

## **2011 / 12 Revenue and Capital Budget update January 2011 (post settlement)**

### **1. Introduction**

- 1.1 The budget report presented to Council on 6 December 2010 detailed funding allocations made in the context of the Medium Term Financial Strategy (MTFS), assuming a reduction in Government grant of 5% year on year, with a Council Tax freeze for each of the next three years.
- 1.2 At the time of publishing the December '10 draft budget report, we were awaiting details on the final settlement for Plymouth City Council along with details to the significant changes anticipated to specific grants, both revenue and capital, which would have a material impact in certain service areas.
- 1.3 This update report provides details on:
  - a) Corporate adjustments and their impact on departmental budgets;
  - b) Details of the Settlement for Plymouth City Council and its impact on revenue and capital allocations;
  - c) Recommended changes to revenue and capital target budgets, (accounting for the settlement), to be considered through the scrutiny and consultation process.
- 1.4 The Council received details of its provisional local Government settlement on 13 December 2010.

### **2. Corporate Items budget & adjustments to departmental budgets**

- 2.1 The December 2010 draft budget report identified the need to account for the following corporate adjustments:
  - a) Virements undertaken during the period Sept to 31 December 2010;
  - b) Final allocations re: revenue costs of job evaluation;
  - c) Final allocations re: revenue impact of housing stock transfer;
  - d) Pay award allocations of £250 for lower paid workers;
  - e) Changes to employer superannuation contributions rates.

In addition to this, there are some minor adjustments required for changes to National Non Domestic Rates and Insurance budgets.

## **Budget virements**

2.2 The draft target departmental budgets need to be adjusted for all virements that were actioned during the last quarter of 2010. These adjustments have no impact on the overall net revenue budget for the year. Most virements are contained within individual departments. The key movement of revenue budgets across departments are:

a) £576k to Children & Young People. This relates to a the transfer of the Private Finance Initiative residual costs from the corporate items budget

b) -(£782k) Corporate Items. Main areas relate to the transfer to Children & Young People as specified above, -(£100) moved to Corporate Support in relation to the Local Environment Fund, -(£250k) contribution for the City Development Company moved to Development and £66k insurance adjustment from Community Services in relation to fleet & garage insurance premium (adjusting the budget to meet with actual commitments)

c) -(£66k) Community Services – adjustment to fleet and garage insurance premium as specified under corporate items

d) £250k Development & Regeneration – previous City Development Company budget as specified under corporate items

## **Revenue costs of Job Evaluation**

2.3 The corporate items budget includes a transfer from reserve of £1.297m to meet the revenue costs of successful Job Evaluation (JE) appeals. This reserve account has now been exhausted, however the revenue cost is on-going. The finance and performance monitoring report to Cabinet on 10 November 2009 stated that 'from financial year 2011/12, the JE contingency provision will be exhausted and departments will be expected to contain any increased costs within their departmental target budgets'.

2.4 The departmental target budgets include 6 months funding for staff subject to pay protection. Pay protection ended on 1<sup>st</sup> October 2010, and departmental salary costs will therefore reduce accordingly. Appendix A shows the salary 'savings' across departments, totalling £0.177m for 6 months. It is recommended that departmental targets be adjusted for the £0.177m. This will leave a sum of **£1.120m** to be balanced within corporate items.

## Revenue implications of Housing Stock Transfer

- 2.5 An additional revenue allocation of **£0.947m** is required for 2011/12 over and above the currently allocated £2.5m to meet ongoing costs relating to the stock transfer.

## Pay award allocation for lower paid workers

- 2.6 The Local Government pay award for 2010 announced a pay freeze across all salary bands with the exception of those workers who earn less than £21k per annum. A corporate allocation of £250k was set within the 2011/12 revenue budget to meet the cost of these pay increases. As the exact breakdown of these costs between departments has not yet been clarified, the £250k budget allocation currently remains within corporate items.

## Changes to employer superannuation rates

- 2.7 Our current employer contribution rate for superannuation is 19.4%. Pensions are administered on our behalf by Devon County Council. Independent actuary reviews are undertaken on a three year basis to determine the appropriate employer contribution rate required by each individual council to meet with the known liabilities attributable to the scheme.
- 2.8 At the time of publishing the draft budget papers we were awaiting an updated actuary review. Expecting a significant increase in employer rates, we allocated a provisional increase of 1%, amounting to **£1m extra revenue**.
- 2.9 Confirmation from the actuary review in December '10, has recommended that the council should maintain its existing employer contribution rate at 19.4% over the next three years, hence releasing £1m back into the corporate items budget.
- 2.10 However the independent actuary has based his projections on current staffing levels and anticipated cash flows into the Pension Fund. Should contributions reduce as a result of reducing head count due to staffing reductions, we would have to make a top up payment to the Pension Fund at the end of the three year period. Initial calculations indicate that this could amount to a significant sum of several £ms.
- 2.11 The council needs to effectively plan to meet the costs of any such shortfall at the end of the three year period (2013/14). An existing pension reserve was created at the end of 2009/10 financial year which currently has a balance of £238k. It is recommended that further top ups into this reserve are considered as part of the annual closure of accounts. It may

