ANNEX 1 - MEDIUM TERM SERVICE & RESOURCE PLAN DEVELOPMENT & MAJOR PROJECTS

Development & Regeneration and Project Management

2012-13 until 2014-15

Introduction

This plan sets out the key influences on Development & Major Projects together with the intended approach to service and resource planning.

This plan is one of a series of plans that make up the Council's **Medium Term Service & Resource Plan:**

- **Development & Major Projects** (this plan)
- Resources
- People & Community Services
- Housing, Health & Social Care (this is jointly produced with the PCT)
- Service Delivery (Planning, Transport, Waste, Highways, Libraries, Tourism Leisure & Culture)

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A separate document summarises the main financial assumptions and parameters (See Appendix 4).

The **external and corporate influences** on this plan can be summarised as follows:

- Cuts in public expenditure – this is the second year of the 2010 Government Comprehensive Spending Review – savings have been 'front loaded' and are very challenging
- Changes in Government legislation, regulations and guidance – there are some simplifications and some new scope for local decision making but at the same time radical and demanding changes such as Localism, Planning Reform, new grant funding to support local government (less money and less types of grant), consultation on the return of business rates to local government, new benefits system (the Work Programme, Universal Credits and Council Tax Benefits), Incentives for Growth (New Homes Bonus, Regional Growth Fund, Local Enterprise Partnerships)
- Sustainable Community Strategy and Council Priorities – these are being reviewed by the new administration and will be considered by Council in February 2011.

- Council change programme – this remains a key driver for internal efficiencies and improvements in services to customers to target priorities and needs as well as initiatives to join up services between public agencies

Specifically related to Development & Major Projects is:

- The need to bring forward Housing Delivery in line with the Core Strategy
- The requirement to initiate development to create growth
- The formation of the West of England (WEP) Local Enterprise Partnership (LEP) and the B&NES Enterprise Area
- The aspiration to develop the digital and creative industries
- The need to facilitate the creation of jobs to address worklessness, particularly among young people
- Delivery of the capital programme and promotion of the council's project management system.

Further detail about these external and corporate influences is given in Appendix 3.

Staff Resources & Finances

The services incorporated in this plan are listed below together with related staff numbers. Changes start with this as the base:

	Budget (Net)£m	*Staff (fte)*
Major Projects	*0.560*	*12.2*
Development and Regeneration	*1.026*	*13.8*
Development & Major Projects	***1.586***	***26***

Notes:

(1) Revenue budgets are for 2011/12 - prior to any changes arising from this plan.

A copy of the current draft future capital programme is attached as Appendix 1.

Key Proposed Changes – Years 1 to 3 – 2012/13 to 2014/15

The main national and local drivers for change for the Council and for the Development & Major Projects Services are as set out in Appendix 3.

The **underpinning approach** in Development & Major Projects response to these drivers for change is to:

- Lead a corporate initiative called Development Delivery (specifically the Enterprise Area) supported by Planning and Financing the Future (PFF), that will drive the Growth Agenda for B&NES including Keynsham and the Somer Valley and deliver the Bath Enterprise Area
- Support businesses to grow the number and productivity of jobs in B&NES
- Play a strong role at the West of England Local Enterprise Partnership to maximise the benefits from being part of a strong sub region
- Bring forward integrated regeneration schemes which address the need to mitigate social and economic pressures across the District
- Ensure we maximise the advantages of having 2 local Universities and strong FE colleges to the economy, encouraging innovation and the establishment of start up businesses
- Support the opportunity for expansion of Digital / Creative industries by developing a creative hub
- Support interventions that deliver good quality, modern, business space
- Support and bring forward the development of an appropriate mix and level of housing securing New Homes Bonus
- Support the change programme in developing the Council's commissioning approach
- The local Council funding is essentially no different from the national situation. The budget position will not be resolved only through cuts – growth will be essential. Growth of the Council's income will only come via economic growth and use of NHB, CIL, TIF, fit, etc and therefore the development and economic agenda in D&MP will provide the resources for further Council investment.
- Delivery of capital projects

The Directorate's focus remains on creating the right climate for economic growth within Bath and North East Somerset and on delivery.

