

CABINET – 12TH JANUARY 2010

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

MEDIUM TERM FINANCIAL STRATEGY 2010/11 - 2013/14

PART A

Purpose of Report

1. This report sets out the proposed Medium Term Financial Strategy (MTFS) for 2010/11 to 2013/14, for consultation and scrutiny.

Recommendation

2. (i) That the proposed MTFS including the 2010/11 revenue budget and capital programme be approved for consultation and referred for consideration to Scrutiny bodies and the Scrutiny Commission.

(ii) That the response to the consultation for the 2010/11 Grant Settlement (Appendix F) be noted.

Reasons for Recommendations

3. To enable the County Council to meet its statutory requirements with respect to setting a budget and Council Tax precept for 2010/11 and providing a basis for the planning of services in the next four years.

Timetable for Decisions

4. The MTFS will be considered by the County Council's Overview and Scrutiny bodies between 26 January and 3 February. During the same period, public consultation will take place. The Cabinet will then consider the comments of the Scrutiny bodies and responses from the wider consultation processes at its meeting on 9 February. The County Council meets on 24 February to approve the MTFS.

Policy Framework and Previous Decisions

5. The MTFS has been developed alongside other service planning frameworks and is aligned with the Sustainable Community Strategy (SCS) and the Local Area Agreement (LAA2).

Circulation under Local Issues Alert Procedure

None. However, a copy of this report has been sent to all Members via the Members' Information Service.

Officers to Contact

Pat Sartoris Head of Strategic Finance, Corporate Resources Department
Tel: 0116 3057642

Judith Spence Head of Corporate Finance, Corporate Resources Department
Tel: 0116 3055998

PART B

Background - National Economic Position

6. The MTFs has been drawn up against the context of the worst economic recession for decades. The level of Government debt is forecast to grow to nearly 80% of GDP. It is universally acknowledged that public expenditure will need to be reduced significantly, certainly for the period of the MTFs and probably longer i.e. at least 2 spending rounds. The Government announced in the Pre-Budget Report (PBR) that some services would be protected but local government has never been mentioned in this context and it can expect to bear the full impact of any reductions. This is likely to translate into a reduction in Formula Grant and an even greater reduction in specific grants related to specific initiatives and in capital funding. These are major concerns. The PBR stated that capital spending was 3.3% of GDP in 2009/10 but will move to 1.25% of GDP by 2013/4 – a reduction of over 60%.
7. The depth of the recession limits the increases in Council Tax that people can afford. Together with the widely forecast reductions in Government funding this severely constrains the resources available to the County Council over the period of the MTFs. At the same time the recession increases the pressure on the budget both from higher demands on services but also from loss of income e.g. interest on revenue balances.
8. This combination of factors presents a severe challenge for the County Council. However it is as well placed as any to meet this challenge. There are no significant underlying issues in the current budget. The County Council has an enviable track record of sound financial management which has been acknowledged by the Audit Commission in its Use of Resources Assessments.

Local Response to National Economic Position

9. Achieving a balanced budget in a prolonged period of resource constraint coupled with increasing spending pressures puts a premium on robust medium term service and financial planning. The scale of service reconfiguration to achieve challenging efficiency targets needs careful planning as does the inevitable scaling back of local services. The draft MTFs presents a balanced position over the four year period including realistic figures for spending pressures and the savings necessary to fund them in the context of available resources.

Funding Availability and Underlying Principles

10. The net budget (gross expenditure less specific grants and income from charges) is funded from the Government's Formula Grant and Council Tax. Broadly, the split is 30% Grant, 70% Council Tax. In developing the MTFs, assumptions on the level of funding from these two sources are key.
11. The MTFs is based on Council Tax increases of 2.5% in the first three years (2010/11 – 2012/13) which, in accordance with a commitment made by the Administration, would convert to no increase for Council Tax payers in the second and third years with the additional grant support promised by the Conservative Party should they form a government. The final year of the plan is predicated on a nil increase in line with the expectations for the preceding 2 years if additional Government support is available.

