

MEETING:	CABINET
DATE:	20 JANUARY 2011
TITLE OF REPORT:	JOINT MEDIUM TERM FINANCIAL STRATEGY 2011/14 AND BUDGET UPDATE 2011/12
PORTFOLIO:	CORPORATE STRATEGY & FINANCE

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To agree the budget and Joint Medium Term Financial Strategy (MTFS) for recommendation to Council on 4 February 2011.

Recommendation(s)

- THAT**
- (a) the attached MTFS including the overall 2011/12 budget be agreed for recommendation to Council; and**
 - (b) a freeze of Council Tax for 2011/12 at 2010/11 levels be agreed for recommendation to Council.**

Key Points Summary

- A set of principles and priorities has been developed, and used to assess all proposals and the resultant service changes.
- On 14 January 2011 Overview and Scrutiny Committee considered a report on the JMTFS and Budget Update; their views will be reported to Cabinet on 20 January.
- The Council will set its Council Tax on 4 March 2011 based on a balanced budget. It cannot budget for a deficit. Any proposals to increase expenditure in one service area must be matched by compensatory reductions elsewhere in the budget.
- The analysis of the provisional local government settlement has confirmed a number of grants have ceased, others have reduced and are now part of the "general" Formula Grant.
- Herefordshire has been adversely affected by funding formula changes.
- The 2011/12 net Budget total is £148.28m.
- A Star Chamber process has been used by JMT to identify and challenge savings proposals

Further information on the subject of this report is available from
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and service pressures.

- The budget makes temporary use of reserves to support concessionary fares and to balance the impact of reductions over the two years financial years of the settlement.
- A budget management reserve is proposed in order to provide adequate financial reserves.

Alternative Options

- 1 Joint Management Team (JMT) has proposed a balanced budget for 2011/12 and this is summarised in the Financial Resource Model (FRM) in the attached MTFS. It incorporates inflation, service pressures and other spending requirements, the financing of which has been identified from within the Formula Grant, service efficiencies & reductions and council tax.

Reasons for Recommendations

- 2 The proposed MTFS, shown in Appendix A, provides a financial planning framework for the next three years.

Introduction and Background

- 4 On 20 January 2011, Cabinet is requested to consider the budget proposals set out in the MTFS, in order to make a recommendation to Council for setting the 2011/12 revenue budget based on holding Council Tax at current levels.
- 5 The provisional Local Government Settlement was announced on 13th December 2010; the key components were:
 - The Formula Grant, which includes Revenue Support Grant and Redistributed Business Rates, is set at £60.125m. It is unlikely there will be changes to this figure when the final settlement is published 20 January 2011.
 - Indicative figures have been provided for 2012/13. This confirms a continuing tightening financial picture for local government.
- 6 The Department for Education has yet to provide an overall Dedicated Schools Grant (DSG) estimate for 2011/12. However, we know that per pupil funding will be £4,723.65 per pupil. The planning total being used by the Council is 22,467 pupils.

Comprehensive Spending Review (CSR10)

- 7 CSR10, announced on 20 October 2010, was largely in line with the anticipated position and this in turn influenced the provisional Local Government Settlement announced on 13th December 2010. In summary CSR10 meant the following for Herefordshire:
 - If local authorities wish to take part in the voluntary scheme, Council Tax in 2011/12 will 'have the tax base funded at a rate of 2.5% in each year of CSR10'. Herefordshire intends to take advantage of this to freeze council tax.
 - By 2014/15, £1bn will be put into Formula Grant for Personal Social Services, meaning total funding for social care, including rolled-in grants, will be £2.4bn; in 2011/12 the addition is £530m. In 2011/12 this is an additional £1.96m for Herefordshire and a further £1.48m in 2012/13.
 - £1bn of funding will be provided through the NHS budget to support joint working between

the NHS and local authorities in the provision of social care. For Herefordshire this is £2.368m, and will be transferred from the NHS against an agreed business case.