The emphasis of the Directorate is on delivering regeneration schemes, capital projects and economic support to businesses and driving the Growth Agenda.

The directorate also will act as sponsor for a range of corporate initiatives and project specific responsibilities including:

- The Development Agenda
  - Bath City Riverside (Enterprise Area) especially Bath Western Riverside SPD area
  - City centre development sites
  - The Public Realm Project
  - Norton Radstock Regeneration scheme and associated economic development
  - Economic Assessments of the Somer Valley area leading to the development of regeneration strategies
  - Keynsham Regeneration,
  - Local Enterprise Partnership (LEP)
  - Housing Delivery
  - Providing project and programme management
  - Developing the role of Intelligent Client in the core council

The Government has introduced its Localism Bill and as part of this approach the Government is now also consulting on future financing of Local Authorities

The scope of the initial consultation is on proposals to allow local authorities to retain business rates, and to explore options for enabling authorities to carry out Tax Increment Financing within the business rates retention system. The Government has already introduced a new way of financing housing growth, though the New Homes Bonus (NHB) and the Community Infrastructure Levy which will apply to new development.

The NHB and the potential for business rate retention mark a radical change in the way local authorities are funded. The consultation claims that any council that grows its local economy will be better off under this new system. Conversely without growth local authority income will reduce as Government seeks to reduce the proportion of funding provided by Local Authority grants.

The opportunity presented by the Bath City Riverside Enterprise Area (EA) is therefore central in delivering our jobs and growth targets and the financing of the Authority.

In addition the Directorate will continue to work to deliver the key objectives of the **Sustainable Community Strategy** includes the following priorities which affect Development & Major Projects:

- Facilitating the development of low-carbon modern business space appropriate for business needs across the District, particularly in Bath City Centre, Midsomer Norton and Radstock and Keynsham, to deliver local jobs as well as local housing

- Bringing forward the development of Bath Western Riverside to deliver more / affordable housing in the centre of Bath
- Facilitating the growth and development of key sector businesses in the District (including creative, ICT and low-carbon technology firms and the independent retail sector), building on the work of the Universities and Innovation Centre, and by supporting the development of key sector networks locally
- The Clean Engergy Agenda Forum

Against the background of the need to drive economic growth for the benefit of the residents of B&NES the Directorate will deliver further efficiencies during 12/13 to achieve the required savings target. Efficiencies have been identified through a review of the structure of the directorate, reducing the levels of management by organising the directorate into 2 main areas:

- Policy and Corporate Initiatives
- Delivery of Capital and Development schemes

Additional savings have been achieved by reviewing the method of delivering inward investment support, reducing the need for external expenditure.

Finances & service impacts

The service impacts of the changes are set out in the attached impact analysis at Appendix 3.

The savings targets for the Directorate for the next 3 years are as follows:

- ***2011/12*** ***£0.125m***
- ***2012/13*** ***£0.095m***
- ***2013/14*** ***£0.076m***

Workforce Planning

An assessment of the Directorate workload and priorities has been undertaken to understand the likely emerging changes of demand for employee skills and staff numbers. This indicates a shifting emphasis in demand for skills is emerging, broadly as outlined below.

Staff numbers

Estimated projections for Directorate core employed staff numbers over next 5 years:

	Base Level 10/11	*11/12*	*12/13*	*Up to 5 years time*
Core staff:FTE	34	26	23	Circa 20

By 12/13 the Directorate will achieve a staff reduction of 32% as a result of efficiencies and reducing or stopping some activities from the base level of 10/11. Further reductions will be required in 13/14 and 14/15 to achieve the target savings however in 11/12 the Directorate has taken on the following additional responsibilities of:

- **Housing Delivery**
- **LEP Interface**
- **Enterprise Area**

The Directorate has been able to meet this additional demand by the use of flexible / task related specialist resources.