## Pay award provision within the MTFS

- 2.12 Our Medium Term Financial Strategy accounted for a 1% staff pay award increase for each of the three financial years. The Corporate Items target budget currently includes £1.101m transfer to reserve resulting from last year's staff pay freeze. This transfer was added to the redundancy reserve.
- 2.13 In line with previous years, it is proposed that transfers to reserves be reviewed annually as part of the end of year process. This would enable **the £1.101m** to be removed from the Corporate Items target revenue budget.

## National Non Domestic Rates and Insurance Premiums

- 2.14 There have been some minor changes to actual commitments on NNDR and insurances compared to the budgets that are currently held within departments. Adjustments will be made to all departmental budgets to ensure that revenue budgets reflect true costs in 2011/12

## Overall impact on Corporate Items and departmental budgets

- 2.15 The recommended changes to the Corporate Items budget, considering the issues as detailed in this section are summarised as follows:

	<u>£000</u>
Final adjustment on Job Evaluation appeal costs	1,120
Final adjustment on removing Stock transfer budget shortfall	947
Remove requirement for 1% superannuation increase	(1,000)
Removal of transfer to reserve from pay award	(1,101)
Balance to add back to corporate items	<u>34</u>
<b>Overall Impact of adjustments</b>	<b><u>0</u></b>

- 2.16 The overall impact on departmental target budgets as a result of transfers to and from Corporate Items will not be material with £219k in total moving from Corporate Items to departments for increased NNDR costs, £125k

- 2.17 There will be no future adjustments required in relation to either the revenue costs of housing stock transfer or job evaluation variations as these have been addressed in full within the 2011/12 revenue budget setting.

### **3. Impact of the Settlement 2011/12 and 2012/13**

- 3.1 The Government announced the results of its comprehensive spending review covering the period 2011/12 to 2014/15 on 20 October 2010. The announcement outlined the various Government Department's spending plans for the four year period 2010/11 to 2014/15.
- 3.2 The review set out a real terms reduction of 28% in local authority budgets over the next 4 years. The fall in grant equated to more than 7% a year in real terms and was to be front loaded. In addition reductions averaging 9% were to be made to other Government Department budgets, with further pressures expected to flow through to Local Government in terms of a reduction in departmental specific grant allocations.
- 3.3 In terms of capital, reductions of 45% for local authorities were forecast over the period, compared to 29% over the whole of the public sector.

#### **Key headlines of 2011/12 Settlement**

- 3.4 The actual impact of the CSR for local authorities was not known in detail until the just detailed announcement on 13 December 2010 when the Secretary for State for Communities and Local Government made his statement to Parliament on the provisional Local Government Settlement for the two years 2011/12 and 2012/13. Further details have been and continue to be released.
- 3.5 This announcement stated that Council's would face an average reduction of 4.4% in 2011/12 and that no local authority would experience a decrease of more than 8.9% in 2011/12 or 2012/13 as a result of grant reductions. However, the comparative figures relate to 'local authority spending power' a new definition used by the Government which encompasses an individual authority's:
- Council Tax Requirement
  - Formula Grant
  - Specific grants within Aggregate External Finance
  - NHS funding for social care

3.6 The settlement this year is particularly complex, in that:

- a number of specific grants have been rolled into the formula grant,
- Area Based Grant (ABG) has been abolished,
- several new grants have been created,
- new funding arrangements have been put in place between the Council and Health
- floor dampening has been maintained to smooth the impact of funding reductions on specific councils

However, with the exception of the Dedicated Schools Grant, the ring fencing of grants has been removed giving us greater flexibility to be able to allocate revenue resources to corporate priorities.

3.7 CLG also published the distribution of other grants from Government Departments to local authorities, with the most significant being:

- Early Intervention Grant from the Department of Education
- Learning Disabilities Grant from Department of Health
- Transfer of funding from NHS to support 'adult social care for the benefit of health'
- A Council Tax freeze grant to reimburse those Council's implementing a council tax freeze in 2011/12
- A transitional grant to protect those authorities facing the largest loss of grant to ensure no authority loses more than 8.9% of its 'revenue spending power'.

3.8 The settlement was for a two year period only. The Secretary of State announced that a Local Government Resource Review will commence in the new year. The White Paper on growth outlined plans for a review of business rates with the intention that in future local government will be able to keep what they collect, the introduction of a new homes bonus (consultation currently ongoing) and plans to change the law so that Council's will be able to borrow against the proceeds of future business rates (known as Tax Increment Funding) in order to invest.

