

REPORT TO: CABINET
COUNCIL
DATE: 8 July 2010
SUBJECT: STRATEGIC BUDGET REVIEW
AND BUDGET 2010/11
**WARDS
AFFECTED:** ALL
REPORT OF: Margaret Carney
Chief Executive
**CONTACT
OFFICER:** Margaret Carney
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**EXEMPT/
CONFIDENTIAL:** No

PURPOSE/SUMMARY:

To respond to the resolution of Council on 24 June to update the MTFP and advise members of the impact of the reduction in Government Grants in 2010/11 and propose how these reductions could be managed.

REASON WHY DECISION REQUIRED:

The decisions are required to respond to a resolution of Council, and the recent announcements by Central Government to reduce funding. In addition the imposition of grant reductions by Government in 2010/11 needs to be addressed urgently.

RECOMMENDATION(S):

That Cabinet is requested to recommend to Council

- a. The cessation of the specific Area Based Grant projects and activities totalling £2.5m in 2010/11 as identified in the confidential part of the agenda.
- b. Note that this will involve a reduction in staff, to be achieved through the Council's normal personnel procedures and if necessary through compulsory redundancies
- c. Delegating the finalisation of these arrangements to the Chief Executive in consultation with Party Leaders
- d. That response to the resolution of the Extraordinary Council on 24 June at paragraph 5 be noted
- e. Approval of the use of £1.5m one-off funding previously allocated to support the 2009/10 outturn position to compensate for the reduction in grant
- f. Approval the use of the 2010/11 contribution to balances of £500k towards the required savings.

- g. Approval of the rephasing of £720k of the transport capital programme
- h. Approve the reallocation of 2009/10 reserve contributions outlined in Appendix 3 and totalling £745k
- i. Endorse the ongoing work outlined in paragraph 3.9 to identify the balance of the savings required and report to the next meeting.

FORWARD PLAN: Yes

IMPLEMENTATION DATE: Immediately

ALTERNATIVE OPTIONS: Officers have reviewed the opportunities to make in year savings to compensate for the reduction in Government Grants. The proposals in this paper represent those options which have the minimum implications on the achievement of approved outcomes within the timescale specified by Government

IMPLICATIONS:

Budget/Policy Framework:

The Council's budget is estimated to reduce by £7.1m in 2010/11. Actions will need to be taken which will keep the Council's spending in line with the available resources

Financial: Whole report

<u>CAPITAL EXPENDITURE</u>	2010/ 2011 £	2011/ 2012 £	2012/ 2013 £
Reduction in Capital Expenditure	720		
<u>REVENUE IMPLICATIONS</u>			
Reduction in Revenue Expenditure	2,526		
Reduction in availability of one-off resources	2,745		

Legal:

Risk Assessment:

The reduction in Government Grant is contained within the Corporate Risk

register and appropriate action is being taken to mitigate this risk including the issues identified in this report.

Asset Management:

No Direct Implications

CONSULTATION UNDERTAKEN/VIEWS

Appropriate consultation will take place with staff affected by the proposals. It has not been possible to consult with Service Users and Stakeholders due to the short timescale of the reductions imposed by Government.

CORPORATE OBJECTIVE MONITORING:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community			✓
2	Creating Safe Communities			✓
3	Jobs and Prosperity			✓
4	Improving Health and Well-Being			✓
5	Environmental Sustainability			✓
6	Creating Inclusive Communities			✓
7	Improving the Quality of Council Services and Strengthening local Democracy			✓
8	Children and Young People			✓

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

Background

1. Introduction

Members will be aware that the new Government has signalled a time of significant constraints on public sector spending. This follows both the announcement to reduce grants to local councils by £1.1bn in the current financial year and the recent Emergency Budget.

The Government's high level intentions are clear i.e. a significant reduction in public sector spending whilst providing a degree of protection for the NHS. This represents an average real term reduction of 25%. In addition there is the proposal to freeze Council Tax for the next two year which could result in average savings of 30% being required. Further significant details are unlikely to emerge until a national spending review reports in the autumn.

