

MEDIUM TERM FINANCIAL PLAN 2011 TO 2015

1. PURPOSE OF REPORT

1.1 To provide an update to Cabinet members on the development of the Medium Term Financial Plan (MTFP) for 2010/15 and the Annual Budget for 2011/12, having received provisional details of the government funding settlement on December 13 2010.

1.2 The headlines of the report are:

- The government's provisional finance settlement will see a reduction in the Council's grant of £2.7 million (26%) over the next 2 years with the 2011/12 reduction being £1.7 million (16%).
- Cost increases (e.g. oil prices etc.) and income losses (interest and specific grants) will add approximately £1.3 million to the Council's budget requirement in 2011/12.
- The Leader has indicated that for 2011/12 there will be a "freeze" on Council Tax (grant £284,000).
- The Council is faced with a potential budget "gap" in 2011/12 of £2.7 million between its requirements and estimated funds available.
- Workstreams have been developed which currently identify approximately £2.5 million of savings and efficiencies to meet the budget "gap" in 2011/12.
- Work is currently ongoing to bridge the currently identified budget "gap" of £253,000 in 2011/12.

2. BACKGROUND

2.1 The Local Government Finance Settlement sets out the level of formula grant that the Council can expect to receive in 2011/12 and provisionally in 2012/13. A short period of consultation will now take place prior to the government confirming the settlement details on 17 January 2011.

2.2 The MTFP sets out the broad financial assumptions behind the framework that the Council will operate within during the forthcoming years in support of the Council's stated priorities.

2.3 The MTFP covers the General Fund (Revenue & Capital). The Housing Revenue Account being covered by a separate Business Plan.

2.4 The Council's financial strategy is to deliver a balanced budget, with reserves used only as an interim measure. In recent years the Cabinet has developed an ongoing approach to budget development and the continued identification of savings and efficiencies which means that it is no longer perceived simply as a

once a year event. The plan is regularly reviewed to ensure it maintains its relevance. By adopting this medium term approach the Council aims to avoid short term policies without first identifying what the medium implications of what those actions are.

3. LOCAL GOVERNMENT FINANCE SETTLEMENT DETAILS

3.1 The huge pressure on public finances has led to the toughest finance settlement in living memory. The Council is facing a reduction in grant in 2011/12 of £1.658 million (16%) with a further reduction in 2012/13 of £1.084 million (12%).

		£000's	
Formula Settlement 2010/11		11.629	
Transfer of Functions including Concessionary Travel		<u>1.098</u>	
Adjusted Settlement 2010/11		10.531	
Formula Settlement 2011/12	9.133		
Less "Damping" Grant loss	<u>0.260</u>	<u>8.873</u>	
Grant Reduction 2011/12		<u>1.658</u>	(15.7%)
Provisional Formula Settlement 2012/13		7.789	
Provisional Grant Reduction 2012/13		<u>1.084</u>	(12.2%)

4. MEDIUM TERM FINANCIAL PLAN UPDATE – FINANCIAL ASSUMPTIONS # (APPENDIX 1)

4.1 Base Budget

The General Fund net budget requirement for 2010/11 was agreed by Council at £23.104 million. This included a £270,000 contingency provision in respect of a potential employee pay award in 2010/11 this is now unlikely to be needed. Also included were part revenue consequences of delivery of the 2010/11 Capital Programme. The base budget will need to provide for the full year impact adding £77,000 to the base budget. Taking into account these issues the adjusted base net budget requirement for 2011/12 will be £22.911 million.

4.2 Concessionary Travel

Details of the transfer of functions have been received both from the government and Hampshire County Council who will in future be responsible for the operation of the scheme. Formula grant of £1.027 million has been taken out of the Council's formula grant. This relates to the cost of the current statutory scheme and all local discretions including young people. The budgets related to these activities have also been taken out of the Council's budget requirement (£957,000). The difference between the grant reduction and budget adjustment is the current cost of administering the scheme which has been transferred to the County Council.

4.3 Pay & Prices

A freeze on pay is assumed for 2011/12, thereafter increases are assumed in line with inflation (estimated at 2%). Incremental increases are provided for (£210,000) although it should be noted that this remains subject to review. In addition provision is made for the second year of the Pay Panel Equal Pay Strategy (£74,000).

