

MEDIUM TERM SERVICE & RESOURCE PLANS – 2011 to 2015**FINANCIAL CONTEXT****1. Background**

The Council's Budget for 2011/12 is being developed against the backdrop of the UK's biggest public sector deficit since the Second World War following the deepest recession since the 1930's. In the 2009-10 financial year, the budget deficit reached £157bn, meaning the Government had to borrow £1 in every £4 it spent.

Some immediate steps were taken by the Coalition Government in the June 2010 budget to reduce the deficit by some £6bn in 2010/11 with approximately 21% falling on local government. For B&NES this meant a cut of £1.8m per annum in revenue funding (equivalent to 2.5% on Council Tax) and a £1.8m reduction in capital funding alongside notice that Coalition Government funding of other critical B&NES capital schemes was to be reviewed. The savings in 2010/11 have been taken by the Coalition Government but the costs of implementing the savings (including redundancies and meeting contractual commitments) have fallen to B&NES and have required additional efficiencies and / or cuts of over £800k beyond the headline figures quoted.

In terms of tackling the significant ongoing budget deficit, the Chancellor set out the Coalition Government plans in the Spending Review on 20th October. This deficit reduction requires big cuts to public spending with reductions in both revenue and capital support to councils.

2. The Comprehensive Spending Review 2010

As expected, the CSR imposes a very tough four year national settlement on councils. The funding reductions for councils are larger than those for police, the NHS, and for many government departments.

Formula grant funding is a 22% cash reduction over four years. However this total includes grants and new funding streams that have been transferred into formula grant. When we strip all of this out the actual cash reduction appears to be just over 29% with a significant front loading in 2011/2012.

There is specific financial provision for a council tax freeze in 2011/12 equivalent to a 2.5% increase.

Schools funding is roughly stable although this includes the pupil premium funding of £2.5bn.

Transport capital funding is only down 11% overall but this includes protection for some very large national schemes so local transport capital likely to be more largely affected.

There is an apparent additional £2bn a year extra funding for adult social care of which £1bn is to come via the NHS.

These numbers are national totals. Actual funding for B&NES will not be announced until late November or early December.

Around 90 current specific and area based grant streams appear at this stage to reduce to fewer than 10. So an extra £4bn will be distributed through formula grant, rather than as individual grants. **This brings a significant distribution risk to B&NES.**

The Council could very easily lose out as grants that were previously distributed on the basis of say population, or pupil numbers, are now to be distributed at least partly on the basis of deprivation factors in the grant formula. As a relatively affluent area, this approach could see the Council losing grant and being more significantly affected than the national totals would indicate.

3. Summary of Budget approach for 2011/2012

The sound financial management of the Council over the years means we are in a better position to face the severe national economic situation than many other councils. Indeed the Council has correctly anticipated the main aspects of the Spending Review and has been planning for up to 30% reductions in funding over the next four years.

The Council Budget now being prepared for 2011/12 recognises the very difficult financial challenge now facing the whole of the public sector. There will be a need to prioritise resources and the Council will do this with regard to the following principles:

- Reflect the Councils already agreed and established priorities.
- Seek to prioritise vulnerable and disadvantaged communities.
- Maximise efficiency.
- Redesign the shape and delivery of services.
- Consider if services are necessary or are being provided at the right level.
- Work even more closely with partners including the NHS, the Police, and the voluntary and private sectors.
- Maintain capacity to manage the changes.

There are also a considerable number of pressures and changes that the Council must recognise and plan for as part of its budget setting process and the most significant of these include:

- Grant funding historically to the value of £2.5M pa below the Government's assessed level of need for B&NES.
- Maintaining the condition of the highways.
- The increasing elderly population placing significant demands on Adult Social Care and Health services.
- Increases in national taxation including employers' national insurance and landfill tax.
- Major changes affecting Adult Social Care delivery including:
 - the establishment of GP Commissioning Consortia (and the withdrawal of Primary Care Trusts (PCTs) by April 2013)
 - the transfer of responsibility for Public Health to local authorities
 - the required transfer of the provider elements of PCTs to other organisations by April 2012 with substantive progress required by April 2011
- Reviewing the Council's role as a Local Education Authority due to impacts of the Coalition Government's Academy school initiatives.

Taking account of the Spending Review and the pressures outlined above suggests that over £30m of service budget savings will be required over the next four years.