To achieve the savings for 12/13 D&MP the following changes to the workforce will be made:

- In total about 3 posts including current vacancies are being removed across the directorate in 2011/12 to achieve the savings in this plan, ready for the start of the 2012/13 financial year.

- As a result of reviewing vacancies, flexible arrangements including the use of agency staff, changes to working hours, early planning and good consultation the number of compulsory redundancies in 2011/12 will be very low.

Staff will benefit from bespoke training and development associated with their changing roles as agreed in the annual Personal Development Reviews (PDR). Staff will also be helped to achieve greater skills to equip them to compete for internal and external roles in anticipation of staff reductions within the department.

Middle managers are benefiting from the development programme designed for them based on the needs arising from the change programme, not least strong and effective leadership during a period of change and staff reductions. Coaching will also be provided.

Change coaches will continue to facilitate and support change in each Division.

Divisional Directors will benefit from continuing leadership development and one to one coaching.

Some of the new/stronger skills requirements are associated with:

- Business planning and financial awareness
- Lean systems thinking as a means of reducing waste in systems and helping improve customer experience whilst increasingly focusing on high priority needs
- ICT Systems training where new IT is implemented such as Agresso finance systems upgrade, e-procurement, & changes to customer relationship management.
- Commissioning skills especially for staff in core roles associated with all the services including strategic roles, assessment of need, consultation, intelligence and research, procurement, community engagement and partnership working.

A review of the use of IT will be undertaken to investigate how this can support the additional workload of the growing Directorate agenda and the resultant complexities of communications.

The reduction in the size of the department will also require Divisional Directors to look closely at other delivery models for their services and to further develop the relevant HR skills to manage redundancies, redeployment and transfers of staff.

The strong position of the Departments' financial management should enable a planned and phased approach to be adopted.

Each service has reviewed its staff profiles to facilitate the above changes. Early retirements will facilitate some of the changes subject to affordability. Flexible retirements and other flexible employment options will be considered. Some compulsory redundancies will probably be necessary but early planning will be used to keep these to a minimum. Staff structures will be reviewed to ensure the core/commissioning roles in the current Departments are clearly defined.

To achieve the necessary changes there will need to be the right programme management in place. The first moves to facilitate change are:

- Appointing change programme managers and setting up project teams for each strand of change activity in the department and to ensure these strands link to the overall corporate change programme
- Use consultancy support only where skills or experience is missing and external support is needed to bring about rapid and effective change – the lean review in Housing Benefits is an example of this approach. The PWC diagnostic was another example. In both cases the approach has been to develop skills in Council staff.
- Restrict recruitment when posts become vacant (a managed recruitment freeze with each vacant post being carefully reviewed before being filled or deleted, and where filled increasingly this will be on a temporary basis with appropriate use of redeployment).
- Designing in more detail the workforce requirements of each Division over the next 3 years to reflect the principles set out herein. Some management re-organisations will be required.

The commitment to equalities will remain as these changes are progressed with the Departments continuing to build on recent improvements in its approach to equalities. Major changes will be properly impact assessed. Worker groups will also be properly involved.

Medium Term Options – 2013/14 to 2014/15

The previous sections set out the direction of travel. It is very difficult to be precise about these two years as there is so much fundamental change. The aim will be to review the medium term plan early in the 2012/13 period and to rebase budgets in the light of the emerging information which will have an impact across the whole of the Council:

- New government grant system and return of local business rates growth to local Councils and new savings targets - albeit these will still flow from the last comprehensive spending review in 2010.
- Agreement of the Core Strategy for land use in the district which affects growth
- Agreement of the new Corporate Plan and Sustainable Community Strategy.
- New local Council Tax benefits system and subsidy arrangements
- National system of universal Credits that incorporates housing benefits and subsidy arrangements
- National funding arrangements for Academies and locally proposed structure of LEA role

- New health commissioning arrangements following the demise of PCT's
- New Police Commissioners.
- New Local Enterprise Partnership investment plan.
- New pensions arrangements following the Hutton review
- Continued need to ensure the growth agenda is sustained

All of the above will take full effect in 2013 except perhaps much of the pensions changes (which may be partially implemented and fully implemented in 2015). This level of change is unprecedented in recent years and of course remains in the context of the financial cuts arising from the public sector deficit. The new grant system and subsidy arrangements make forecasting particularly difficult. However, the default assumption is that a 5% cut in gross expenditure will continue (on average) in each year with no allowance for inflation and restricted pay awards.