The Council has been preparing for significant reductions as part of its Strategic Budget Review and more latterly the Prioritisation Process. At its last meeting the Cabinet reviewed its Medium Term Financial Plan which reflected the understanding at that point of the Government's intention's. It is clear that this position will need to be reviewed in the light of recent announcements and an update is provided at Paragraph 5. It is obvious that this picture will need to be kept closely under review. However it is certain that the Council will have to make significant changes to the way services are delivered in the future. Reductions of 30% will need to be managed and given the majority of the Council's costs are staff based, it is inconceivable that these reductions can be made without a significant reduction in the number of people employed. It must also be stressed that the ability of the Council to achieve these staff reductions through natural turnover, voluntary means or redeployment is extremely limited.

This report deals with the immediate reduction of grants in 2010/11 imposed by Government in June and also considers the longer term financial position including the resolution of the Extraordinary Council on the 24th June.

2. Background

Cabinet will be aware that the Government announced reductions in government grants for local authorities on 10th June. The latest interpretation of this is shown at Appendix 1. It should however be noted that we are still awaiting confirmation of the treatment of some elements and this may not be available for a few weeks. The latest projections indicate a reduction in grant for Sefton of £7.145m in the current year; comprising £4.2m Revenue and £2.935m Capital. This report outlines the recommendations from officers as to how these savings could be achieved. It should however be noted that the requirement for in-year savings is always challenging given that the Council's budget has already been set and £12m of savings were required to achieve that balanced position. In addition we are only just beginning the process for reviewing Council priorities and these reductions need to be made in the absence of any conclusion from this process.

At the extraordinary meeting of Council on 24 June 2010 it was resolved amongst other things:-

“In order to mitigate the damaging effects of the Con Dem budget, Officers of the Council are instructed to bring forth proposals by the next Cabinet meeting that set out mechanisms that could be implemented that will not involve compulsory redundancies and also proposals to minimise the effects of the national cuts on the people of Sefton and in particular the most vulnerable.”

The response to this resolution is included at paragraph 5

3. 2010/11 Budget Position

- 3.1 As indicated above the Council will have to identify an estimated £7.1m of savings in the current year to respond to the reduction in Government Grants. The Government has clearly indicated that although specific elements of grant have been reduced these grants are not “ring-fenced” and therefore it is up to individual councils how they make the necessary savings.

In reviewing the options available, senior officers have not automatically proposed reductions in those areas reduced by Government but have taken account of

- The likelihood that the funding source will reduce significantly in the future.
- Whether the reduction in grant is one-off or ongoing
- How critical the activity is to the achievement of agreed outcomes
- The implications and risks of making reductions
- Whether these activities could be undertaken by other agencies within their available budgets e.g. Schools

- 3.2 In considering the options for savings, officers are conscious that ideally these decisions should be made following an overall review of spending activity. However these reductions need to be made urgently. Officers have therefore considered the following

- Area Based Grant activity on the basis that specific scheme implications can be more readily identified and the likelihood that future ABG settlements will be significantly reduced.
- Capital Programme projects and the ability to rephase, delay or delete schemes
- The availability of one-off funding to allow time to develop more permanent savings proposals or to reflect the on-off nature of the grant reductions.

The proposals identified following this review are as follows:-

3.3 **Area Based Grant** - The paper on the exempt agenda contains the result of the assessment. This indicates that savings of £2.5m could be made. The paper on the exempt agenda details the implications of these reductions. In particular it should be noted that 60 jobs are currently attributable to these activities. Whilst every effort will be made to release these jobs through redeployment/voluntary means this is unlikely to be achieved for most of these posts and compulsory redundancies will be required.

3.4 **Capital Programme** – A full review of the capital programme and contractual commitments is being undertaken, however at this stage there is limited scope in the general capital programme unless major schemes are to be delayed or abandoned. A full report will be presented to the next meeting of Cabinet.

