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**Report to:** Cabinet

**Date of Meeting:** 26 May 2011

**Subject:** Medium Term Financial Plan 2012/13 – 2014/15 Update

**Report of:** Head of Corporate Finance & Information Services

**Wards Affected:** All

**Is this a Key Decision?** No

**Is it included in the Forward Plan?** No

**Exempt/Confidential** No

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### **Purpose/Summary**

To update Members on the latest assumptions contained in the Financial Plan 2012/13 – 2014/15 and to highlight the potential budget gaps for this period.

### **Recommendation(s)**

That Cabinet:

- i) Approve the MTFP projected assumptions contained in this report;
- ii) Note the potential budget shortfalls within the MTFP as follows: -

	£m
2012/13	20.05
2013/14	27.65
2014/15	38.55

### **How does the decision contribute to the Council's Corporate Objectives?**

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

## Reasons for the Recommendation:

To ensure that the Cabinet is fully aware of the latest MTFP position so that early decisions can be made to enable the Council to agree a balanced budget for 2012/13 before the statutory date of 10 March 2012.

## What will it cost and how will it be financed?

### (A) Revenue Costs

The revenue gaps for each of the years 2012/13 to 2014/15 are projected at £20.05m, £7.60 and £10.90m respectively. The figures individual in-year savings target, assuming the previous year's target is achieved. The Council needs to take action over the coming months in order for a balanced budget to be agreed for 2012/13.

### (B) Capital Costs

None.

## Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

<b>Legal</b>	Statutory Duty
<b>Human Resources</b>	None
<b>Equality</b>	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

## Impact on Service Delivery:

To be determined; however it may be inevitable that in some cases service delivery will be adversely affected.

## What consultations have taken place on the proposals and when?

None at this stage.

## Are there any other options available for consideration?

None.

## Implementation Date for the Decision

Immediately following the Committee Meeting.

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## Background Papers:

Medium Term Financial Plan 2011/12 – 2014/15

## 1. Background

- 1.1 Cabinet received a 2011/12 Transformation Programme report on 14 April 2011, which updated the position regarding the achievement of the agreed savings for this financial year. The report identified savings targets for the following three years as follows: -

	2012/13	2013/14	2014/15
	£m	£m	£m
Original Forecast saving	55.8	59.4	68.9
Government Settlement impact	8.3		
CSR Assumed Reductions		8.3	6.9
<b>Amended Target</b>	<b>64.1</b>	<b>67.7</b>	<b>75.8</b>
Less Approved Savings	-47.6	-49.2	-51.4
<b>Savings Gap Remaining</b>	<b>16.5</b>	<b>18.5</b>	<b>24.4</b>

- 1.2 The above figures were produced from a mix of known and assumed factors. For example, in respect of external income, a 0% Council Tax increase has been assumed for 2012/13, and Government grant support has been based upon national averages. In order for a balanced budget to be agreed for each of the above three financial years, the Council needs to have financial targets based upon the latest available data and, where there is still uncertainty, a range of values on which to base their decisions.
- 1.3 This report identifies the assumptions that are built into the above figures (see Annex A) and provides an update where new information is available, a subsequent review suggests that changes are required, or identifies issues that Members may wish to consider.

## 2 Future MTFP Assumptions - Issues for consideration

### 2.1 Income

- 2.1.1 Council Tax – As highlighted in Annex A, the current assumption is for a nil percent increase for 2012/13. The continuation of this position has been assumed in the updated MTFP. However, as background information for Members, each 1% increase in Council Tax would generate approximately £1m, and hence reduce the overall budget gap accordingly.

No announcements have been made by the Government with regard to a further freeze on Council Tax for 2012/13 (or the provision of a grant to local authorities to finance such a freeze). The current projections assume no grant is receivable. For information, the Capping Limit set by the Government for 2011/12 was 3.5%.

- 2.1.2 Formula Grant – The Government has announced the provisional grant for 2012/13. Whilst this is still a provisional figure, it is not anticipated that there will be much variation. However, the position from 2013/14 onwards is unclear. The reduction in Formula Grant assumed within the MTFP for the final two years are based upon the national average reduction (-0.9% and -5.3% respectively). It

should be noted however, that Sefton's actual reduction in grant for 2011/12 and 2012/13 for these years was -1.2% and -1.7% worse than the national average. If the MTFP was adjusted so that Formula Grant projections reflected a 1.7% worsening of the position, further savings of £2.1m for 2013/14 and £2.5m for 2014/15 would be required.

