Opening Budget	102,395	103,979	98,911	95,880	96,350
Inflation					
Pay (Freeze 11/12, 12/13, CPI thereafter)	0	0	0	1,200	1,200
Pay award held from 10/11	600	0	0	0	0
Low pay (£250 annual increase)	0	150	150	0	0
NI Increase (Government state impact will be minimised)	0	300	0	0	0
Prices inflation allocated in 10/11	600	0	0	0	0
Prices (CPI - HMT Projections)	0	960	760	800	800
Prices (CPI - commentators projections & expenditure review)	0	340	290	300	300
Total Inflation	1,200	1,750	1,200	2,300	2,300
TOTAL AGREED GROWTH	5,875	3,273	2,232	(211)	22
TOTAL NEW GROWTH	0	0	0	0	0
TOTAL AGREED SAVINGS	(4,051)	(4,423)	(1,835)	(200)	0
TOTAL NEW SAVINGS	0	0	0	0	0
TOTAL PENSIONS ADJUSTMENTS	0	430	30	30	30
CAPITAL PROGRAMME ADJUSTMENTS	(1,440)	(508)	734	0	0
BUDGET REQUIREMENT	103,979	104,501	101,272	97,799	98,702
COLLECTION FUND	0	0	0	0	0
FORMULA GRANT	56,756	50,513	47,482	47,007	44,187
COUNCIL TAX	47,223	47,223	47,223	48,167	49,131
COUNCIL TAX freeze subsidy/grant	0	1,175	1,175	1,175	1,175
TOTAL ESTIMATED FUNDING AVAILABLE	103,979	98,911	95,880	96,350	94,493
TOTAL BUDGET GAP	0	(5,590)	(5,392)	(1,449)	(4,209)
CUMULATIVE BUDGET GAP		(5,590)	(10,982)	(12,431)	(16,640)

Reducing the future funding gap – progress to date

- 5.46 It can be seen that, primarily related to the CDR and related funding assumptions noted above, there remains a substantial funding gap for 2011/12 to 2014/15 that will need to be managed. The Council has proposals for savings for £6.9 million and securing these is critical in reducing the impact on services of the challenging cuts in future years.
- 5.47 The first tranche of savings representing an estimated savings value of £6.9million with effect from 1/4/2010 are set out on appendices 1. The focus of the savings in line with Members requirements is focussed away from customer facing front line services and requires reductions in corporate areas such as management costs, and support services.
- 5.48 The proposals for reducing the senior management costs of the council were reported to Cabinet on 25th October and are currently subject to formal consultation. These proposals alongside cost reduction targets of at least 20% from the Council's back office processing functions and general support services are required to deliver estimated savings of £2.5million a year, with effect from. 1/4/2010.
- 5.49 The following summarises the proposed elements of savings opportunities for 3 support service areas.

Legal Services Savings of £227k (of which £46k is secured via the senior Management proposals)

Key elements: In addition to the shared Assistant Director post proposed in the senior management arrangements consultation it is proposed the overall team size reduce from 25 to 16 FTE

Human Resources Savings of £223k (of which £52k in secured via the senior management proposals)

Key elements: Re-tender current Occupational Health Contract and secure a local provider

Secure corporate wide employee welfare programme from external sources

Separate transactional elements

Secure Strategic HR & OD expertise via an appropriate contract for services
Incorporate Health & Safety and review organisational needs.

Impact of proposals will reduce team size from 31 FTE to 23.5 FTE

Internal Audit Savings of £234k of which £49k is secured via the senior management proposals)

Key elements.

Adopt risk based approach to audit planning

Combine with corporate fraud and benefit investigations service

Procure additional internal audit capacity as and when needed via a competitive external framework or shared service arrangement.

- 5.50 The proposals represent total savings of £684 and exceed the required 20% for these areas. After taking into account the expressions of interest and the removal of temporary, interim and agency posts alongside the deletion of vacant post the proposals do result in a further reduction of 7FTE in total.
- 5.51 If agreed, prior to implementation the detail of the above proposals will be subject to the requisite consultation and impact assessment process.