- All ring fencing on grants will be removed, apart from a total of nine grants including the Dedicated Schools Grant and a new grant for public health, to be introduced in 2013. For Herefordshire this means we will have only six specific grants.
- The schools budget for 5 to 16 year olds will increase by 0.1% in real terms each year of the Spending Review period; this includes £2.5bn of funding allocated at £430 per pupil in receipt of free school meals. In 2011/12 Herefordshire estimates it will receive just over £1m. Further instalments are expected in future years.
- The number of transport grants to councils is to be reduced; however, councils will gain greater control and flexibility over spending these grants.
- Bus Operators' Subsidy will be reduced by 20%, but the statutory concessionary travel entitlements remain in place.
- The 'New Homes Bonus' will be introduced to 'reward' councils granting planning permission for the construction of new homes, by matching Council Tax receipts for each new home built for a number of years, with an additional premium added. It is estimated that this will provide £660k per annum.
- The Regional Growth Fund totals over £1.4bn over three years. A panel will assess funding bids from Local Enterprise Partnerships as well as the private sector.
- Revenue grants to local authorities from DfT will be reduced by 28%.
- From April 2011 grants currently paid outside Formula Grant worth more than £4bn, will be rolled into Formula Grant. For Herefordshire this is an estimated £13.55m.
- From 2013/14 Council Tax Benefit (CTB) will be localised. We await details of this change.

- 8 The announcement on 13 December included a significant factor that added to the pressure already faced in 2011/12. This sees the front loading of funding reductions and the profile of reduction is therefore uneven with Herefordshire facing 13.3%, 8.6% and 1.9% reductions for the next three years.

Provisional Local Government Finance Settlement 2010

- 9 The provisional settlement was announced on 13 December 2010 and remains subject to consultation until 20 January 2011. As previously indicated CSR10 and the subsequent provisional settlement form part of the Government's deficit reduction plan. In year savings for 2010/11 have already been made.
- 10 The provisional settlement gives local government greater flexibility to take decisions locally. Restrictions have been lifted on how local government spends its money by removing "ring fences". The intention is to give councils extra flexibility to make decisions about where savings are found. However, this is subject to the usual rules to ensure that capital funding is used on capital expenditure.
- 11 The provisional settlement covers two years (unlike CSR10 that covers the next four years). The shorter time frame is because local government is expected to have a new funding distribution system from 2013. It is anticipated that consultation on changes will commence in 2011.
- 12 The number of specific grants has reduced dramatically. In 2011/12 Herefordshire will receive only six specific grants compared with approximately 70 it received in 2010/11. The majority of funding is now via the general Formula Grant and this has been subject to a significant reduction of £11.008m for 2011/12 when compared with a like for like 2010/11 total for

Formula Grant (plus grants rolled into Formula Grant for 2010/11). In summary this is as follows, and the table shows its impact of the overall savings target:

	£'000
2010/11 Formula grant	57,583
Grants rolled into Formula Grant	13,550
TOTAL	71,133
2011/12 Formula Grant	60,155
TOTAL loss in Formula grant	11,008
Grants reduced or ceased	-2,566
NHS funding transferred to the Council	2,368
Net funding reduction	11,206
Budget no longer required in 2011/12	-904
Total savings required for 2011/12	10,302

- 13 In addition a number of grants have been reduced or have ceased and these total £2.566m. However, £2.368m in NHS funding transferred to the Council to provide support for Social Care. After the removal of changes in budget only valid for 2010/11 the net savings requirement is £10.302m.
- 14 The Council will receive £1.961m as part of the national allocation for Personal Social Services but this is within the 2011/12 formula grant total of £60.155m.
- 15 As part of the Local Government Settlement, the government reviews the funding formula that distributes funding to local authorities. The provisional settlement indicates that the Council has been badly hit by changes to the formula. The net change in grant is £2.7m, with the main variation arising from changes to concessionary travel funding distribution.
- 16 Changes to the funding formula in relation to funding to support concessionary bus fares, has adversely affected Herefordshire.
- 17 The formula grant consultation launched in the summer of 2010 presented 40 options for the transfer, with losses ranging from £1.5m-£3.5m for Herefordshire, based on the 2010/11 settlement. Due to the inherent unfairness of the transfer for unitary authorities we worked with organisations such as SPARSE Rural, the SCT and the LGA to persuade the government of this view. Subsequently, a 41st option was considered, which ensured a zero loss for all unitary authorities. This option was not supported by Government.