A review of the Department of Transport Capital – Integrated Transport Block and Detruncking has indicated that reductions of £720k could be identified from delaying and rephasing schemes into later years (see Appendix 2) If this is accepted in principle a detailed report on the specific consequences of this rephasing will be presented to the Cabinet Member Technical Services on 14 July 2010. There are no direct staff employment consequences resulting from this reduction in funding.

3.5 **Use of one-off funding** - Elsewhere on the agenda is a report detailing the General Fund Outturn for 2009/10. The position is more favourable than previously forecast when £1.5m was reserved from one-off resources to fund any potential overspend. This amount is still available and could be used to fund savings in the current year.

A number of services have agreements in place which enables them to carry forward their in year under spends into Reserve accounts. In 2009/10 these underspends totalled £ 745K. Directors had previously been informed that these contributions have been temporarily suspended to determine if they should be used to support the overall budget position. These are detailed at Appendix 3.

3.6 **Contribution to Balances** - The 2010/11 budget contains a contribution to balances of £500k. This is a planned contribution in line with a general strategy to increase the Council General Balances. A review of this strategy will be undertaken prior to the end of this financial year. However in the light of the outturn position it is felt that this contribution could be diverted in 2010/11 to contribute to the required savings.

3.7 The statement attached at Appendix 1 includes an estimated reduction in Housing Market Renewal Grant of £1.5m. By rephasing some 'CPO critical' activity and deleting some non-critical activity, the HMR Team believe they can achieve this 'in year' reduction without compromising the Bedford/Queens or Klondyke CPO hearings. However, the £2.3m 'Kickstart' funding for the affordable housing element in the Bedford/Queens area is also under review by Government and is more critical to HMR progress. If this funding is cut, the failure to deliver the Phase 1b/2 housing development could prove fatal to the

Bedford/Queens CPO. Klondyke would continue to completion. To enable the Bedford/Queens CPO to continue, allowing the completion of development and the acquisition of all outstanding interests, thus protecting the significant investment already made in the area, the Council would have to consider substituting the £2.3m Kickstart funding to fund affordable housing development. Decisions on the actual HMR funding reduction and the future of the Kickstart funding are expected within 2-3 weeks. There are no direct staff employment consequences resulting from this reduction in funding.

3.8 Assuming all the above measures are approved the summary position is as follows:

	£000
Estimated requirement	7,145
Less	
Area Based Grant	2,526
Rephasing of Transport Capital	720
Outturn 2009/10	1,500
No Contribution to Balances	500
2009/10 Reserves	745
Savings to be Identified	1,154
Increase if KickStart Grant is refused (Note 1)	800
Potential savings to be identified	1,954
If Kickstart Grant is approved (Note2)	-2,300
Surplus	346

Note 1

The estimated requirement above includes £1.5m relating to the reduction in HMRI Grant. However as indicated in paragraph 3.7 this figure could increase to £2.3m if the KickStart funding is refused. This would increase the balance of savings still to be identified to £1.954m

Note 2

If the KickStart grant is approved then sufficient savings have been identified in this report to meeting the estimated grant reduction.

3.9 In order to identify the balance of savings required the following actions are currently being taken and the outcome will be reported to the next meeting of Cabinet

- Keeping the HMRI position under review. If the KickStart grant was approved by Government then no further savings would be required in 2010/11
- Review of all capital programme schemes to consider slippage/rephasing

- Review of all other one-off reserves
- Services have been asked to identify any service changes that can be implemented immediately in the current year.
- Review of the adjusted ring-fenced arrangements to determine if more flexibility is achievable

4. Assessment of Implications

The proposals to reduce/cease some activity funded by ABG will need to be the subject of an Equality Impact Assessment. This is currently being undertaken and the outcome will be reported verbally at the Cabinet meeting. It is recognised that there will be implications for communities and employees as a result of these proposals and Members will need to take this into account when making their decisions.