12. The provisional Grant Settlement from the Government for 2010/11 is an increase of 4.3%. The response to the consultation (for which the deadline was 5 January) is contained in Appendix F. For the later years the Settlement is subject to the next Spending Review. The Spending Review scheduled for 2009 was postponed by the Government. Plans are based on a cash reduction of 2% (approximately 5% in real terms) in Formula Grant in each of the last three years. This basis is being used by most county councils in their planning. No firm indications were given in the PBR but this planning basis is entirely consistent with the analysis, by the Institute for Fiscal Studies, of the implications for public services not likely to enjoy a measure of protection.
13. These assumptions define the funding envelope in which the MTFs has been constructed. It has been drawn up using the following principles:
 - Planning spending within the resources available
 - Maximising the contribution from efficiency savings
 - Being clear about priorities in terms of growth and service reductions that need to be built into the new County Council Delivery Plan (2010 - 14)
 - Targeting scarce resources at those with greatest need
 - Achieving value for money for Council Tax payers.

Spending Pressures

14. Details of proposed spending pressures are given in Appendix D. For later years where it is more difficult to predict individual spending pressures with accuracy some central provisions have been made to ensure that the overall total is realistic in the context of the experience in recent years.
15. Given the limits on resources the scope for service improvement is very limited. The major provision is for demand and cost pressures on Adult Social Care, largely the result of an ageing population with increasing care needs. The cost of the Landfill Tax and using alternative, more sustainable, methods of waste disposal is the other main pressure. Other factors include statutory duties and unavoidable cost increases.
16. A sum of £1.4m (£2.8m full year) has had to be provided to meet the County Council's contribution to free personal home care for those with the highest needs. The Government has stated that the local contribution is intended to be met from efficiency savings resulting from more use of home care as opposed to residential care. As this is already the County Council's current policy and practice there is little scope for additional savings. Nationally, there is concern that the Government has underestimated the cost of the initiative and the County Council therefore may be faced with an even higher bill. (See separate report on the agenda for this meeting).
17. There are other anticipated changes for 2011/12 which are likely, over the spending period, to require increased budget provision. These include the anticipated loss of specific grants from the Government and a reconfiguration of residential care service to supported living by a major provider.
18. Provision has also been made for an additional cost arising from the Government's proposal to transfer responsibility for concessionary travel from the district councils. The PBR indicates that savings of £120m nationally could be made by passing

administration to the upper tier authority, i.e. the County Council. As this already is the case at Leicestershire no savings will be made and accordingly £2m is incorporated to meet the likely shortfall in funding, and therefore protect the current level of service. The Government has indicated its intention to cease the specific grant and incorporate the funding into Formula Grant. There is a risk of a further loss of funding because of the distributional effect of Formula Grant. No provision has been made for this.

Inflation

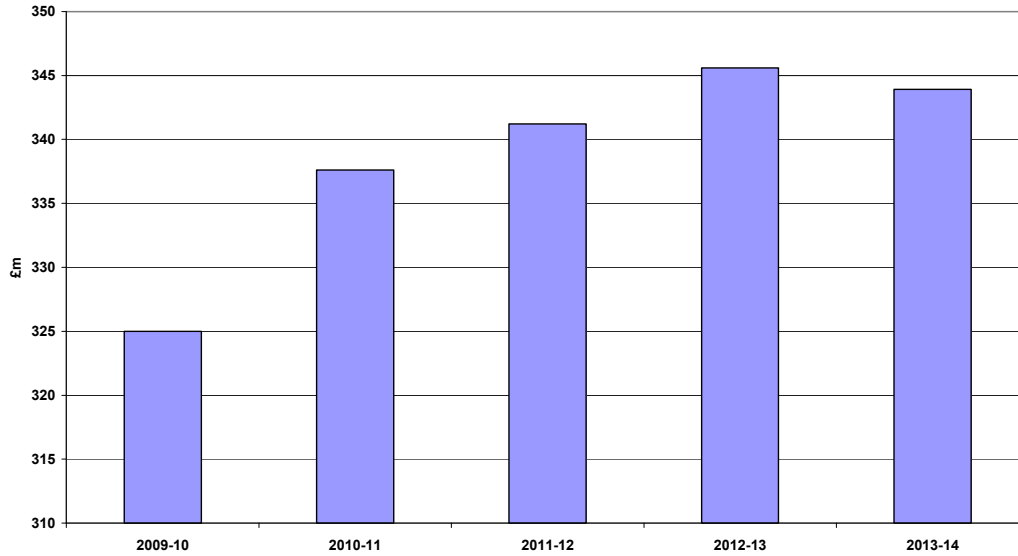
19. The PBR predicts that inflation will rise next year. From its low point in June 2009 of -1.6%, Retail Price Index is forecast to increase to 3% in September 2010, and continue at that level. The Government intends that public sector pay increases (including local government) will be capped at 1% for 2011/12 and 2012/13.
20. The average provision for pay, pension and price increases in the MTF5 is based on the following assumptions:-