Longer Term Options – Years 4 to 10

The longer term solutions are more speculative and will in part be driven by the wider agenda for local government, city regions, demand pressures on social care (with an aging population), climate change issues but also the growth and economic prosperity opportunities arising from an expanding population.

The proposed changes in the next 3 years are radical and will set the agenda for some years to come.

Public expenditure reductions will continue for some years to come. Most of the remaining expenditure cuts will probably be over the next 3 years but after that tight control over public expenditure is likely to need to continue.

The Council's role as an enabler and commissioner so that local people have access to the right services is central to the changes described here. The changes in schools and health and social care alone will radically take this agenda forward over the next 3 years.

Equalities Issues

The equalities impacts of this plan will need to be assessed before decisions on the budget are taken. This will be done as part of the service planning process with the focus on savings costing more than £50,000 and other changes expected to have the most significant equalities impacts.

The savings are set out in full in appendix 3 with some initial indication of impacts.

Approval of this plan

This plan has been considered by the Housing & Major Projects PD&S Panel in November 2011.

The Portfolio holder for Sustainable Development & Major Projects will review it after that so that changes will be incorporated prior to January when service action plans will be considered by the panel.

The various plans will be brought together for consideration by the Corporate Resources panel in February and then Cabinet with budget recommendations made to the February meeting of Council.

Appendices

Appendix 1 - Capital programme
Appendix 2 - Impact of proposed budget changes
Appendix 3 - Key national and local drivers for medium term plans
Appendix 4 - Council's financial context (to follow)
More information about:

The change programme, the existing Sustainable Community Strategy and Corporate Plan can be found on the Council's web site www.bathnes.gov.uk .

APPENDIX 1 – CAPITAL PROGRAMME

Service:	**Development & Major Projects**			
	2012/13	**2012/13**	**2013/14**	**2014/15**
	Draft Budget for Approval £'000	**Draft Budget for Provisional Approval £'000**	**Draft Budget for Provisional Approval £'000**	**Draft Budget for Provisional Approval £'000**
Combe Down Stone Mines (HCA)*	43	tbc	tbc	tbc
Public Realm - Wayfinding	1			
Public Realm - Preparatory Project **		143	tbc	tbc
Public Realm - Union Street/Stall Street		226	tbc	tbc
Public Realm - High Street		325	tbc	tbc
Total	**44**	**694**	**0**	**0**
Funded by:				
Government/EU Grant		43		
Capital Receipts		695		
Unsupported Borrowing				
s106 receipts/3P				
Total		**738**	**0**	**0**

	Corporate			
	2012/13	**2012/13**	**2013/14**	**2014/15**
	Draft Budget for Approval £'000	**Draft Budget for Provisional Approval £'000**	**Draft Budget for Provisional Approval £'000**	**Draft Budget for Provisional Approval £'000**
BWR				
BWR Council Project Team		243	234	234
BWR - Social Housing Grant	1450		1000	1000
BWR - Infrastructure	1000		2200	1800
Total	**2450**	**243**	**3434**	**3034**
Funded by:				
Government/EU Grant		1000	1921	
Revenue				1778
Capital Receipts/RTB		300	579	200
Income from Developers		80	80	315
Unsupported/Corporately Supported Borrowing		1313	854	741
Total		**2693**	**3434**	**3034**

Notes:
* Combe Down Stone Mines budget is dependent on agreement of the final claim figure with HCA.
** The timing of the Public Realm Programme of works is currently being reviewed.