The triennial actuarial valuation on the Hampshire Pension Fund has recently announced that current contribution rates will remain unchanged in 2011/12. The County Treasurer has further requested an interim valuation be undertaken should significant changes to the operation of the pension fund be confirmed during the next three years. During this period a significant change is anticipated in the balance of employer and employee contributions with the latter expected to increase following the detail findings of the Hutton Review.

Details of these changes are unlikely to be implemented until 2012/13 at the earliest.

The 2011/12 budget includes provision for additional oil and fuel increases (£110,000) and the anticipated increase in bank charges resulting from the requirement to re tender the current contract.

No other general prices increases are allowed for on the basis that any increases will need to be contained within the cash limited budget agreed.

4.4 Third Party Grants and Contributions

The impact of the Government Spending Review has led to a significant number of grants no longer being received in future including Planning Delivery Grant (£120,000) and various area grants (£70,000). In addition notification has been received that Housing Benefit administrative grant will be reduced by £85,000.

In addition to the government other Public bodies have reduced their support to Council activities. Reductions anticipated are in the areas of Health & Leisure Centres (£40,000).

4.5 Interest

The current economic recession has seen an unprecedented low level of interest rates. The Bank Base rate has now been at 0.5% for nearly two years. Obviously, movement on this rate is closely linked to the timing of economic recovery which at present remains uncertain. The assumptions within the MTFP are for rates to remain at current levels during 2011/12 with small increases anticipated in later years.

4.6 Other Issues

The economic recession has for the last two years impacted adversely on the Council's income derived from fees and charges. Budgets have been adjusted to reflect the lower levels of income currently being experienced. The 2011/12 budget estimates provide for a further reduction in planning income of £100,000. It should be noted that the government are currently consulting on proposals to change the planning applications regime which would decentralise

responsibility for setting fees to local planning authorities. The proposals will allow authorities to charge for some applications which are currently free. These changes could be introduced during 2011/12. Currently the budget has made no assumptions for this possible change which could be implemented by October 2011.

The government have also announced new proposals to provide funding support for New Homes. This is still subject to detailed announcements but current estimates assume a grant of at least £120,000 equivalent to the previous Planning Delivery Grant.

Other cost pressures including revenue implications of capital are also provided for.

4.7 Council Tax

The Leader of the Council has indicated an objective to “Freeze” Council Tax in 2011/12. The government have made available a grant for all Councils who freeze Council Tax in 2011/12, equivalent to a Council Tax increase of 2.5% (estimated value £284,000). At this stage no further assumptions are made for subsequent years.

4.8 Formula Grant Received

Details as notified by the Secretary of State are included within the budget for 2011/12 and future years.

4.9 Capital Programme

Details of future Capital programmes will be reported to Cabinet in February.

5. MEDIUM TERM FINANCIAL PLAN and ANNUAL BUDGET 2011-12 IMPLICATIONS

5.1 The Cabinet has been working with officers since May to prepare for the implications of the government announcement on local government funding for 2011 and beyond. The level of budget shortfall now identified taking account of both the reduction in grant and budget pressures is estimated at £2.753 million in 2011-12 and is within the range that had been anticipated.

5.2 A detailed review of all Council activities has been taking place led by Portfolio Holders. This has been supported by ideas for savings identified by staff as part of the “Shape the Future (Your Savings Ideas)” campaign.

5.3 The Cabinet’s objectives in tackling the anticipated budget “gap” has been to develop as far as possible an approach which seeks to protect efficient front line services together with recognising the needs of local taxpayers, residents and customers during these difficult economic times by constraining increases in fees and charges to only those planned as part of a wider service requirement.

5.4 These objectives have led to a planned and targeted approach to closing the budget gap. In support of this plan a series of workstreams have been developed.