| | |
|---------|----|
| 2010/11 | 0% |
| 2011/12 | 2% |
| 2012/13 | 3% |
| 2013/14 | 3% |
21. Although detailed budgets for 2010/11 have been compiled on the basis of no pay or price increases a central contingency will be held which could be used if there was a change from the expected position.
22. The above figure includes provision for an increase in employer's pension contributions in 2011/12 and later years in anticipation of the outcome of the 2010 triennial actuarial revaluation of the Pension Fund in order to start to address the deficit on the Fund and to meet future liabilities.

Overall Position

23. Over the four year planning period funding for the net budget from Council Tax and Formula Grant is estimated to increase by £19m or 6%. Spending will therefore grow by the same amount. The following graph shows the position.

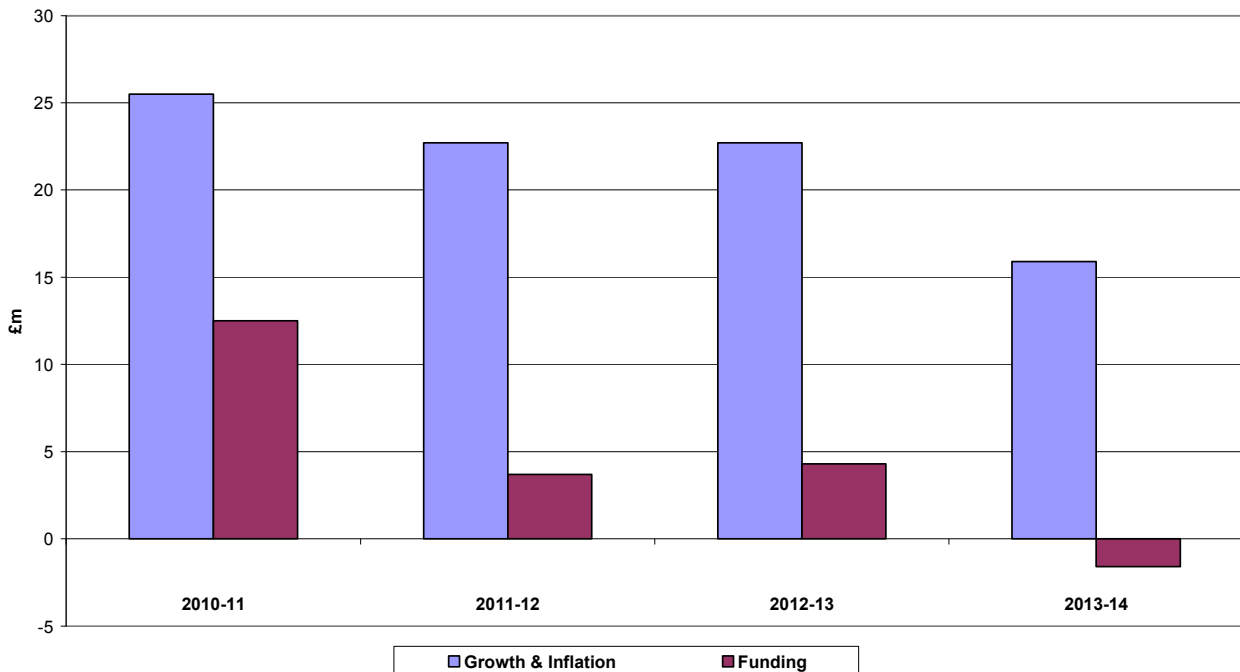
Budget Requirement 2009-10 - 2013-14



24. The average annual increase of 1.5% is slightly below the expected level of inflation faced by the County Council, implying a small reduction in real terms which could easily be met by further efficiency savings. However it is the magnitude of unavoidable spending pressures outlined above which greatly increase the size of the shortfall. The essence of the budget challenge, therefore, is to find savings to meet spending pressures.