APPENDIX 2

IMPACT OF PROPOSED BUDGET CHANGES

See attached Annex 2

APPENDIX 3

KEY NATIONAL & LOCAL DRIVERS FOR MEDIUM TERM PLANS

National

The public sector is facing severe **financial cuts** over the 4 years starting in 2011/12 - . the Comprehensive Spending Review period. Although these vary between departments, on average these represent 30% or more real cuts after allowing for inflation. This Council faced a 16% cash reduction in funding from Government in 2011/12, will see at least an 8% reduction in 2012/13, and is yet to find out what the reductions will be in the following two years under the new grant and business rates system.

Further financial changes include:

- Removal of ring fencing from most Government grants to local authorities but excluding public health and a simplified schools grant – Most ring fencing of grants have now been removed and many specific grants have been cut. Funding to finance academies is being 'top sliced' from the grant to support the LEA role i.e. the schools grant.

- Incentives such as national funding (£2 billion nationally and £1.6M locally) to encourage better integration between health and social care (with the latter seen as a means of preventing or reducing demands on health). Also real financial implications of not reducing carbon usage (a new carbon tax) and a financial incentive to freeze Council Tax in 2011/12 – These were all implemented last year albeit the funding for health and social care was 'top sliced' nationally and was not new money, however the funding received locally was 'pass ported' to those services in 2011/12 as part of this Council's budget.

- National guidelines will be published for Council Tax increases as part of the Localism Initiative and if exceeded these could trigger a local referendum. The implementation date for this change is not yet announced.

- The funding for local government is being looked at as part of what is known as the Resource Review and was published by the department for Communities & Local Government in July and August. It includes returning business rates growth to local authorities.
    - Those local authorities that grow local business rates more than the average will benefit. However, there is no additional money in the system nationally so the pressures remain.

- Government will continue to set levels business rates using an inflation index as now.
- Much depends on the way the first year of the new system is implemented, how the grant figures are initially set, how any short term impacts on business rates such as from vacated MOD sites might impact etc.
- It is possible this Council will be relatively worse off under the new system in the first few years, later years will depend on how much growth is delivered. We should have greater clarity by the end of 2011 calendar year.

Changes in **Government Legislation** and regulation are a key issue following the national elections and the creation of the Coalition Government with its radical change agenda. Changes include:

- Creation of Academies – creation of new Academies largely free from LA control with immediate effect – schools go through a relatively fast application process that can take only a few months - this is progressing quickly for secondary schools and challenges the way the LEA role should work in future especially as the funding for that role is being removed by Government

- Reform of Health – including demise of PCT's by 2013 and requirement for all delivery functions, including Community Health, to be arms length in 2011/12 – this has now been achieved. Public health will effectively return to the Council as a responsibility from April 2012. The B&NES PCT will become part of a cluster PCT for B&NES plus Wiltshire from April 2012 but may go when a national commissioning body plus GP commissioning fully takes over in 2013.

- Removal of Quangos such as the RDA, creation of Local Enterprise Partnerships (at sub regional level such as the West of England), removal of large parts of the performance monitoring regime, removal of the Audit Commission etc.- the LEP is in place and the RDA has now effectively gone.

- Localism reforms to encourage more local decision making, greater transparency, reform of the way decisions get taken in LA's, local referenda for any excessive Council Tax increases and various 'Big Society' initiatives – this legislation has still to be implemented by the direction of travel is clear.

- Reform of the planning system – new simplified guidelines for planning, greater presumption in favour of development, community infrastructure levy (to replace much of the role of S106 agreements), removal of top down targets in the regional special strategy.

- Tightening of Benefits rules and a radical move towards one unified benefits system (Universal Credit – also in the CSR) over 10 years but with capping of benefits being led by LA's from 2013 as a first move – this remains on target although the concerns about how this will be delivered and the impact on our customers and our joined up front office is increasing

Local

This Council has a Corporate Pan and Sustainable Community Strategy under review. The details will be published for consideration by Council in February. Once set this will guide future priorities and methods for working with key partners.

