APPENDIX 2

MEDIUM TERM SERVICE & RESOURCE PLANNING ASSUMPTIONS 2011/12 to 2014/15

1. Background

This Appendix sets out the specific assumptions that have been made in the development of the Budget for 2011/2012 together with the Medium Term Service and Resource Plans for 2011/2012 to 2014/2015.

As with any assumptions these are based on the data and information available at the time and it is anticipated these assumptions will need to be reviewed and revised over the medium term financial planning period.

2. Government Grant Funding

Background

The Council currently (2010/2011) 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.

The Public Sector Financial Challenge

The Council's Budget and Medium Term Service and Resource Plans for 2011/12 were 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.

Anticipating the impact of this at the start of the Budget process in June 2010, the Council assumed funding reductions of up to 30% over the four year period 2011/2012 to 2014/2015 to coincide with the expected period of the next Comprehensive Spending Review. This was the basis upon which the original cash limit targets were set for the medium term fiancial planning period.

In-Year Cuts
The Budget for the current year 2010/2011 marked the end of the funding settlement made as part of the Comprehensive Spending Review in 2007 and with weak economic conditions and an increasing national budget deficit it was clear that the next Spending Review Period from 2010 would present a significant financial challenge to the public sector.

The scale of that challenge began to emerge when the new Coalition Government announced significant in year budget cuts as part of its emergency budget in June 2010, with the Council having to find savings of £1.8m per annum in revenue funding and £1.8m in capital funding within year. In addition the costs of implementing the savings (including redundancies and meeting contractual commitments) fell to the Council and required additional efficiencies and / or cuts of over £800k. These have all been met within the overall approved budget for 2010/2011.

Comprehensive Spending Review 2010
In terms of tackling the significant ongoing budget deficit, the Chancellor set out the Coalition Government plans in the Spending Review on 20th October 2010. This deficit reduction programme indicated 28% cuts to local authority spending over the Spending Review period from 2011/2012 to 2014/2015 with a significant element front loaded to the first two years 10.7% in 2011/2012 and 6.4% in 2012/2013. In addition, funding for infrastructure such as school buildings, roads and transport was reduced by 45% on average.

The Local Government Finance Settlement
The Provisional Local Government Finance Settlement was announced by the Coalition Government on 13th December 2010 and set out the specific level of national funding for the Council going forwards. The key elements of this announcement for the Council were:-

- Formula Grant reducing by 13.5% in 2011/2012 and then by a further 8.3% in 2012/2013.
- A new two level damping system was introduced with the Council first being placed into one of four groups based upon it's reliance on government grant. The Council was deemed to be amongst the least reliant on government grant and so placed in the lowest group. All councils in this group faced larger grant reductions. The second historic damping system remained with the Council losing a further £1m compared to its assessed level of need.
- A financial settlement for only two years and not the full four years covered by the Comprehensive Spending Review. This will enable a wider review of Local Government Finance to be conducted by the Coalition Government during 2011.
- A number of grant funding streams and adjustments made to the Formula Grant Baseline which includes a reduction of £475k as a result of the impact of Academies, a reduction of £300k for transport funding, including bus subsidies and a reduction of £620k in the funding for concessionary fares.

- Discontinued and reduced specific grants totalling £2.5m together with the future of a further £3m of specific grants yet to be announced.
- Capital grant reductions of 50% for the local transport plan, continued uncertainty over major capital scheme grants and the discontinuation of Private Sector Housing Renewal Capital Grant of approx £600k.
- Recycled funding within Formula Grant to provide funding for pressures facing Adult Social Care – estimated at £1.6m for the Council. Additional non-recurring funding to also be directed via Primary Care Trusts for Health and Social Care estimated at £1.9m for 2011/2012.
- Reference to funding for a New Homes Bonus Scheme which will provide funding for new homes brought into use and included in the Council Tax Base. This funding has yet to be confirmed but provisional estimates for the Council indicate an amount of £600k for 2011/2012.

3. 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 are determined as part of the final stages of the Budget setting and resource prioritisation process.

4. Council Tax

The Finance Settlement included provision of financial support from government for councils who freeze their Council Tax for next year at the current level (i.e. a zero increase). The financial support will be payable in the form of a un-ringfenced grant, Section 31 Grant, for a period of 4 years. This grant is based around an assumed 2.5% increase.

The Council tax assumptions for purely planning purposes are as follows:-

2011/2012 – utilise Section 31 Grant
2012/2013 – a 2.5% increase
2013/2014 – a 2.5% increase

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

5. Reserves

The risk assessed level of the Council's Unearmarked Reserves is £10.5m based on updated robustness statements.

The Unearmarked Reserves can be utilised for invest to save projects provided they are repaid within 3 years and do not fall below the minimum level of £6m.

Earmarked Reserves as set out below are assumed to be fully allocated to support the Council change programme, severance costs, affordable housing and identified funding risks.

- Revenue Budget Contingency - £4.054m
- Pensions Reserve - £3.082m
- Medium Term Financial Challenge Reserve - £3.607m
- Restructuring Reserve - £2.000m
- Affordable Housing - £3.000m

The Council's reserves position is relatively strong and places the Council in a good position to meet the financial challenges ahead. Reserves can only used once and should avoid support for recurring budget pressures for any significant period.

6. 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 has reached a conclusion and a number of positive factors indicate that there is no variation in the cash 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 review has recognised the likely decrease in the future payroll level of the Council so will be switching the future contribution level to be expressed as a cash sum rather than as a percentage of the payroll. This will require the Council to consider further the basis of recharging employer pension contributions to individual services in the future although no changes will be made in 2011/2012.

7. 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 2011/12 or 2012/13.

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

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

8. <u>Other Assumptions</u>

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 a 1% return in 2011/2012, 2% in 2012/2013 and 3% in 2013/2014 and reflects the expectation that the bank base rate (currently 0.5%) will begin to rise by the end of 2011.