

CABINET	AGENDA ITEM No. 10
29 September 2010	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton	
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MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2015/16

R E C O M M E N D A T I O N S	
FROM : Executive Director Strategic Resources	Deadline date : Cabinet
<ol style="list-style-type: none"> 1. That Members note the potential impact of the state of national public finances on the Council's future grant settlements and its implications for the medium term financial strategy 2. That Members approve plans to consult with Scrutiny and Stakeholders on the medium term financial strategy earlier (one month) than previous years, reflecting the scale of the challenge facing the Council. 3. That Members approve the approach that is proposed for the budget process incorporating the medium term financial strategy (MTFS). 4. That Members approve the grant scenarios for departments to enable them to finalise options for financial years 2011/12 through to and including 2015/16 for further consideration. 5. That Members note that proposals will need to be considered for implementation during the current financial year to address the grant reductions announced for 2010/11. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Cabinet following approval by the Corporate Management Team.

2. PURPOSE AND REASON FOR REPORT

2.1 This report comes to Cabinet as part of the council's agreed process for integrated finance and business planning. It continues the multi-year approach to budgeting to help plan for the financial challenges ahead. The drivers continue to be meeting the council's priorities by creating a sustainable budget strategy whilst responding to an uncertain future in local government funding.

2.2 The council's agreed Annual Budget Framework requires Cabinet to consider the council's budget and financial strategy and to set provisional cash limits for the forthcoming year.

2.3 The purpose of this report is to:

- update Members on the likely financial situation of the council over the next five years, and to illustrate the possible impact on the Council of the poor national public finance position
- to outline the approach to the budget process and budget consultation
- to outline a range of grant scenarios to enable each department to work to in preparing the budget options for each of the years 2011/12 to 2015/16.

2.4 This report is for Cabinet to consider under its Terms of Reference No. 3.2.1 which states to take collective responsibility for the delivery of all strategic executive functions within the council's major policy and budget framework and lead the council's overall improvement programme to deliver excellent services.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	Yes	If Yes, date for relevant Cabinet Meeting	29 September 2010
Date for relevant Council Meeting	23 February 2011	Date for submission to Government department	March 2010

4. OVERVIEW AND FUTURE BUDGET PROSPECTS

4.1 At its meeting in February 2010, the Council adopted the five year budget for the years 2010 – 2015, assuming a grant freeze for future years. In setting this budget, the Council recognised the uncertainty of the future of government funding and that it may need to take action within the year to respond to this. It was also recognised that planning for future years was likely to need to commence before the council's usual budget setting process outlined within the constitution.

4.2 Following the change in Government in May 2010, local government funding is being reduced in 2010/11 by £1.2bn nationally to contribute to addressing the difficult national financial picture and deficit. The impact for the council is the loss of £2.4m of revenue grant and £2.3m of capital grant, as shown below. This loss of nearly £5m must be tackled in the current financial year.

	Loss of Grant – Revenue (£m)	Loss of Grant – Capital (£m)
Area Based Grant	1.8	
Housing Planning and Delivery Grant	0.5	
Local Area Business Growth Incentive	0.1	
Transport		1.2
Children Services		1.1
TOTAL	2.4	2.3

In addition, the Government have halted the Building Schools for the Future programme. This was expected to provide a contribution to a £100m programme for Peterborough schools. The contribution expected from Government equates to £46m and it will not be known until the Spending Review what the final outcome of any resultant school programme will be (note that this excludes the work for Ormiston Bushfield Academy that has been confirmed).

- 4.3 In the emergency budget held in June 2010, the Chancellor also announced that central government departments should prepare themselves for a 25% real terms reduction in grants over the next four years. These departments in turn provide the majority of funding to local government. It has also been suggested that departments have been told to model the impact of a 40% grant reduction to contribute towards reducing the country's overall deficit. It has become clear that public sector funding in most areas will face significant reductions in future years.
- 4.4 The Government has announced that the Spending Review will be published on 20th October 2010. This will provide an indication of central government department expenditure limits. It is hoped that at this stage the picture will be clearer for local government, although the actual local government finance settlement will not be known until early December. As such it not pragmatic to allocate and approve control totals for departments but to work on several budget model scenarios in preparation for the Spending Review announcement and local government settlement. At this stage we expect that the settlement announced for local government will be for two years.
- 4.5 Several budget scenarios on the impact of future funding levels have been modelled to assist decision making in setting the budget for 2011/12 and provisional budgets for the following four years. The schedule attached at appendix 1 provides the current level of the grants that the Council receives. It remains very difficult to predict the precise impact on the Council's future grant position and therefore the council has based funding scenarios on the announcement made by the Chancellor earlier this year, as outlined in paragraph 4.3 above. The following impacts would arise from the scenarios indicated:

	Scenario	Possible Grant reduction 2011/12	Possible Grant Reduction 2015/16
1	25% real terms reduction in grant funding – equal distribution per annum	£8.6m	£25.9m
2	As scenario 1 above but with some front loading	£10.6m	£25.9m
4	40% real terms reduction in grant funding – equal distribution per annum	£12.1m	£40.1m

- 4.6 It must also be stressed that these scenarios assume a level of reduced grant funding from central government and do not take into account further cost pressures which may arise or existing future year deficits within the existing medium term financial strategy (MTFS). The existing MTFS already assumed a grant freeze in future years given that the final year of confirmed funding was 2010/11.
- 4.7 It is assumed that any changes to all school related grants (e.g. Dedicated School Grant) will be ring fenced within schools and do not directly impact on the council's available resources. However, schools will not be immune from the grant reductions and are likely to see a reduction in their funding in future years.
- 4.8 As the cuts continue to bite in future years, doing nothing is not an option and it is imperative that the council can bring forward proposals now to reduce the impact of grant reductions in future years.
- 4.9 The Council will need to tackle this challenging position, whilst maintaining its commitment to meeting priorities and ensuring community needs are met longer term. To do so it will be necessary to undertake the following work streams:

- I. Review of expenditure modelling the impact of 25-40% cuts on funding levels;
- II. Potential of passporting reductions in ring-fenced specific grants on a pound for pound basis;
- III. Review of efficiencies and bringing forward proposals from future years;
- IV. Review of service levels, fees and charges;
- V. Review capital programme to release capacity;
- VI. Asset disposal plans accelerated where practical;
- VII. Review and ongoing challenge of projects;
- VIII. Review of the collection fund.

5. BUDGET SETTING APPROACH

5.1 The council continues to adopt an integrated approach to service and financial planning and will incorporate where appropriate changes to national policies and local priorities to ensure that the Council remains strategically well placed to support local business and communities. The Council will continue to be an integral partner with other public bodies within the area in which it operates.

5.2 It is anticipated that the process will have two distinct stages (with discussions regarding the impact on priorities, performance and business plans underpinning all stages):

- I. Departments will finalise developing options for closing the gap between expenditure and income during October. Where possible, proposals will be brought forward to also tackle the 2010/11 government grant reductions that have been implemented since formal approval of the budget last February (as outlined in para 4.2). Cabinet has specific delegated responsibility under part 3, section 3 of the constitution to ensure the council spends within its available resources.

3.2.7 To be responsible for the Council's overall budget and determine action required to ensure that the overall budget remains within the total cash limit.

- II. These proposals will be considered by Cabinet at their meeting of 8th November. The budget will then be consulted upon to seek views from the public, businesses, Members, partners, unions, staff and other stakeholders prior to the budget being approved in February 2011, ensuring that decisions made reflect these community views. The consultation process has been brought forward by one month in light of the scale of the challenge the council is facing.

5.3 Although setting the budget will be challenging, emphasis remains on setting a budget that ensures priorities can be delivered and as such, early engagement by stakeholders is crucial. Therefore the Cabinet is extending the usual consultation period by bringing forward the consultation by one month. This will allow maximum opportunity for stakeholders to engage in a very challenging budget setting process.

6. SETTING OF PROVISIONAL REVENUE CASH LIMITS AND CONTROL TOTALS

- 6.1 Cabinet is required to consider the overall cash limits for the council each year, in line with the constitution. It is too early to predict with any certainty the council's overall cash limit and control totals as highlighted earlier in this report. Instead the council are working with scenarios of varying levels of grant cuts across all Specific Grants, Area Based Grant and the Revenue Support Grant. Appendix 1 provides a list of grants. Cabinet are asked to consider the grant scenarios as part of the budget discussions. The scenario will be refined following the Spending Review.
- 6.2 The assumptions used for modelling purposes with regards to council tax assume implementation of the coalition government proposal to freeze council tax in 2011/12, increasing by 2.5% per annum thereafter as reflected in the current medium term financial strategy. It must be stressed that this is solely for the purposes of illustrating possible scenarios, and does not reflect a planned level at this stage. Further decisions will be required by Cabinet to establish what is an acceptable option to consult with the public on, well before any final decisions next year.
- 6.3 As well as the grant scenarios, Departments will be issued with budget assumptions to allow them to develop options for consideration. The key assumptions are:

Key Assumptions:

1. Revenue Support Grant, Specific Grants and Area Based Grants are subject to grants cuts as modelled.
2. The Dedicated Schools Grant assumes matching expenditure within the key figures statement. Any reduction in grant would automatically reduce school expenditure and would not impact on the Council's budget / surplus figures.
3. Pay inflation has been assumed at 0.0% for 2011/12, 2012/13, 2013,14 with 1.0% increase 2014/15 and 1.5% increase 2015/16
General inflation has been included at 2% per annum.
Fees and charges has been included at 2.5% per annum.
4. The Council Tax Base figures shown above are in line with the latest estimates for 2010/11 with a 1% increase in growth per annum assumed for future years
5. Interest rates used are based on the latest information available from our treasury advisors. The table below shows the interest rates received on deposits and payable on borrowing

	2011/12	2012/13	2013/14	2014/15	2015/16
Investments	1.37%	2.50%	2.50%	2.50%	2.50%
New Borrowing	4.90%	5.40%	5.40%	5.40%	5.40%

- 6.4 The figures will be updated accordingly during the budget setting process, before final approval by Council in setting the budget in February.
- 6.5 The budgets that departments prepare in line will contain only inflation. Any additional adjustment for service changes, statutory activity changes (including new and changing grant streams), savings over £75,000 and other resource realignment will be considered corporately.

7. CAPITAL PROCESS

- 7.1 The planning process will include a review of the current capital programme and the calculation of the capital requirement in each year of the plan. This will include an assessment of likely levels of resources including capital receipts and asset disposals.
- 7.2 The capital programme will not be immune to reductions in government grant funding and work will be undertaken to scale back or delay the existing programme and consideration of new programme options without compromising the external funding opportunities available and the council's ability to deliver strategic priorities. This review will need to be undertaken on a scheme by scheme basis.
- 7.3 As part of the review the programme will assess the impact of implementing a scenario of between 25% and 40% reductions in resources available. Reducing or slowing down capital spend will assist in reducing the overall budget gap forecast in earlier scenarios by reducing the costs of borrowing to fund the capital programme corporately.

8. CONSIDERATION OF RISK

- 8.1 Key risks have been considered and will continue to be monitored throughout the budget setting process and next financial year. Key risks identified include:
- The impact of the uncertainty of local government funding levels in future years. Budget modelling on scenarios in line with views already in the public domain including a 40% real terms reduction in funding levels have been undertaken. Planning at this level of funding reduction has commenced early to ensure that the council is in a position to act quickly;
 - Resource implications on spending and saving proposals are considered in terms of the council's overall priorities, finances and human resource implications. Detailed budget analysis and human resource analysis has been undertaken for each budget area to support any decision made in preparation for consultation;
 - Growth – The Council's ability to meet growth within Peterborough in future years could be compromised if sufficient budget resources to meet these priorities are not addressed. This will be addressed by a robust challenge process during the budget setting period.

9. ANTICIPATED OUTCOMES

- 9.1 Following approval by Cabinet, Departments will develop budget proposals in line with the funding scenarios for consideration at the next stage of the budget setting process.

10. REASONS FOR RECOMMENDATIONS

- 10.1 The Constitution requires Cabinet to outline its approach to developing the MTFs. The challenges facing the Council mean it is sensible to publish these proposals earlier than usual to allow extra time for consultation and discussion on these proposals. These steps will help to ensure that the Council achieves a balanced budget, aligned to corporate priorities.

11. ALTERNATIVE OPTIONS CONSIDERED

- 11.1 It is apparent that some Councils are waiting until the Local government settlement is known before releasing proposals. Whilst this would mean greater certainty over funding levels for the council, this would reduce the time available for consultation and discussion, and so proposals will be developed to meet the resource scenarios outlined.

Appendix 1 – Grants

Type of Grant	Confirmed Grant 2010/11 £k
Dedicated Schools Grant	118,113
Other School Grants	20,902
Revenue Support Grant	77,014
Area Based Grant (Post Cut)	13,554
Specific Grants	19,455
Housing Benefits	71,766
TOTAL	320,804

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