### **Impact on Plymouth City Council**

#### Revenue (GF)

3.9 Plymouth's provisional formula grant for 2011/12 is £112.331m, compared to £106.022m, for 2010/11. However the figure for 2011/12 also includes funding previously received through specific grants and Area Based Grant. A further reduction of 8.9% in formula grant is expected for 2012/13. This will result in the combined formula grant reducing from £112.331m in 2011/12 to £105.196m in 2012/13

- 3.10 When considering the abolition of numerous specific grants, reduction in formula allocation and integration of other grants our overall revenue funding has reduced from £242.018m in 2010/11 to £230.899m in 2011/12 a reduction of £11.119m or 4.59%. However, excluding the Council Tax element of funding, the reduction of central government allocation is 7.6%
- 3.11 Floor dampening, which is the means by which grant increases in excess of a guaranteed minimum are scaled back with resources redistributed to those below the floor, thus ensuring all authorities receive a guaranteed minimum increase. A damping of  $-(12.3\%)$  has been applied to Plymouth which means that we would have received £9.289m more grant if the national damping had not been applied for 2011/12 .

### **Specific and Area Based Grants**

- 3.12 £20.127m of 2010/11 Area Based Grant held as income budgets under Corporate Items has been subsumed into the formula grant in 2011/12. In many cases it is difficult to compare and correlate the specific grant allocation from one year to the next.
- 3.13 There are three specific grants which have been specified as being absorbed within the formula grant which are:

	Grant level in 2010/11 £000
Concessionary fares	1,115
HIV/AIDS	62
Housing Strategy for Older People	<u>180</u>
<b>Total adjustment to target Budgets</b>	<b><u>1,357</u></b>

As these grants were previously treated as income budgets against specific departments, i.e. Development and Regeneration and Community Services, relevant adjustments need to be made to target budgets to reflect that this specific departmental income will no longer be received.

- 3.14 The settlement contains two new funding allocations:
- a) a transfer of funding allocation from the NHS of £3.529m to improve overall health and social care outcomes. We will need to negotiate with Health any relevant conditions that might be attached to this funding transfer;
  - b) a new grant of £2.397m, (at this stage for 2011/12 only), to part fund the lost income from not applying any increase in Council Tax freeze

These allocations are included within the overall revenue resource comparison between 2010/11 and 2011/12. In addition, we have retained

- grants, that meet existing spend commitments, for learning disability transfer from Health, Housing Benefits administration and preventing homelessness
- 3.15 However, there are many grants that have either been reduced, absorbed or abolished all together including:
- a) Overall combined funding for Early Years (specific grants and Area Based Grant), has reduced by £1.7m;
  - b) Further reductions of £0.694m in Children & Young People specific grants including the removal of 'Generations Together', 'Playing for Success' and 'National Challenge';
  - c) Specific grant reductions of £1.4m in Community Services, mainly in relation to the 'Social Care Reform Grant' (£1.2m);
  - d) Reductions of £0.248m in specific grants for Development & Regeneration in relation to 'New Growth Points' and 'Urban Bus Challenge';
  - e) Overall reduction in Area Based Grant being absorbed within the overall formula grant. Difficult to quantify, but thought to be in the region of £2m overall reduction.
- 3.16 **Appendix B** tracks the entire specific and Area Based Grants through to the final allocations. In many cases, Directors have been anticipating a significant reduction in grants and have started to reduce spend in relevant areas accordingly. Spending in areas of grant reductions commenced during 2010/11 with the announcement of in year grant reductions in June 2010.

## **Schools**

- 3.17 A number of specific grants have been rolled into the Dedicated Schools Grant (DSG). This grant remains ring fenced to schools and schools related spend. The authority is still awaiting confirmation of the new pupil premium. The DSG varies based on pupil numbers and whilst the final grant will not be known until confirmation of the October pupil count, the grant remains in line with the current year allocation.

## **4. Capital Programme 2010/11 to 2014/15**

- 4.1 The Indicative Budget report published December 2010 gave details of the 5 year programme, covering 2010/11 – 2014/15 with a forecasted investment of £189.4m.



- 4.2 This spend was scheduled £92.2m latest forecast for 2010/11; £59.9m 2011/12; £22.6m 2012/13 reducing to £7.0m 2013/14 and £7.7m 2014/15
- 4.3 The programme funding includes Capital Receipts £28.3m; unsupported borrowing £28.5m; revenue/funds and S106 monies £10.7m.
- 4.4 The remainder of the funding comprises Single Capital Pot Supported Borrowing £33.3m, and Grants and contributions £88.7m, a combined total of £122m. These are the funding streams directly affected by the Settlement.
- 4.5 Concentrating on 2011/12 and 2012/13, these two funding streams equate to £45m, covering Children's Services £31m, Development £13m and Community Services £1m
- 4.6 In previous published reports, we have stated that the indicative programme for 2011/12 onwards would be reviewed and amended once further details of where funding would be available as a result of the Settlement announcements.
- 4.7 It should be noted that in response to the 2010/11 in-year grant reductions announced in the October Comprehensive Spending Review (CSR), the reductions were applied to the corresponding departments in Plymouth City Council. For example LTP and Education .
- 4.8 A hold was placed on any further commitments against any un-ring fenced funding within the Capital Programme pending the outcome of the December 2010 settlement announcements.