Budget and Policy Process

- 18 The authority has been preparing for the funding reduction for some time. In late 2009 there was evidence that the public finances would be reduced to meet the growing national deficit. As a result the process of preparing for the 2011/12 budget commenced as part of setting the

current year's (2010/11) budget. In 2009 Directorates were asked to submit proposals for an anticipated 5% year on year reduction as part of the overall resource allocation framework. This approach used an estimated 15% reduction in government funding over three years that represented a best estimate in 2009 of an approach to address the national deficit. These figures were built into the 2010 Medium Term Financial Strategy (MTFS) agreed by Council in March 2010.

- 19 A series of meetings (Star Chambers) have been held by JMT in preparation for the anticipated financial pressures ahead which challenged proposals for meeting savings targets and financial pressures. Over the same period, Cabinet has met informally to consider the emerging picture. Consideration has also been given to assessing the impact across Herefordshire Public Services (HPS). These preparations were focussed on the anticipated dates of Government announcements.
- 20 The provisional Local Government Settlement was announced on 13 December 2010. This was one of the latest announcements in recent times. The settlement includes a reduction in formula grant funding of £11.008m when comparing a rebased 2010/11 funding position with 2011/12. After taking into account further reductions and allowing for additional allocations of social care funding there is a net funding loss of £11.206m in 2011/12.
- 21 It is proposed that the 2011/12 budget will also include the setting up of a budget management reserve to be held on the balance sheet. In line with current policy the general fund reserve will remain at a minimum of 3% of net budget. This means that the general fund reserve will be £4.5m in 2011/12.

Star Chambers

- 22 The overall budget and policy process is now concluding. The Star Chambers had four key aims:
 - To sign off the ongoing 5% savings previously identified for 2010 and beyond.
 - To review future savings identified in Star Chambers earlier in 2010.
 - To identify further cross-cutting savings from the 'Rising to the Challenge' transformation programme and challenge existing proposals. These are primarily Streamlining the Business (shared services, organisational redesign, office accommodation and commercial strategy), People & Performance (reducing the pay bill, agency spend), Communities First (property review) and Customer Services (replacement CRM).
 - To challenge and review all submitted service pressures.
- 23 The Star Chamber process used a set of core principles and priorities to guide the search for further savings and the necessary service changes. These re-emphasised the need to bring policy based issues to the centre of the process. Given the financial challenge ahead, the following core principles for the future were agreed.

PRINCIPLE	IMPACT
Valued Services	<ul style="list-style-type: none"> • Focusing on what matters to people, core business, stopping things we don't need to do

Cutting Red Tape	<ul style="list-style-type: none"> • Less regulation and bureaucracy, smaller local government
Supporting the Vulnerable	<ul style="list-style-type: none"> • Targeting more resources on individuals, families, communities at risk or disadvantaged; early intervention/prevention
Cutting Costs	<ul style="list-style-type: none"> • Reducing the pay bill; third party spend savings; smarter delivery
Local Delivery	<ul style="list-style-type: none"> • Devolution, role of parishes and the VCS; working through the nine localities
Personal Responsibility	<ul style="list-style-type: none"> • Self reliance, people and communities helping themselves, behavioural change

24 Alongside these principles the priorities to be delivered in the medium term were expressed in the form of the Joint Corporate Plan, which appears elsewhere on the Cabinet agenda.