Any reduction in employment will be the subject of the Council's personnel procedures, including consultation with the Trade Unions and individuals. All options will be explored to identify mitigation of the situation, which would include redeployment opportunities or suitable alternative employment. However, should this prove impossible then appropriate notice of termination will need to be given. Given the timescales involved in achieving these reductions it is recommended that approval be given to undertake this process and that this be delegated to the Chief Executive, in consultation with the Party Leaders.

Members should be aware that no formal consultation has yet taken place with affected employees, although general briefings have taken place and the employees and Trade Unions have been apprised of the situation.

The rephasing of transport capital will mean that some schemes planned to be undertaken in the current financial year will be delayed. The details of this will be reported to the Cabinet Member for Technical Services.

Of the total savings required £2.745m will come from "one-off" resources i.e. fortuitous reserves as a result of a more favourable outturn than expected and deferring a contribution to balances. This is appropriate given that a number of the measures implemented by Government are one-off in nature. However it is obvious that their use in this way means that they are not available to fund future pressures or to minimise the risk of future overspends.

Members must be aware that given the timescale imposed by Government there can be no prior consultation with service users and stakeholders on the 2010/11 reductions.

5. Medium Term Financial Plan 2011/12 to 2013/14

Members will be aware that the latest update on the MTFP indicated a savings requirement totalling almost £30m and detailed below

2011/12	£13.847m
2012/13	£ 8.490m
2013/14	£ 7.166m

The main variable assumptions were a 3% Council Tax increase in all three years plus a 2.5% reduction in Government Grant and ABG. Assuming the Government introduces a Council Tax freeze for two years with no additional support this will increase the savings requirement by £6m over the three years.

The details around the 25% government funding reduction will not be available until the Spending Review in the autumn. The current MTFP assumes a reduction in general government support of 7.5% over the next three years. It is likely that this general reduction will increase and in addition some commentators are suggesting more significant reductions in ABG and Standards Fund. Every 1% government support is equivalent to around £1m.

Assuming a Council Tax freeze for two years plus a 25% reduction in government support the Council faces a reduction in its spending of £53m over the period. This figure would be reduced if the Government gave specific financial support for the Council Tax freeze. This would represent a reduction of 20% of the Council's controllable budget. Reductions of this level cannot be achieved without a fundamental review of Council activity.

The June Council resolution instructed officers to bring a report to this Cabinet meeting *“to set out mechanisms that could be implemented that will not involve compulsory redundancies and also proposals to minimise the effects of the national cuts on the people of Sefton and in particular the most vulnerable.”*

It is suggested that the mechanism currently outlined will produce options for members on future reductions. Specifically we need to complete the prioritisation exercise and agree options to increase efficiency, resize the organisation and make changes to service delivery and eligibility in accordance with Council priorities. Given the proportion of Council costs which are staff related, it will be impossible to achieve the forecast reductions without significantly reducing the workforce. Maximum effort will be made to deal with these issues on a voluntary basis but with the scale of the reductions it is difficult to envisage that this can be achieved without compulsory redundancies.

Every effort will be made to minimise the impact of the reductions on the people of Sefton. However reductions at this level will have an impact on service delivery. A paper is being prepared on how the Council might engage and consult with its citizens on these changes and this will be discussed informally with Leaders prior to consideration at the next meeting of Cabinet.

6. Conclusion

Recent Government announcements have left the public sector in no doubt that there will significant reduction in public spending over the next four years and beyond. In the short term the Government has imposed an in-year reduction in

the grants its gives to Councils but has left the decision on where the savings are to be found to local members. For Sefton this means £7.1m reduction which has to be identified immediately. Therefore it has been necessary to propose a combination of ceasing some activities funded by ABG, rephasing some capital expenditure and using one-off resources previously earmarked for other things. There will be implications of these reductions on staff and service users. In the medium term reductions in funding of 25% have been suggested in addition to a Council Tax freeze. While details of the precise impact for Sefton are awaiting, it is now essential that the organisation prepares for these reductions by generating efficiencies, resizing the organisation and changing service delivery. This must be completed in the knowledge of what are the Council priorities.