- # 5.5 Workstream 1 – Includes savings and efficiencies from Back office and support activities, thus avoiding any direct impact on the quality of front line services. Within this workstream Portfolio Holders and officers together with the support from the staff ideas scheme have made a significant contribution towards the Councils overall target. Target savings of £2.3 million have been identified over the period of the MTFP with £1.8 million being identified within the annual budget for 2011-12. Full details are set out at Appendix 2.
- # 5.6 Workstream 2 - Includes benefits that can be gained from collaboration and working with other bodies, particularly other public bodies. Work is ongoing in a number of areas to seek out opportunities where services or costs can be shared. Given that in many cases negotiations with third parties have not as yet been finalised these savings have a level of risk associated with them. Potential savings of up to £500,000 have been identified over the period of the MTFP with the possibility that £200,000 could be delivered in 2011-12. The areas affected are set out at Appendix 3.
- 5.7 Workstream 3 – Recognises the need to undertake a review of all staff employment terms and conditions. This will include a wide range of issues including travel and other remuneration benefits. The Pay and Reward Panel will commence this comprehensive review in early 2011.
- # 5.8 Workstream 4 – Recognises that the financial challenge faced by the Council is significant and will look to ensure that through the process of review, services are performing both at their optimum and are those which are a priority to local taxpayers, residents and customers. This review process will also identify where the opportunity to charge for services occurs, charging is at an appropriate level. This will ensure that the Cabinet priority to meet the needs of local taxpayers, residents and customers during these difficult economic times is being fully addressed. All services will be asked to review charging strategies. During 2011/12 this will include a review of planning charges following on from the government's new proposals. A schedule of services to be reviewed over the period of the MTFP has been identified and is set out at Appendix 4.
- 5.9 Workstream 5 – Responds to the other five workstreams by recognising that the future changes in services and priorities should also be reflected by a reduction in senior management at least proportionate to the overall savings identified. The Chief Executive is developing proposals for implementation in the New Year.
- 5.10 Although at this stage it is not possible to precisely identify the financial savings that will be delivered by Workstreams 3, 4 and 5 these are estimated at £500,000. Progress on these Workstreams will be regularly reported to Cabinet.
- 5.11 It is intended that this draft MTFP and Budget for 2011/12 as developed by Cabinet is considered by all Review Panels in January prior to annual budget setting in February 2011.

6. RISK ASSESSMENT

- 6.1 The budget for 2011/12 is based upon best estimates but there still remains a great many uncertainties surrounding its eventual delivery including those related to the savings and efficiency workstreams. In order to minimise the

financial risk at this stage the MTFP provides for a contingency of £250,000 in 2011/12. In addition the Council has General Fund reserves of £2 million which are available to support service budgets during these turbulent times.

7. PORTFOLIO HOLDER COMMENTS

- 7.1 “The reduction in Government grant over the next two years of over £2.7 million (26%) is significant but not unexpected. In developing our response to this situation our objective has been to protect priority front line services by taking a considered approach to where we find the reductions in budgets. I believe in terms of the budget for 2011/12 we will be able to achieve this objective.

As a Cabinet we have been looking closely at everything we do particularly reviewing all our administrative and back office activities. It is in this area that the largest budget savings will be made.

At this time we have not fully closed the budget “gap” for 2011/12 and I will continue to work with Cabinet and officers to see where further savings can be made and report again in February before a recommendation is made to Council on next year’s budget.

We recognise that many of the decisions we are proposing will impact on staff within the Council and where individuals are affected we will look to manage these situations in a compassionate way. However we do need to address the potential budget deficit we face as our share of the national picture. These are very difficult times for our community and we must look to protect what is important to them.

I would like to thank all my Cabinet colleagues and officers who have been working to get us in this position since the early summer. I believe that the plan as set out within this report addresses the challenge of significantly less resources. I am confident that in delivering this plan we will be able to deliver a balanced budget in a manner that will be acceptable to our community.”

8. EMPLOYEE SIDE COMMENTS

- 8.1 Employee Side note that in para 1.2 under headlines of report it states the reduction in grant over the next two years. In the recent press coverage Mr Pickles has been quoted as “no authority will face more than an 8.9% reduction in spending power for either 2011 or 2012/13. The average reduction in spending power for 2011/12 will be 4.4%”

Employee Side would like clarity on what the % reduction in spending power for NFDC in 2011/12 will be.

- 8.2 It is noted in para 4.1 that the contingency provision of £270,000 in respect of a pay award for 2010/2011 was unlikely to be needed. It also states that a freeze on pay is assumed for 2011/2012. Employee side believe this assumption may be flawed as the Union claim for this year is £250 for all employees. In George Osborne’s emergency budget he stated that government departments whose budgets have not been ring-fenced would face spending cuts of 25 per cent and he confirmed the public sector pay freeze would be extended for two years

for staff on £21,000 or more. The 1.7 million public servants who earn less than £21,000 will receive a flat pay rise worth £250 in both years, he announced. This statement from the Chancellor of the Exchequer tends to make the assumption quoted earlier look very optimistic.