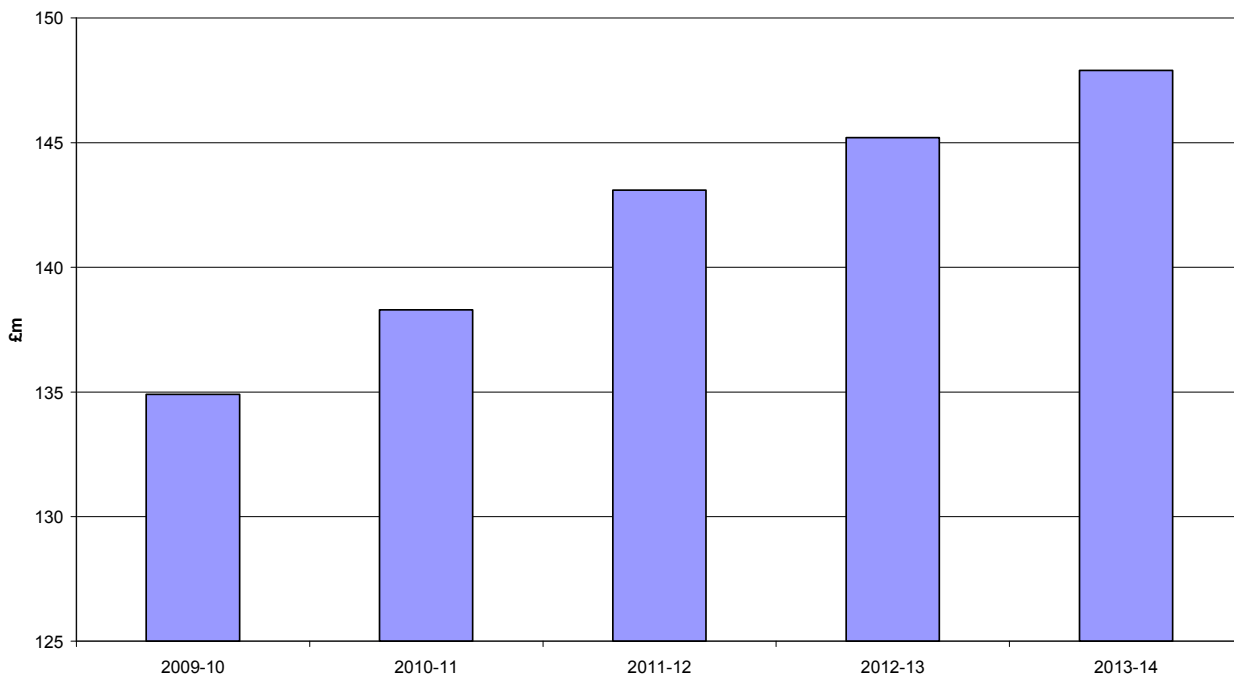
25. This issue is exemplified by the graph below.

Medium Term Financial Strategy - projected Expenditure and Funding changes



26. The position on Adult Social Care (ASC) represents a good example of this point as growth for demographic and other pressures is in line with savings. In overall terms the service is refocusing its resources on those clients with greater needs. The ASC budget will increase by nearly £13m over the four year period. As a proportion of the total service budget it will increase from 38% in 2009/10 to 41% in 2013/14.