PRIORITY	IMPACT
A resilient Herefordshire	<ul style="list-style-type: none"> • Preserving our environment and access to the countryside • Promoting access to services in rural areas • Strong voice in the region
Creating a strong economy	<ul style="list-style-type: none"> • Regeneration of Hereford; delivery of ESG • Delivery of key infrastructure for growth • Small business growth: jobs and wages; broadband
Raising Standards for Children & Young people	<ul style="list-style-type: none"> • An affordable education system • Meeting safeguarding standards • Increasing primary school and pupil performance
Improving Health Care and Social Care	<ul style="list-style-type: none"> • Reforming care for Older People • Creation of the ICO: April 2011 • Planning for GP Consortium and Health Promotion changes
Promoting self reliant local communities	<ul style="list-style-type: none"> • A balanced housing market • Reducing fear of crime • Encourage community and parish planning
Commissioning the right services	<ul style="list-style-type: none"> • Streamlining working practices • High levels of customers and citizen satisfaction • A High quality workforce

- 25 The Rising to the Challenge programme is the prime delivery mechanism for the budget saving and organisation change which the proposals represent. Realisation of benefits will be a key focus of this, with individual directors being accountable for delivery.
- 26 Given the provisional settlement only covers two years, more detailed financial planning over the two year period has been conducted based on the Joint Corporate Plan. The settlement announced on 13 December 2010 was worse than anticipated in terms of total reduction and timing of the reductions and therefore required a further phase. This led to the development of a further set of principles to help refine the budget proposals. These principles are as follows:
- Grant reductions and grants that have ceased won't be back-filled and therefore the grant-funded activity will cease with the grant. If the service considers the activity to be critical and therefore wish to continue funding, compensatory savings must be made from elsewhere within the relevant directorate budget.
 - Any growth requirement will need to be self funded by directorates.
 - The additional sums provided for Adult Social Care as part of the settlement and also via Health (on the basis of an agreed business case) will be added to the overall control total for Adult Services. This amounts to £4.329m.
 - There will not be any additional capital borrowing in 2011 apart from meeting agreed prior year decisions that still have a sound business case, any Health & Safety issues or where borrowing commitments cover projects already being delivered. Spend-to-save funding will be made available where a sound business case demonstrates a positive revenue contribution.
 - Inflation at 2% will be applied to budgets, and discretionary fees and charges. An holistic review of fees and charges, as part of the emerging income policy, will be undertaken in the coming months; any future decisions arising from that review regarding levels of fees and charges will need to take account of consequent implications for the overall budget.
 - Savings proposals identified for 2012/13 to be reviewed to assess if these could be brought forward.

Budget Setting Principles

- 27 The attached draft Medium Term Financial Strategy includes the Council's financial model. This indicates the amounts built in to meet unavoidable commitments. It also includes reductions to balance the budget. Key points included in the model are as follows;
- a. Inflation: The model includes net inflation of £2.962m. In previous years inflation has not been applied to the budget as part of efficiency savings. This approach is no longer sustainable and therefore inflation is included as part of the 2011/12 budget framework.
 - b. Additional funding for Adult Social Care: The council will passport to Adult Social Care the £1.96m for Adult Services included in the formula grant and the £2.368m of funding from the NHS included in the CSR10 announcement. In order to support the transformation of Adult Services £750k of funding will also go to Adult Services. This will enable a continuation of the activity commenced using the 2010/11 social care reform grant that is now part of general funding in 2011/12. After the provision of inflation the gross addition is £6m.

- c. Shared Services: Funding and savings associated with the Shared Services programme is included in the financial model.
- d. Budget Management Reserve: The potential pressures associated with the reduction in funding will require adequate reserves. The budget will include a £500k contribution to a specific budget management reserve. This will be brought to a level of £1m by the addition of £500k following a review of existing specific reserves.
- e. Change Management Reserve: In 2010/11 a reserve was established to support costs associated with staff reductions. In 2011/12 the annual budget will increase to £1m.
- f. Use of Reserves: Changes to the local government funding formula remove £2.7m of funding in 2011/12. The main reduction affects concessionary fare funding. In 2010/11 gross expenditure on concessionary fares of £1.8m is projected. In order to support concessionary fares' funding it is proposed £1m is temporarily used from specific reserves to ease financial pressure. This demonstrates the benefits of financial planning over more than one year with the sum being repaid in 2012/13 and to be included in the budget for that year.
- g. The council will take advantage of government funding up to 2.5% of council tax increase and this is included in our financial plan. For Herefordshire this is £2.15m;
- h. An additional 0.7% of pay is included for the outcome of the actuary's revaluation of the pension fund;
- i. The front loading of government funding reductions announced in CSR10 is now included in the financial plan.