The existing sustainable Community Strategy has the following priorities:

- The causes and effects of *climate change*
- The impacts of *demographic change*
- The need for *growth*
- *Inequalities* in our communities
- A focus on *'thinking local'*
- The impact of recession on our *economy*

In the meantime the Change Programme remains as an essential way of delivering efficiencies and service change. The programme is quite radical and will see the creation of an improved front office – one stop shops, phone enquiry service and web. This has already begun. Similarly the amount of offices is reducing and better more efficient workplaces are being developed with some space shared with key partners such as health, the police and aspects of the voluntary sector. Better procurement is also delivering savings and the Council is increasingly collaborating with neighbouring authorities in the same market, notably Bristol.

The Council's change programme is constantly reviewed and programme managed. The focus is on

- joining up public services - so that strategic planning, community engagement and customer interaction is simpler and even more effective
- designing services around the needs of individual customers - to remove waste, provide choice and improve customer satisfaction
- meeting the stringent financial challenges - that are facing local government as the major squeeze on public expenditure starts to bite

The work streams are:
:

- Resources
    - customer services (customer contact)
    - strategic commissioning
    - support services future delivery
    - all enabling change programme work

- People & Communities
    - Children's Services
        - Academies
        - Review of LEA role
        - 11-19 Services
        - children's social care
    - Health & Wellbeing
        - public health
        - commissioning role (post NHS reforms)
        - community services - creation of provider arm (Sirona)

With various enablers:

- workplaces/office accommodation/flexible working
- communications and organisational development
- processes and systems including lean 'systems thinking' reviews and ICT
- finance including medium term planning and service prioritisation
- legal
- procurement

The change programme is fundamental to the achievement of some of the council's main efficiency targets and is scheduled to deliver £8M of recurring annual saving by the end of the next 3 years. It has already delivered over £3M so is on target but the complexity of some of the changes does increase as the programme develops. The emphasis will increasingly require cross departmental co-operation.

In response to the growth agenda the Council has progressed its land use planning Core Strategy. This will set the context for future business and residential development in the district.

The Council's revenue budget, use of reserves and capital programme needs to be designed to reflect all of these national and local influences.

APPENDIX 4

MEDIUM TERM SERVICE & RESOURCE PLANS – 2012/13 to 2015/2016

FINANCIAL PLANNING ASSUMPTIONS

1. Context – The Financial Challenge

The Council's Budget for 2012/2013 will represent the second year of financial planning prepared in the context of the Government's Comprehensive Spending Review (CSR) announced in October 2010.

This CSR included a deficit reduction programme with 28% cuts to local authority spending spread over the four year period from 2011/2012 to 2014/2015 with a significant element front loaded to the first two years.

The financial implications for the Council were set out in the Local Government Finance Settlement in December 2010 which showed a 16% cash reduction in funding from Government in 2011/12 and, at least an 8% reduction in 2012/13. The Settlement did not go beyond two years as a result of the significant changes to the grant and business rates system from 2013/2014 although the direction of travel is clear from the CSR.

Since the approval of the Council Budget for 2011/2012, including the three-year Medium Term Financial plans, the Council continues to gain more information on emerging national and local issues which will add to the financial challenges over the medium term financial planning period – these include:

- In response to the health reforms, the establishment of a Social Enterprise in B&NES on 1st October 2011 to continue the delivery of integrated Community Health and Social Care Services.
- A potential significant increase in the funding to finance Academy schools which is 'top sliced' from the Council general revenue grant funding. The Council was already expecting this to rise to £750K in 2012/2013 but this may now increase to over £2.25M.
- A one-off grant will be provided by the Government in 2012/2013 to support those councils agreeing a freeze in council tax.
- Public health responsibility and related services will return to the Council from April 2013, together with an appropriate budget transfer from the PCT.

- National guidelines will be published for Council Tax increases as part of the Localism Initiative and if exceeded these could trigger a local referendum. The implementation date for this change is not yet announced.