Adult Social Care - forecast net expenditure (including inflation etc)



27. A summary of the overall position is given in Appendix A.

Savings

28. As discussed above, savings are required primarily to fund spending pressures. A total of £66m savings is incorporated into the MTFS. The strategy in compiling the MTFS is to maximise the contribution made by efficiency savings. However, a savings requirement of this size cannot be met by efficiency savings alone and service reductions will be necessary. Almost 70% of the total saving will come from efficiency savings which do not impact on the standard of service leaving a total of £19m to be identified from further savings.
29. It is estimated that there will be a reduction of approximately 650 posts (FTEs) over the four year period. The number of compulsory redundancies is likely to be much lower, given the scope to manage the position over the period through staff turnover, natural wastage and vacancy control.
30. The level of service reduction required over the four year period has been restricted to less than £19m (approximately 6% of current service budget). Service reductions of less than 2% p.a. have to be seen in the context of the scale of the national economic problem against which the MTFS has been compiled.

Efficiency Savings

31. Appendix C sets out the efficiency savings incorporated into the MTFS. There are some unidentified savings for later years in the case of Children and Young People's Service (CYPS). If changes to the role of the Local Authority were to take place in future e.g. from a significant reduction in specific grants this would invalidate assumptions of how savings would be made in a 'steady state' situation.
32. Efficiency savings are being generated in a range of ways. The majority of savings can be grouped into four main types:
 - Reductions in senior management and administration (£18m)
 - Commissioning and procurement (£15m)
 - Service transformation/change management projects (£8m)
 - Collaboration/shared or single services (£3m)

Service Reductions

33. In order to guide difficult decisions on service reductions, extensive consultation was undertaken. Ipsos MORI was engaged to hold a series of workshops with a representative cross-section of Leicestershire people. These focused on potential areas for service reduction or protection and views on increasing Council Tax and charges. Similar themes were explored in a randomly selected postal survey and web-based questionnaire.
34. There were approximately 1200 postal responses and approximately 600 via the web. The final results of these are available on the Council's website (www.leics.gov.uk/yourcouncil/haveyoursay) and a summary is attached at Appendix G.
35. There is a fair degree of similarity between the results of the different surveys as to which areas of spending people thought should be reduced and which should be protected.
36. The results of the consultation have influenced the approach to identifying service reductions. In addition there are proposals to reduce subsidies through increasing charges where people can afford to pay.
37. In practice this means targeting resources on core (high priority) services. This theme underpins the savings proposals in many areas.
38. At the outset there was a clear understanding that even in such difficult circumstances safeguarding of vulnerable children and adults would be protected from service reductions as this was a key priority. Waste disposal was also excluded from service reductions on the basis that this was likely to be economically counter productive in the longer term. The results of the consultation strongly support this stance.

Budget 2010/11

39. The proposed 2010/11 budget is detailed in Appendix B. The budgets for the former Community Services Department have been allocated to other services.

40. The budget is based on outturn prices using the inflation assumptions set out in paragraph 20 above.
41. The budget includes the full year effect of growth and savings decisions taken as part of the budget setting process in previous years and takes account of budget transfers.
42. The funding position for 2010/11 is relatively better than estimated for later years. In addition there are one-off benefits from the following:-
 - Overprovision for pay inflation and other provisions in 2009/10
 - Savings from an exercise of debt repayment
 - A higher Council Tax base than estimated.
43. The scope that the above provides has been utilised in 2010/11 by making one-off provision for the following:-
 - Transforming Learning in the Loughborough, Quorn and Barrow upon Soar areas (see separate report on the agenda for this meeting)
 - Contingency for energy inflation
 - Severance/invest to save costs
 - Contingency against delay in achievement of savings
 - Provision for shortfall on transfer of LSC (Learning and Skills Council) funding

Central Items

44. Bank and other interest is budgeted at £5m in 2009/10 (this compares with interest of £10.3m achieved in 2008/09 when interest rates were much higher). It is predicted to fall to £3m in the first three years of the MTFs, rising to £4m in 2013/14. Capital financing costs are expected to increase to £29.1m, from £28.1m in 2009/10 (and increase to £32.5m by 2013/14) to meet the borrowing requirements for the Capital Programme.

Sustainable Community Strategy and Local Area Agreement

45. The MTFs takes into account the LAA and the SCS. The LAA delivery plans are agreed and targets are being monitored. A general provision has been made for funding LAA priorities. The allocation of this provision will be recommended by the Leicestershire Together Board to the Cabinet.