This will be a period of significant change and uncertainty and it is important that decision are made in a timely way and are managed in a effective and sensitive way. Managers throughout the organisation will have to re-prioritise their time to ensure that this change is managed effectively.

Summary of the DCLG Announcements of Local Government Savings on 10 June 2010

	National Level			Sefton Impact		
	Revenue £m	Capital £m	Total £m	Revenue £m	Capital £m	Total £m
Education ABG	311.0		311.0	2.138		2.138
Dept for Transport						
Revenue	15.0			0.000		
ABG	20.6			0.000		
	35.6		35.6	0.000		0.000
Capital		273.5	273.5		0.720 a	0.720
Dept for Communities & LGvt						
Revenue	170.1			0.108		
LAA Reward Grant (Revenue)	125.0			0.715 b		
LABGI	50.0			0.230 c		
ABG	108.4			0.992		
	453.5		453.5	2.045		2.045
LAA Reward Grant (Capital)					0.715 b	
HMRI					1.500 d	
Other Capital		80.0	80.0		2.215	2.215
Dept for EFRA						
Capital		7.5	7.5		0.000	0.000
Home Office						
ABG	6.0		6.0	0.027		0.027
Sub Total	806.1	361.0	1,167.1			
Adjustment Grant	-1.1	-0.1	-1.2			
Totals	805.0	360.9	1,165.9	4.210	2.935	7.145

Notes

a It is not yet clear whether the Thornton - Switch Island Link road scheme is included in the suspension of major Highway

Schemes. The amount show relates only to Integrated Transport and Detrunking Capital.

b The Council had assumed this would be 50% Revenue and 50% Capital. This now reflects the reduction in

Performance Reward Grant now anticipated following receipt of clarification.

c LABGI - this is the maximum impact for the Council which had been tacitly assumed to mitigate loss of Planning Income.

d Housing Market Renewal allocation - the range of required reduction could be between £0.5m and £1.5m.

NB Where the Sefton Impact columns show zeros, the National Level cuts have been assumed not to impact upon Sefton.

Transport Capital – Integrated Transport Block and Detruncking

Local Transport Plan Capital

1 Integrated Transport Block - -£670k

<u>Saving £'k</u>	<u>Scheme/Programme</u>
-120	Local Safety Small Scale schemes programme reduced – many delayed in delivery
-135	Park Lane Local Safety Scheme – Continue with design/consultation but reschedule implementation over 2 years
-50	Accessibility schemes reprogrammed
-130	A565 Route Management Strategy reprogrammed
-90	Reduction in advanced design for planned future schemes
-85	Reduce level of work proposed for the design of measures for existing roads linked to Thornton Link scheme.
-30	Cycle Schemes reprogrammed
-30	Kew Park and Ride Study reduced to reflect likely date when re-opening can be considered.
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-670k	INTEGRATED TRANSPORT BLOCK TOTAL

2 De-trunked Maintenance -£50k

- 50	Drainage works on A565 Formby Bypass – Out turn cost of works is expected to be £17k less than original allocation of £226k and £33k balance of saving will be made up by a contribution from the revised Integrated Transport Block.
-720k	TOTAL TRANSPORT CAPITAL SAVING

APPENDIX 3

TRANSFERS NOT ALLOWED TO SPECIFIC RESERVES 2009/10

<u>Reserve</u>	£000
Decentralised Services Reserve	59
Personnel Training Unit	37
Civic / Mayoral Services	140
Grants to Voluntary Bodies	85
IT Strategy	6
Recycling Reserve	306
Golf Course	20
New Income Libraries	15
Communications Reserve	15
Events Underspend	62
Total	<u>745</u>