- The funding for local government is being reviewed with the intention of returning at least an element of future business rate growth to local authorities. The impact either positive or negative on the Council will depend on the way the new system is implemented and it is possible this Council will be relatively worse off under the new system in the first few years, with later years depending on how much growth is delivered.

- Responsibility for setting Council Tax Benefit returning to local authorities from 2013/2014 with subsidy funding from Government reduced by 10% at the same time.

- Reform of the planning system – new simplified guidelines for planning with a community infrastructure levy to replace much of the role of S106 agreements.

- New proposals for the future of the Local Government Pension Scheme will be brought forward following the Hutton Review.

These issues are reflected within the Budget planning process for 2012/2013 and the supporting medium term financial plans to the extent the impacts can be reasonably anticipated. It should be particularly highlighted that the scale of changes impacting in 2013/2014 makes the financial implications for the Council beyond the next financial year extremely difficult to predict.

2. Summary of Budget approach for 2012/2013

The sound financial management of the Council over the years means it is in a better position than many other councils to face the continuing financial challenges arising as a result of the national economic situation.

The Council Budget currently being developed for 2012/13 recognises the very difficult financial challenge now facing the whole of the public sector and the continuing need to prioritise resources. The Council will do this using the following principles:

- Protecting wherever possible priority front line services especially where these support the most vulnerable
- Maximising efficiency savings and using invest to save as a means to achieve this.

There are no longer the available resources to deliver the full range of services that have been provided in the past. New legislation and demographic changes similarly demand clear prioritisation and new approaches. This increasingly means difficult choices.

The following objectives are being used to help prioritise and will be refined as part of the process of compiling a new corporate plan and sustainable community strategy.

- Promoting independence and positive lives for everyone
- Creating neighbourhoods where people are proud to live
- Building a stronger economy
- Developing resilient communities

The approach also needs to be kept under review and linked to the Government's localism agenda is the need to help communities be more resilient and self-sustaining.

There are service specific growth pressures that need to be addressed including impacts of national policy changes. The most significant of these include:

- National increase to the funding 'top sliced' from local authorities to fund Academy schools.
- Rising elderly population placing significant demands on Adult Social Care and Health services.
- Increased demand from adults with learning difficulties.
- Increased demand for Childrens care services.
- Inflationary costs particularly for care placements and external service contracts.
- National increase in the rate of the landfill tax.
- Local impacts of the economic downturn and increasing competition.

Taking account of the reductions in government grant funding and the pressures outlined above suggests that around £12m of budget savings will be required in 2012/2013.

It is anticipated that the majority of these savings will be delivered from efficiencies through service review and the Council's change programme. However, the scale of the projected savings in 2012/2013 coming on top of those delivered in 2011/2012 is such that the Council will need to prioritise services and whilst every effort will be made to protect frontline services, this will inevitably lead to cuts in service areas which are considered lower priority.

In the medium term the need to strike an appropriate balance between the diminishing resources available to the Council and the demands placed on all its services will require an even greater prioritisation of services.

3. Council Tax

On 3rd October 2011 the Government announced the provision of one-off funding to support councils who freeze their Council Tax for next year at the current level (i.e. a zero increase). The Cabinet currently expect to be in a position to make recommendations for a zero increase in Council Tax for 2012/13 to Council in February 2012 as part of the 2012/2013 budget setting process.

4. Government Grants

The Council currently receives approximately £43.5m in formula grant from the Government which is distributed using a complex formula known as the Four Block Model. This formula includes significant weightings attached to deprivation based indicators across a range of specific service blocks

The Council has historically lost significant funding (around £2.5m per annum) from its formula grant settlement through the application of the damping system or, in layman's language, the protection by Government of other authorities who should be getting less on a needs basis than they currently are. For 2012/2013 the level of damping is expected to be £2.3M.

Whilst a reduction in formula grant of at least 8% is anticipated for 2012/2013, following a recent consultation by the Government in respect of the funding for Academy Schools, we are anticipating a further significant adjustment to this grant when announced towards the end of 2012. Our modelling indicates that a potential significant increase in the funding which is 'top sliced' from this grant funding. The Council was already expecting this to rise to £750K in 2012/2013 but this may now increase to over £2.25M.