Schools

46. Schools funding comes in the form of a ring-fenced Government grant to local authorities known as the Dedicated Schools Grant (DSG). The grant covers funding allocated directly to schools and funding retained by the Local Authority to support pupil-led provision, such as early years and excluded pupils.
47. The 2010/11 allocation is the third year of the 2007 Spending Review. The allocation methodology for the grant continues to be based upon previous spend with a minimum per pupil increase. There is commitment from the Department for Children, Schools and Families (DCSF) to introduce a formula driven allocation for DSG from April 2011.

48. The key elements of the schools settlement are:-

- The national minimum funding per pupil increase is 2.9% in 2010/11. The national average increase per pupil is 4.3% in 2010/11. Leicestershire receives the same percentage increase as the national average and therefore continues to receive the lowest per pupil DSG settlement for local authorities in 2010/11. The funding for 2011/12 onwards is not known.
- DSG includes funding for personalised learning, special educational needs, deprivation and early learning and childcare provision.
- The indicative DSG for Leicestershire is £348.2m for 2010/11.
- Final allocations for 2010/11 will not be known until May/June 2010 following the inclusion of the January 2010 pupil count.

Corporate Change Programme

49. The Change Management Programme co-ordinates the Authority's work to deliver both efficiencies and service improvements. Projects include Customer First, Modernising Financial Services, further development of the County Council's core IT systems (Oracle) and a range of departmental efficiency projects (e.g. introduction of electronic home care monitoring).

50. Over the previous four years a total of £9.3m has been available for the Change Management Programme. This has been funded through a combination of revenue budget (approximately £1m per annum) which was previously transferred to fund the programme, contributions from departments and reserves.

Asset Management

51. Using a more corporate approach to Asset Management planning, the County Council has developed an asset challenge process. This examines each of the Council's property assets in terms of building condition, suitability and location, together with an assessment of service users' needs. The asset management planning process identifies priorities for capital investment.

Capital Programme 2010/11

52. Whilst the majority of the revenue funding is local (Council Tax), this is not the case with capital. The vast majority of capital funding which is for schools and roads comes from the Government. The PBR indicates a substantial reduction in capital investment (see paragraph 6).

53. Resources can only be predicted with any accuracy for 2010/11 and it is therefore proposed to have a Capital Programme which only covers 2010/11. The alternative would be to devise a programme which is unlikely to be realistic in practice and would involve a great deal of abortive work. Multi-year planning will resume when there is a better idea of resource availability, hopefully next year.

54. The use of capital receipts will continue to be used to supplement Government support, but the current climate has significantly reduced the funds available. The programme will be reviewed if more capital receipts can be generated over the planning period. It is proposed to limit prudential (unsupported) borrowing to Invest

to Save schemes only as the financing costs of borrowing do not impact on the revenue budget.

55. The proposed programme is summarised in the tables below and shown in detail in Appendix E.

56. Table 1 Capital Programme 2010/11

| | 2010/11 £m |
|-----------------------------|-----------------------|
| CYPS | 49,216 |
| Highways and Transportation | 26,314 |
| Waste Management | 1,815 |
| Adult Social Care | 1,315 |
| Corporate Resources | 1,595 |
| Chief Executives | 300 |
| Other Corporate | 1,705 |
| Sub Total | 82,260 |
| Invest to Save | 9,760 |
| Total | 92,020 |

Table 2 Capital Resources 2010/11

| | 2010/11 £'m |
|---|------------------------|
| <u>Central Government</u> | |
| Supported Borrowing | 21,696 |
| Grant | 39,320 |
| Third Party Contributions | 8,180 |
| Capital Receipts | 3,409 |
| Other (Reserves, balances b/fwd, c/fwd) | 11,120 |
| | 83,725 |
| Unsupported Borrowing (Invest to Save) | 8,295 |
| Total | 92,020 |

57. The CYPS and Transportation programmes are based upon the application of Government resources, either in the form of supported borrowing or capital grant to those particular services.