Changes to the formula methodology are proposed to be introduced in 2013/14, as is the abolition of Primary Care Trusts (and the subsequent transfer of services to local authorities). Consequently, forecasting the likely level of Formula Grant is not possible. **However, as a prudent planning measure within the MTFP, a further reduction in Formula Grant would seem appropriate for 2013/14 and 2014/15; with the -1.7% change based upon recent experience**

## 2.2 Expenditure

2.3 Pay inflation – The Government has previously announced a two-year pay freeze for the public sector for 2011/12 and 2012/13. No further updates on this have been provided. An option would be for the 0.5% provision for a pay award in the MTFP for 2012/13 (£0.4m) to be released to reduce the deficit. However, until there is some clarity, the prudent approach would be to retain such resources.

With regard to 2013/14 and 2014/15, the provision within the MTFP of a 1% increase in pay levels may need to be re-considered for planning purposes. The ending of a two-year pay freeze could result in unions pressing for larger pay awards to try and “make up the lost ground”. Members may wish to consider an alteration of the current position- however, **at present no change has been built into the amended MTFP.**

## 2.4 Price inflation -

2.4.1 Current price inflation varies considerably across the various elements contained within the Government's CPI figures, with many items having little relevance to the costs incurred within local government. The following identifies how the updated MTFP proposes to allow for price inflation.

2.4.2 Recent publicity regarding utility / transport fuel costs has indicated that, due to world economic conditions, inflation is expected to increase year-on-year for the period of the MTFP. **A 10% per annum increase has been allowed for in the updated MTFP.**

2.4.3 The current MTFP currently provides for a 2% increase for Demand Pressure Services in each of the three years of the plan. **It is proposed to retain an inflation provision at this level.**

2.4.4 Externally contracted services which have a specified inflation index within the contract are provided for within the MTFP. As the actual indexes will not be known until the relevant years, the MTFP provision is based upon existing contractual inflation figures.

2.4.5 At present, the current MTFP does not allow for any inflationary increase for “Other Services” (excluding contracted services). **Given the 2% allowance for**

**Demand Pressure services, it is deemed prudent to allow for inflationary increases at the same level.**

2.4.6 There has not been any indication from levying authorities as to what changes are likely to be made over the coming years. **For the purposes of the MTFP update, a 1% per annum increase has been assumed.**

2.4.7 Overall, this equates to an inflationary increase of £2.5m.

## 2.5 Growth – Demand Pressure Services –

Adult Social Care growth included within the MTFP was £2.5m for 2012/13 and £0m in the final two years of the plan. A review of these figures has indicated that growth due to demographic pressures is likely to be higher than is allowed for within the MTFP. **A prudent allowance for a further £0.75m in 2012/2013 (and thereafter) is recommended.** However, current experience suggests that demand may be increasing further; consequently, a review of the potential changes in 2013/14 and 2014/15 will be undertaken.

No provision for demographic change for Children's Services is projected at this time.

## 2.6 Other Changes –

2.6.1 The recent acceptance of a new tender for waste recycling has resulted in a significant reduction in expenditure compared to current figures (for the same service provision). A reduction of £1.6m per annum is projected. However, the introduction of collection of plastic / cardboard waste is required under European legislation by 1 January 2015. The additional collection system has been assumed be in place in 2013/14 in line with the resolution of Cabinet, at an annual cost of £1m. **Consequently, the MTFP update has assumed savings of £1.6m in 2012/13 and £0.6m thereafter.**

2.6.2 Disabled Facilities Grant (DFG) – As part of the reduction in external funding, the Council has recently been informed of a loss of capital grant for DFG. The provision of these facilities is a statutory requirement and as such resources need to be identified. **An assessment of the anticipated demand has been undertaken and a sum of £1.5m per annum is required.** This has been added to the updated MTFP at this stage. The option to capitalise this will be considered as part of the ongoing budget prioritisation process.