- 8.3 In para 4.7 it outlines the objective to freeze the council tax for this year; this is welcomed as most employees live within the NFDC area and will derive some financial benefit from this measure.
- 8.4 The initiative detailed in 5.2 which outlines reviews supported by ideas for savings identified by staff is fully supported, and Management must be complimented for engaging with all staff so fully and to embrace their ideas.
- 8.5 In para 5.5 it is suggested that savings on support activities and back office can be made, it would be hoped that these savings can be made without needing to impose compulsory redundancy. If staff were to lose their jobs in the current economic climate most would find it very difficult to regain employment quickly. Employee Side hope that if staff numbers are reduced this can be done by Management and HR using vacancy management and voluntary redundancy.
- 8.6 If back office and support activities are reduced this will impact on front line services it may well increase workloads which over the long term could have an adverse effect on staff morale and health. This should be monitored by Employee Side and HR over the next twelve months.
- 8.7 In para 5.6 it is stated benefits may be gained by working with other bodies, this initiative can be seen to be working already with NFNPA moving to the Town Hall and contributing a rental income, plus some collaboration through HR and ICT.
- 8.8 In para 5.7 it states a Pay and Reward panel will review terms and conditions of staff. Employee Side believe that this is a very sensitive area and would have to be handled with extreme care and negotiation. Staff value their terms and conditions and any attempt to erode what they presently have would probably be met with resistance.
- 8.9 In para 6.1 it is stated that the council has General Fund reserves of 2 million which can be used to support services. Employee Side believe that if these funds are used wisely in conjunction with the other initiatives staff could be sheltered to an extent from the mass redundancies and slashed services we are currently witnessing happening at other councils.
- 8.10 It is believed that Management have taken a very reasoned, sympathetic and measured response to what is a very difficult financial situation. Therefore on the content of this report Employee Side would state their appreciation, and will hope that the strategy is successful.

9. RECOMMENDATION

- 9.1 That the Draft Medium Term Financial Plan and Draft Annual Budget 2011/12 be developed further for the Cabinet meeting in February to enable a recommendation to be made to Council in February enabling a budget requirement and Council Tax to be set for 2011/12.

For Further Information Please Contact:

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Background Papers:

Draft Medium Term Financial Plan 2011-2015

	Year 1 2011/12 £000's	Year 2 2012/13 £000's	Year 3 2013/14 £000's
Previous Year Net Budget Requirement	23,104	20,535	19,451
2010/11 Pay Award provision	- 270		
Full Year Capital Implication	77		
Concessionary Travel inc. young persons	- 957		
Base Budget	<u>21,954</u>	<u>20,535</u>	<u>19,451</u>
Estimated Income Changes	- 40	- 92	
New Homes Grant	- 120		
Estimated Pay & Price Allowances	454	792	750
Reductions in Third Party Grant Contributions	315		
Changes in Interest earnings	250	- 300	300
Other Issues inc revenue implications of ICT programme	225	153	62
Risk contingency	250		
Budget Requirement	<u>23,288</u>	<u>21,088</u>	<u>19,963</u>
<u>Funds Available</u>			
Formula Grant	11,629	8,873	
Adjustment: Concessionary Travel etc	- 1,098	- 70	
	<u>10,531</u>	<u>8,803</u>	<u>7,789</u>
Grant Reduction	- 1,658	- 1,014	
	<u>8,873</u>	<u>7,789</u>	<u>7,789</u>
Council Tax	11,378	11,378	11,378
Special Grant "Council Tax" Freeze	284	284	284
	<u>20,535</u>	<u>19,451</u>	<u>19,451</u>
Estimated Budget "Gap"	2,753	1,637	512
Proposed Efficiency & Savings Workstreams	2,500	1,637	512