Savings proposals

28 Savings proposals have been framed within an agreed set of principles. In summary, the proposals can be analysed by directorate or principle as set out in the two tables below.

29 The following tables provide the summarised information by directorate.

	2011/12 £'000	2012/13 £'000	TOTAL £'000
Adult Services	2,649	2,383	5,032
CYPD	1,747	839	2,586
DCX	1,033	853	1,886
Public Health	297	278	575
Resources	576	338	914
Sustainable Communities	2,200	1,092	3,292
Commercial Strategy	1,800	0	1,800
TOTAL	10,302	5,783	16,085

- 30 As indicated in paragraph 13 the overall 2011/12 savings requirement being built into the budget totals £10.302m and can be analysed against the budget principles as follows:

Savings analysed by budget principle	2011/12 £'000	2012/13 £'000	TOTAL £'000
Valued Services	1,925	394	2,319
Cutting Red Tape	729	570	1,299
Supporting the Vulnerable	453	250	703
Cutting Costs	6,743	4,166	10,909
Local Delivery	202	253	455
Personal Responsibility	250	150	400
TOTAL	10,302	5,783	16,085

Financial Management

- 31 It is important that the Council has appropriate levels of reserves at a time of financial challenge. The current policy for the general fund reserve requires it to be 3% of net revenue budget. The total net budget for 2011/12 is £148.8m and will require a general reserve of £4.5m. In addition our non schools specific reserves total £7.87m.
- 32 It is proposed that a specific financial reserve is established following a review of current specific reserves. The reserve will need to be £1m and any future use repaid as part of the budget process. In order to incentivise sound financial management the first call on "repayment" should be the directorate that has overspent in the previous year.
- 33 In 2010/11 the Council spends approximately £1.8m on concessionary fares. It is estimated that in 2011/12 £1.6m is required. Given that changes to the Formula Grant have reduced this funding, steps will be taken to ensure £1.6m will be available in 2011/12. Measure will include temporary use of £1m of the Council's Waste Reserve, with repayment in 2012/13..

Provisional 2012/13 Settlement

- 34 The two year settlement provisionally allocates £54.4m of formula grant to Herefordshire for 2012/13 with a new methodology to be in place for 2013/14. For this reason local authorities have a two year financial settlement compared with the four year timeframe of CSR10.

Joint Medium Term Financial Strategy 2011/14

- 35 The Joint Medium Term Financial Strategy (JMTFS) covers financial years 2011 to 2014. The JMTFS is a key part of HPS's integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities.
- 36 The strategy covers local and national factors affecting financial planning for public services in Herefordshire. Clearly CSR10 features as a key influence on our planning along with the local government finance settlement.

- 37 The Council is required to approve the Treasury Management Strategy Statement (TMSS) and Prudential Indicators. The annual treasury management strategy includes these as part of the budget setting process. Herefordshire's Treasury Management Strategy for 2011/12, is provided at Appendix A and complies with the detailed regulations that have to be followed. The Treasury Management Strategy is a key element of the overall financial management strategy. It supports achievement of several corporate financial objectives, including creating financial capacity within the revenue account as it aims to optimise investment and borrowing decisions.
- 38 The JMTFS contains the council's financial model that has been amended for the provisional two year settlement. As a result the third year of the model has made an assumption about the likely level of formula grant from government. This is because the formula grant will be subject to variation arising from any changes in the local government funding formula that will be consulted upon over the coming year and will come into effect in 2013/14.

HR Implications

- 39 The number of posts (FTE) that would be deleted from the organisation as a result of the budget proposals has been assessed. The current estimate is that up to 250 posts will be deleted from the organisation.
- 40 Reductions in posts will be subject to the Council's existing policies on organisational change and appropriate consultations with individuals and Trade unions representatives.

Legal Implications

- 41 Local authorities must decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on services. Because they decide on the council tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:
- making prudent allowance in the estimates for services; and
 - ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 42 Local government legislation requires an authority's chief finance officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so members will have authoritative advice available to them when they make their decisions.