58. The remainder of the programme has been compiled on the basis of departmental bids and subsequent appraisal against the corporate Asset Management Plan, availability of funding, realistic cost and delivery timescales.

59. Part of the available resources in 2010/11 is reprogrammed into later years to support commitments relating to the Primary Capital Programme and the Transforming Learning Programme in Leicestershire.

Children and Young People's Service (CYPS)

60. The CYPS programme will focus on the following priority areas:
- Transforming Learning in Leicestershire, including the completion of the programme to replace and refurbish schools in the Melton area.
 - Capital works on six primary schools funded from DCSF primary capital grant.
 - Phase three of the Government's Children's Centres and Early Years Programme.

Local Transport Plan 2010/11

61. A key part of the programme is the second 5-year Local Transport Plan (LTP) (2006-2011) of which 2010/11 is the 5th year.
62. The allocation for Integrated Transport Schemes for 2010/11 is £6.1m to fund programmes of works, including local safety schemes, bus improvements, better vehicle use of roadspace and improving routes to schools.
63. The allocation for capital maintenance schemes for 2010/11 is £10.9m towards a programme to maintain carriageways, footways, bridges, street lighting and traffic signal renewal.
64. The construction of a Park and Ride facility in Birstall is to be funded from the Community Infrastructure Fund (CIF) and Growth Point grant funding. This is a joint project with Leicester City Council.

Waste Management

65. The main priority is waste infrastructure, including the modernising of recycling and household waste sites at Sileby and Lount. There is also a programme of general improvements to other existing sites to assist in the diversion of waste from landfill.

Adult Social Care

66. The focus of the programme continues to be largely devoted to the redevelopment of the learning disabilities service and the modernisation of day services. The main schemes are a new respite care centre in Wigston and a new day resource centre in Charnwood.
67. The investment in libraries continues through funds being made available for a replacement library in Leicester Forest East.

Corporate Resources

68. The programme includes £0.6m for investment in ICT, £0.1m in County Farms and £0.1m Risk Management. Also incorporated is £0.4m for the completion of replacement sports facilities at County Hall, required as part of the sale of the existing playing field and facilities.

Other Corporate

69. The programme also includes an allocation for the Corporate Change Management Programme, funded from revenue reserves, for a variety of efficiency projects.

Invest to Save

70. The programme includes the continuation of the office accommodation review project (£15.1m), and the street lighting energy reduction project (£1.8m). Each project will generate revenue savings to offset the cost of prudential borrowing and provide ongoing revenue savings.

County Fund

71. The forecast balance on the County Fund at the end of 2009/10 is £9m which represents 2.7% of the budget (excluding schools' delegated budgets). The current policy is to hold balances in the range of 2% - 3%. Given the considerable number of uncertainties at present and in the immediate future it would not be prudent to reduce the level of the general reserve. A full risk assessment will be undertaken and reported to the Cabinet in February. At present it is assumed that the balance of underspends from 2009/10 will be treated as carry forwards for services or used to establish earmarked reserves for specific purposes, including the severance costs arising from the implementation of efficiency savings.

Equal Opportunities Implications

72. Many aspects of the County Council's MTFs and the budget are directed towards the needs of disadvantaged people. Specific proposals will be subject to equality impact assessments where necessary.

Crime and Disorder

73. Some aspects of the County Council's MTFs are directed towards providing services which will support the reduction of crime and disorder. The proposals on savings reflect that this is a priority area.

Environmental

74. Included within the MTFs are provisions to support the carbon management programme and other environmental improvements.

Partnership Working and Associated Issues

75. As part of the efficiency programme and improvements to services, working with partners will be considered along with any impact issues, and they will be fully consulted on any proposals which affect them.

Risk Assessments

76. The County Council's MTFs will be subject to a risk assessment and reference to this will be made within the report to the Cabinet in February 2010.

Background papers

Revenue support grant settlement.

Appendices

- A: Four year Revenue Budget 2010/11 to 2013/14
- B: 2010/11 Revenue Budget
- C: Savings
- D: Growth
- E: Detailed Capital Programme 2010/11
- F: Leicestershire County Council's response to the proposed Revenue Support Grant
- G: Summary of budget Consultation results