As set out in Section 1 above, this funding distribution method for local government finance is being reviewed with the intention of returning at least an element of future business rate growth to local authorities. The impact either positive or negative on the Council will depend on the way the new system is implemented and it is possible this Council will be relatively worse off under the new system in the first few years, with later years depending on how much growth is delivered.

In addition the Council receives a range of specific and area based grants directly supporting activity in each service area. These grants were simplified but subject to significant reductions during 2010/2011 and 2011/2012. The ring fence around many of the grants was also removed therefore offering more local choice albeit within tougher financial constraints.

Whilst some small further reductions have been factored into specific service areas within the Medium Term Service and Resource Plans, the assumption for financial planning purposes will be for any further cuts in specific and area based grants will be contained within the relevant service areas. High levels of further cuts in specific grant are not anticipated.

5. Medium Term Service and Resource Plans

The Medium Term Service and Resource Plans prepared by each service area provide for the anticipated level of savings required to ensure the Council is in a position to consider a balanced Budget proposal for 2012/2013. Savings in excess of £12M are estimated for 2012/2013 at this stage equating to over 5% of gross expenditure (excluding schools).

Due to the changes in the government grant funding system for local authorities from 2013/2014 and the significant range of additional changes impacting from this year, it is extremely difficult to forecast future savings requirements. The implications for local authorities set out in the Comprehensive Spending Review together with the potential impacts of these changes do indicate the potential for significant financial pressures in future years.

The comprehensive spending review indicated a further 1% cut in funding for local Government in 2012/13 and a 5.6% cut in 2014/15.

6. Reserves

The budget for the current financial year 2011/2012 provides for the Council's General Fund Balances to be maintained at their risk assessed minimum level of £10.5m. There are no assumptions to change this position.

A range of Earmarked Reserves are maintained by the Council for specific purposes and commitments. The likely commitments against each of these reserves will reviewed as part of the ongoing development of the Budget for 2012/2013.

The Council's reserves position remains relatively strong but can only used once, with the overarching principle of not using reserves to provide support for recurring budget pressures.

7. Pensions

The most recent actuarial review as at 31 March 2010 concluded a number of positive factors which did not require any significant variation in the Council's employers contribution level overall. These factors included:-

- The Avon Pension Fund investments have performed relatively well albeit since that review investments generally have been volatile and affected by poor stock market performance.
- The Government has switched the rate for future pensions increases from the Retail Price Index (RPI) to the historically lower measure of the Consumer Price Index (CPI).
- A national review of public sector pensions schemes is being undertaken by the Government (the Hutton Review).

The outcome of the actuarial review was factored into the Budget for 2011/2012 and whilst no change was provided for in terms of the overall contribution level for the Council, the implications of a reducing workforce may require a further adjustment by the Council to maintain this neutral cash position from 2012/2013 or subsequent financial years.

8. Pay Awards

In accordance with national government expectations for a public sector pay freeze continuing into 2012, no provision for pay increases will be provided for financial planning purposes in developing the 2012/2013 Budget.

9. Other Assumptions

Some of the other key assumptions being used in the development of the medium term plans include:

- No further provision has been made for retrospective or additional cuts to the Government funding levels announced in the 2011/2012 financial settlement.
- Balanced budgets are delivered for 2011/2012 - there is no provision for overspending.
- No general provision for inflation has been made although services have provided for known specific costs pressures.
- Interest earnings are based on a 1% return – the average Council investment return has fallen in recent years to just over 1%. No increase is now expected going forwards into 2012/2013.

10. The Local Government Finance Settlement 2012/2013

The Local Government Finance Settlement is expected in early December 2011 and this will provide the detailed position for the Council in terms of exactly what Government funding it will receive for the year ahead. We expect this to include confirmation of any further reduction in grant funding to finance Academy schools as set out in Section 1.