Risk Management

- 43 Clearly, there is the potential risk that public finances will be in worse shape than assumed by CSR10. The appropriate management would be via further cost reduction.
- 44 The additional risk that may occur is if the services currently supported through former specific grants are no longer funded because of a change in priorities. This would need to be managed over time.

Consultees

- 45 Overview & Scrutiny Committee will consider the draft MTFS and budget proposals at its meeting on 14 January and any comments or views will be reported to Cabinet.
- 46 The Director of Resources has held a seminar for all members, and has met with all Town Councils and a number of Parish Councils. Further briefings are scheduled with Herefordshire Association of Local Councils and representatives of the Business Community.

Appendices

- Medium Term Financial Strategy 2011/14
- Reconciliation between the 2010/11 and 2011/12 budgets.
- Grants ceased for 2011/12

BUDGET 2010/11 TO 2011/12 – Movements

	£M	£M
2010/11 Net Budget		142.844
<i>Block 1: Additional Spend</i>		
Inflation for 2011/12	2.962	
Grants rolled into formula grant	10.832	
Adult Social Services	1.961	
capital financing	0.860	
Addition to redundancy reserve	0.500	
Shared Services costs	0.049	
West Midlands Councils	0.209	
Garrick House move	0.230	
Prior year changes	1.809	
Contingency addition	0.129	
		19.541
<i>Block 2: Additional Income/Budget No Longer required</i>		
Remove 2010/11 addition to Waste Reserve	(0.500)	
Remove 2010/11 funding for LDF	(0.275)	
Remove 2010/11 top ups of Winter Reserve	(0.500)	
Remove losses associated with academy schools	(0.370)	
Council tax freeze grant	(2.150)	
New Homes Bonus	(0.660)	
Reserves additions in 2010/11 no longer required	(1.500)	
		(5.955)
<i>Block 3: Savings required to balance</i>		
Directorate reductions	(4.594)	
Reductions in pay bill	(3.148)	
Shared Services and Commercial Strategy	(2.560)	
		(10.302)
2011/12 NET BUDGET		146.128

GRANTS CEASED***Area Based Grant***

School Development Grant	82
Extended Schools Start-Up Grants	334
Primary National Strategy - Central	115
Secondary National Strategy Central Co-ordination	141
Secondary National Strategy - Behaviour and Attendance	68
School Improvement Partners	108
Education Health Partnerships	55
School Travel Advisers	32
Choice Advisers	20
School Intervention Grant	70
14 - 19 Flexible Funding Pot	48
Sustainable Travel - General Duty	16
Designated Teacher Funding	15
	1,104

Standards Fund

Assessment for Learning (AfL)	122
Communication, Language and Literacy development (CLLD)	65
Early Years/Primary (Foundation)	26
Behaviour & Attendance	29
Primary (MfL) - missing one-third	43
Leading Teachers	10
Targeted gifted & talented support	2
Assessment for Learning AfL	64
Gaining Ground	191
Aim Higher DCSF	179
Key Stage 4 Engagement Programme	58
	789

Other

Cohesion	57
Climate Change	23
	80

The new Early Intervention Grant has already had a reduction of £597k; therefore the total of the above equates to £2.566m.

GRANTS CEASED BUT ROLLED INTO FORMULA GRANT

In addition a number of grants have been rolled into Formula Grant in 2010/11 these total £13.55m but in 2011/12 we assume that these are valued at £10.832m. The list of grants rolled into Formula Grant are as follows:

Grants rolled to Formula grant

Social Care Reform Grant
Stroke Strategy
Aids support grant
Animal Health
Concessionary Fares Special Grant
DfT Revenue Grants
Care Matters White Paper
Child Death Review Processes
LSC Staff Transfer
Adult Social Care Workforce
Carers
Child & Adolescent Mental Health
Learning & Disability Development Fund
Local Involvement Networks
Mental Capacity Act & Independent Mental Capacity
Mental Health
Preserved Rights
Economic Assessment Duty
Supporting People

GRANTS STILL TO BE ANNOUNCED

Stronger Safer Communities
Young People Substance Misuse
Extended Rights to Free Transport
Music Grant
Community Call for Action