2.6.3 Pension Fund payments - The budget cuts that have been achieved as to date have included significant reductions in the number of staff. This has included voluntary / compulsory redundancies (where absolutely necessary) and voluntary early retirements (VERs). The costs associated with VERs include payments to the Pension Fund in order that the pensions can be paid early. The pension costs associated with redundancies known at the 31 March 2011 are paid over five years and are estimated to be £0.7m, £0.4m and £0.3m over the three years of the MTFP. Cabinet on 17 February approved the appropriation of earmarked reserves and the insurance fund surplus to finance redundancy costs / delay in implementing savings. It is proposed to utilise this resource to finance the additional pension fund costs. The further reductions in expenditure in 2011/12

and beyond are expected to place further demand on this budget. A review needs to be undertaken to identify what additional costs need to be provided for.

Any VERs in 2011/12 and beyond will similarly result in additional payments to the Fund.

- 2.6.4 Carbon Reduction Commitment – Prior to the Comprehensive Spending Review (CSR), it had been assumed that there would be an annual payment to the Environment Agency (in the order of £0.5m), with either a reward, or penalty payment dependent upon actual performance in reducing carbon emissions. The current MTFP has included £0.1m in 2012/13 and thereafter, on the assumption that the Authority would be in a penalty position.

Following the CSR, the Government changed the proposed system so that the annual payment became a straightforward tax i.e. there would be no reward or penalty. The Environment Agency is still working on guidance as to how the system will work, and until this is issued, there is no detail as to what payment will be required from Sefton. However, using the position prior to the CSR, From April 2012, Sefton may be required to pay £0.5m per annum to the Environment Agency. A league table is still likely to be produced, but this will not change the payments made.

**The MTFP has been increased by £0.4m per annum from 2012/13.**

- 2.7 Agreed savings at risk

Elsewhere on the agenda, the Transformation Update report identifies the current position with regard to the agreed savings for 2011/12. A number of items have been identified as not being able to achieve the original targets, due to a variety of reasons. In addition, work is ongoing to identify how approved savings for 2012/13 are to be implemented. Until both these issues are resolved, the position for the starting point for 2012/13 (i.e. a budget gap of £16.5m) cannot be guaranteed. Whilst it has been assumed that these savings targets will be achieved, these matters will be kept under review and any variation will be included in future updates of the MTFP.

## 2.8 Potential MTFP Scenario 2012/13 – 2014/15

Compared with the current 2011/12 budget service levels, the following shortfalls have been projected: -

	<b>Para Ref</b>	<b>2012/13 £m</b>	<b>2013/14 £m</b>	<b>2014/15 £m</b>
<b>Savings Gap Remaining (@ 14/4/11)</b>		<b>16.50</b>	<b>18.50</b>	<b>24.40</b>
Changes in Formula Grant etc	2.1.2	0.00	2.10	4.60
Updated price inflation provision	2.4	2.50	5.00	7.50
Demographics – Demand Pressure Services growth	2.5	0.75	0.75	0.75
Cardboard / Plastics recycling	2.6.1	0.00	1.00	1.00
Waste Recycling contract	2.6.1	-1.60	-1.60	-1.60
Disabled Facilities Grant – loss of capital grant	2.6.2	1.50	1.50	1.50
Carbon Reduction Commitment	2.6.4	0.40	0.40	0.40
		<b>20.05</b>	<b>27.65</b>	<b>38.55</b>

**Current Assumptions within the MTFP 2012/13 – 2014/15**

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
<b><u>Income</u></b>			
Council Tax	0%	3%	3%
Formula Grant	-8.9%	-0.9%	-5.3%
Other non-ringfenced grants	2011/12 figure – continue until 2014/15		
Govt resources for Social Care (PCT)	£3.97m	£3.97m	£3.97m
Council Tax Base	2011/12 figure – continue until 2014/15		
Collection Fund Deficit / Surplus	2011/12 figure – continue until 2014/15		
<b><u>Expenditure</u></b>			
Pay Inflation	0.5%	1.0%	1.0%
Price Inflation			
- Demand Pressured Services	2.0%	2.0%	2.0%
- Other Services (Excluding Contracted Services)	0.0%	0.0%	0.0%
Growth			
- Demand Pressured Services			
- Children's Services / Adult Social Care	£3.2m	£0.0m	£0.0m
- Other Services	£0.0m	£0.0m	£0.0m
Levying Bodies	0.0%	0.0%	0.0%
Contribution to General Balances	£0.0m	£0.0m	£0.0m