APPENDIX 2

1. Work Stream: Savings & Efficiencies from Back Office & Support Activities

W/S	Review Activity	Potential Budget Saving Total
BO1	Democratic & Civic Costs	£100,000
BO2	Further cost savings arising from 2010 Health & Leisure Centre Restructure	£326,000
BO3	Second phase refuse round review	£30,000
BO4	External publications including New Forest Today and INQ	£30,000
BO5	Resource arrangements in Payroll/HR Administration & Recruitment (including Supplies & Services)	£28,000
BO6	Employee Assistance Programme Renegotiated	£5,000
BO7	Improvement & Corporate Consultation support	£16,000
BO8	Sustainability Budget	£10,000
BO9	ICT operational budgets inc Third Party Maintenance & OS Mapping Agreement	£80,000
BO10	Benefits arising from implementation of virtualisation service (power saving)	£50,000
BO11	Site Officer arrangements	Inc. With LTH & Optimisation
BO12	Procurement arrangements	£100,000
BO13	Property Services business service arrangements	£18,000
BO14	Accountancy resulting from changes in responsibility i.e. S106 (admin arrangements); Insurance arrangements	£77,000
BO15	Internal Audit annual audit plan risk review	£35,000
BO16	Reduced external audit costs	£9,000
BO17	Democratic Services administrative arrangements including Print Room	£65,000
BO18	Merger of Customer & Information Services (Management Review)	£71,000
BO19	Tax & Benefits back office and administrative arrangements	£59,000
BO20	Back office and administrative arrangements (Community Safety/Public Health)	£46,000
BO21	Environmental Health Student Training Program	£7,000
BO22	Health Development reduced project work	£7,000
BO23	Environmental Health – Reduction in temporary staffing (Commercial)	£19,000
BO24	CCTV – savings in maintenance contract	£20,000
BO25	Licensing back office and administrative arrangements	£10,000
BO26	Keyhaven & Coast administration and operational arrangements	£20,000
BO27	Sports & Community Development	£35,000
BO28	Play Project match reduction in funding	£30,000
BO29	Business Initiative budget	£20,000
BO30	Grounds Maintenance & Engineering Works arrangements (inc. Reduction of bedding plants @ ATC & LTH)	£15,000
BO31	Street Scene – Revised working arrangements	£69,000

BO32	Public Conveniences modernisation	£20,000
BO33	Abandoned Vehicles	£5,000
BO34	Fleet Service - servicing and procurement arrangements	£58,000
BO35	Re phased vehicle & fleet replacement programme	£20,000
BO36	Refuse & Recycling sack procurement	£30,000
BO37	Housing (GF) establishment	£80,000
BO38	Re phasing of Health & Leisure capital equipment	£20,000
BO39	Utility arrangements at Health & Leisure Centres	£50,000
BO40	Street lighting resulting from HCC PFI	£100,000
BO41	Administrative arrangements resulting from optimisation (Planning)	£55,000
BO42	ICT establishment	£161,000
BO43	Engineering Design/Land Drainage change in arrangements	£100,000
BO44	Environmental Protection – Curtail enforcement	£32,000
BO45	Grounds Maintenance & Engineering Works organisational arrangements	£5,000
BO46	Health & Safety Internal arrangements	£19,000
BO47	PA & Admin Services following optimisation	£35,000
BO48	Service and Corporate Training Budgets	£50,000
BO49	Administration of Meals on Wheels (Agency Service)	£30,000
BO50	Support to Community Planning	£47,000

Work Stream 1: Summary of Target Savings

2011/12 (Indicative)	Total
£1,815,000	£2,324,000

APPENDIX 3

2. Work Stream: Benefits from Collaboration with Other Bodies

W/S	Review Activity
CB1	Shared Accommodation at Lymington Town Hall with NFNPA
CB2	Ringwood Gateway
CB3	Shared HR Services with third parties
CB4	Shared Payroll Services with third parties
CB5	Shared IT Service opportunities and developments with third parties
CB6	Insurance premium reduction (procurement benefit)
CB7	Emergency Planning Service Level Agreement renegotiation
CB8	Private drainage function transfer to Water Companies
CB9	Grounds Maintenance & Engineering Works – HCC weed spraying contract
CB10	Tree Service shared with third party
CB11	Shared Legal & Democratic Services with third parties

Work Stream 2: Summary of Target Savings

2011/12	All Years Target
£200,000 ⇒ £250,000	£250,000 ⇒ £500,000

4. Work Stream: Review of Services

W/S	Review Activity
RS1	Community Grants
RS2	Planning Fees – New Government proposals
RS3	Operation of Dibden Golf Course
RS4	Parking Arrangements
RS5	Licensing Enforcement
RS6	Local Recycling Sites/Bring sites
RS7	Public Health (Review following White Paper)
RS8	Environmental Health (Commercial) – service delivery arrangements
RS9	Pest Control
RS10	Economy and Tourism
RS11	Public Conveniences
RS12	Trade Waste
RS13	Sheltered Housing (Impact of Supporting People Funding Changes)
RS14	Conservation advisory service
RS15	Coastal
RS16	Licensing & CCTV Management
RS17	Grants including option related to Project Adapt with third party
RS18	Review of all Fees & Charges in line with corporate strategy
RS19	Equalities & Complaints arrangements
RS20	Graphic Design & Communications