The scale of the projected reduction in local government funding is such that it cannot be met by efficiencies alone. There will need to be even greater prioritisation of services and this will lead to cuts in service areas which are considered lower priority.

4. Government Grant

The Council currently receives approximately £41.5m 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 traditionally lost 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.

In addition the Council receives a range of specific and area based grants directly supporting activity in each service area. It is some of these area based grants that have seen an in-year cut as outlined in section 1 above.

The assumption for financial planning purposes has been a 30% reduction in formula grant and some of these other grants over the next 4 years. This appears to be broadly in line with the Spending Review.

5. Medium Term Service and Resource Plans

To accommodate the anticipated level of savings required by the Council to both the reductions in government funding and the significant cost pressures we will have to meet, each service block has been given a cash savings base target and stretch target for 2011/12 of about 5% and 10% respectively (based on gross spend – the figure based on net spend is about double this percentage).

The Specific Savings Targets for each Service Area are set out below:-

Directorate	Cash Limit B/F £m's	Total Growth £m's	Base Cash Limit 2011/2012 £m's	Base Savings Required 2011/2012 £m's	Memo Stretch Savings Required £m's
Service Delivery	28.3	2.5	27.6	3.2	2.7
Children's Services	24.2	0.4	23.2	1.4	2.2
Adult Social Services and Housing	52.8	2.9	51.6	4.1	3.1
Resources & Support Services	8.2	0.4	6.9	1.7	1.9
Development & Major Projects	1.9	0.3	1.8	0.4	0.1
Total	115.4	6.5	111.1	10.8	10.0

Actual savings requirements for 2011/2012 and future years will be reviewed in light of the Local Government Finance Settlement once it is announced by the Government later this year (early December 2010).

6. Council Tax

The Spending Review included an announcement of financial support for Councils who freeze their Council Tax for next year at the current level (i.e. a zero increase). This financial support is based around an assumed 2.5% increase.

A 1% increase in Council Tax generates approximately £800K.

7. Reserves

The budget for the current financial year 2010/2011 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 were established as part of the 2010/2011 Budget Report in February 2010 as follows:

- Medium Term Financial Challenge Reserve - £2m
- Restructuring Reserve - £2m
- Affordable Housing Reserve - £3m

In addition to this, the existing earmarked reserve for prospective employer pension cost increases (£3m) may not now be required in light of the actuarial review (see Item 8 below) and the underspend from 2009/2010 of £2.3m remains within the Revenue Budget Contingency Reserve.

The Council's reserves position is therefore relatively strong but can only be used once, avoiding support for recurring budget pressures for any significant period.

In light of the current financial challenge reserves should be viewed in the context of the future restructuring and change costs likely to be incurred.

8. Pensions

The last actuarial review dated 31 March 2007, required a relatively small increase in employers contribution from 16.4% to 17.5% at a cost of £654K. This was implemented from 1 April 2008 in full.

Work on the latest actuarial review as at 31 March 2010 is nearing a conclusion and a number of positive factors indicate that the overall findings will not require any significant variation in the contribution level overall. These factors include:-

- The Avon Pension Fund investments have performed well.
- 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 will be factored into the Budget for 2011/2012 and whilst no significant change is expected in terms of the overall contribution level for the Council, the implications of a reducing workforce may require changes to the employer percentage of payroll to maintain this neutral cash position.

9. Pay Awards

The costs of pay awards have been included to reflect the pay freeze announced by the Government as part of the Emergency Budget in June 2010. This provides for a small increase for the lowest paid element of the workforce with all other salaries receiving no annual increase for 2011 or 2012.

For financial planning purposes a 1% increase has been assumed for 2013 and 2014.

Services are having to absorb a 1% increase in pay due to higher employers National Insurance contributions in 2011/12.

10. Other Assumptions

Some of the other assumptions being used are:

- No further provision has been made for the Government's in-year cuts in 2010/2011. All costs and related actions are assumed to be fully met in the current year.
- Balanced budgets are delivered for 2010/2011 - 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 2% return – the average Council investment return has fallen in recent years to just over 1% in September 2010. This is now expected to increase going forwards.

11. The Local Government Finance Settlement

The Local Government Finance Settlement is now expected in early December 2010 and this will provide the detailed position for the Council in terms of exactly what Government funding it will receive for the year ahead.

The Spending Review announcement covered the four year period to 31 March 2015 although at this stage it is not clear if the Local Government Finance Settlement will provide information for this full period.