Review of Capital Programme, Financing & Assets

- 5.52 The Council is currently undertaking a review of its Assets both land and premises and trading functions. Land and premises are being reviewed on the following basis:
- community benefit
 - Revenue costs
 - Revenue generating opportunities
 - Alternative use to enhance community benefit
 - Disposable benefits
- 5.53 Members will recall that the total capital spend for 2009/10 was £30m and in view of this it is highly unlikely that the programmed spend of £59m in the current year will be delivered. In preparing the proposed revised capital programme, departments and AMG have considered the overall capital strategy and service priorities to enable delivery of the Council's business plans and within projected resources available, at a prudent and sustainable level. The overall asset management strategy is currently being reviewed and is expected to be reported to the December 2010 Cabinet, following which, the capital programme will be further reviewed and revised and reported back as part of the 2011-12 budget process. Council's future revenue business plans will also impact on the capital programme as any changes to the service provision could result in either a capital asset being identified as surplus to requirement and therefore potential additional capital receipt or additional capital required to upgrade an asset to enhance the service provision. These will also be considered and reviewed as part of the budget build process.

Review of Trading Functions

- 5.54 Those functions which currently trade and/or could increase trading are being reviewed for:
- In house income generating opportunity

- Fees and charges review
- Arms length income generating opportunity – where this increases income to the Council
- Disposal as a going concern

Review Specific Grants

- 5.55 The Council receives a substantial amount of funding through specific grant regimes. However, it should be noted that the Council is unlikely to be informed of many future Specific Grant allocations until at least end November 2010.
- 5.56 The Council is currently undertaking an exercise on an invest to save basis reviewing all of these items to inform the 2011/12 Budget Process. The review will seek to ensure all income is maximised and Council expenditure charged to specific grants as appropriate.

Reserves

- 5.57 SBC's general reserves are £5.4m. Drawing on reserves to fund any budget gaps is a last resort and a clear and timely plan for their replenishment would need to be agreed.

The Effect of the Decisions

- 5.58 Some of the savings proposed within this report would, if implemented, result in a number of posts being deleted, and therefore there is the potential for redundancies. Should the likelihood of redundancies occur, the Council will immediately implement a 'redeployment process' to try to find suitable roles for affected staff. Dependent on decisions, officers will also consider whether there is scope to apply for a direction from the Secretary of State for Communities and Local Government to capitalise all redundancy costs incurred.

Risks

- 5.59 Budgets are necessarily based on assumptions about what will happen during the next financial year; and therefore there is an inevitable risk that these assumptions might be wrong.
- 5.60 The main foreseen risk is that the proposed savings are not delivered. In an attempt to reduce this risk the budget will be closely monitored via the monthly financial management reports and updated budget information, including savings achieved, will be reported to Cabinet throughout the financial year.

6. Comments of Other Committees

This report will be considered by the Overview and Scrutiny committee at its meeting on the 10th November 2010.

7. **Conclusion**

This paper sets out the latest assessment of the Council's Revenue Budget for the years 2011/12 to 2014/15.

8. **Appendices**

A - Detail of £6.9m savings progress to date

APPENDIX A**Progress to date year 1 Savings**

The primary focus of the first phase (in place by 1st April 2011) of the anticipated savings is set out below.

Area of Activity	Target Saving	Notes	Progress
1. Reviewing the Council's approach to income generation, cash and debt management	750	3 elements : Management of Old Debt, Processes to improve collection rate (both of these enable us to reduce bad debt provision). 3 rd element is an invest to save project (fixed investment costs of £40k) seeking to improve our revenue generating opportunities.	Underway
2. Reshaping our support services separating our transactional from professional/technical support services and realigning senior management in the process, securing a 20% overall cost reduction	2500	Management proposals out to consultation. Savings proposals for Legal, HR, Internal Audit Risk & Insurance, Health and Safety reported to cabinet 9/11. Further savings proposals split across I&D, Resources and Chief Exec areas. to be considered Temps/Vacancies and Expressions of interest are first point of call. Trade union consultation begun on process. Further Reporting to cabinet, , 22 nd and 13th December	Underway
3. Reviewing our assets. Reducing the cost of office accommodation requirements, ensuring value for money in running costs of all Council buildings	750	NB £225k already included in £4.4m, not reallocated. Asset team review recommendations complete end October. Cabinet decisions scheduled for 13 th December (alongside capital programme reductions/property team savings)	Underway
4. Reviewing all major contracts and all commissioned services seeking a minimum 4% saving and securing a change to the basis of inflationary increases	1000	Includes all cross cutting corporate contract s negotiations and supplier e.g energy/utilities, telephony, catering	Current year concluded, negotiations for coming year to commence
5. Reducing, reshaping and changing, where possible, the way we finance our capital programme to reduce borrowing costs	700	Linked to capital programme, internal borrowings and repackaging of existing debt.	Underway
6. Taking other opportunities across the Council to reduce staffing arising from expressions of interest	1200	These rely on the business ability to continue ahead of transformational changes in next phase (2012/2013).	Underway
TOTAL POTENTIAL SAVINGS	£6.9m		