#### **Capital Settlement update**

- 4.9 For transport, there is a two year settlement, with local indicative figures for 2013/14 and 2014/15
- 4.10 For Education, the picture is a little less clear. There is a one year settlement only, with national indicative figures for 2012/13 – 2014/15
- 4.11 The settlement removed supported borrowing, which is a funding stream where the government gives significant revenue support to local authorities to assist with the cost of borrowing (interest and repayments of the capital in future years). This has been replaced by capital cash grants.
- 4.12 The majority of grants, excluding academies and devolved capital, are now un-ring fenced. This gives PCC greater flexibility on how to allocate these funds to meet local priorities.

- 4.13 As outlined in 4.5, the pre-settlement forecasted funding allocation for 2011/12 and 2012/13 amounted to £45.0m
- 4.14 The impact of the settlement is to reduce this value by almost 50% to £24.3m
- 4.15 Building on 4.11 & 4.12, this can be detailed as

**Education    £8.4m 2011/12 plus £7.4m 2012/13 (indicative only)**  
**Transport    £4.3m 2011/12 plus £4.2m 2012/13**  
**Disabled facilities Grant to be confirmed (indicated at 2010/11 level plus inflation = approx £0.8m)**

- 4.16 There is much less certainty over funding for 2013/14 and 2014/15. However, we do have national indicators for education funding. We could base our assumptions that Plymouth's share for these years will be in line with our share of 2011/12 funds.

### **Children's impact and issues**

- 4.17 The settlement is based on a change of focus to grants for "basic need" (provision of sufficient pupil places in schools to meet population needs) and maintenance grants only.
- 4.18 It should be noted we currently have a number of schemes under contract which form a large proportion of the existing programme for 2011/12. We need to see these through to completion.
- 4.19 It must also be noted that the current Children's programme is higher than the revised funding allocation
- 4.20 The published capital programme doesn't cover "basic need", although this area was identified in a report to Cabinet in October 2010. This report covered trends and population growth and the likely impact on future primary places required. Officers are now working on what basic need can be delivered within the funding allocation.
- 4.21 The settlement announced an 80% reduction in schools' Devolved Capital Grant. With less funds available to schools, this will reduce their flexibility to allocate funds to meet their requirements.
- 4.22 To address the impact of the settlement, officers will be studying the funding implications and recommending changes and a re-focussing as required to best meet the city's requirements.
- 4.23 We need to re-direct uncommitted funding to address the "basic need" and urgent maintenance.

## **Development impact and issues**

- 4.24 The current published capital programme for Development, as with Children's, is higher than the revised transport funding allocation
- 4.25 The East End scheme is currently under contract with ring-fenced funding. Therefore this will be able to continue as planned.
- 4.26 The settlement funding is based on a change of focus with a slight increase in capital maintenance, and most significantly a 45% reduction to LTP (Integrated transport).
- 4.27 As with Children's, to address the impact of the settlement, officers are studying the funding implications and recommending changes and a re-focussing as required to best meet the city's requirements.
- 4.28 Going forward, capital maintenance will need to be in essential areas in line with the allocated funding. We may need to consider reallocating LTP (Integrated Transport) based funding to capital maintenance if required.

## **Invest to Save Initiatives**

- 4.29 PCC has agreed a policy which promotes capital "Invest to Save" schemes. Funding will be allocated to schemes where the capital investment will generate revenue savings.
- 4.30 For example, the accommodation strategy has already been approved and generated savings form part of the revenue delivery plans.
- 4.31 Another Invest to Save scheme, with projected savings included in the revenue delivery plans, is the £0.250m investment in a new web management system. This will enable the public to have 24/7 access to the Authority.

## **Other items**

- 4.32 The Settlement has reduced the funding available to PCC, and officers must ensure the funding is directed to projects which best meet the city's priorities.
- 4.33 Together with the reduced grant funding, it should be noted that the existing capital programme has a significant capital receipt funding requirement. This will be particularly challenging at this time, with market valuations of property at depressed levels.

- 4.34 On a more positive note, PCC learnt in late December 2010 that Plymouth, under the revised Building Schools for the Future initiative, had been awarded £19m ring-fenced funding for two academy schools.
- 4.35 We are awaiting clarity on whether these funds will be allocated directly to the academies, or to PCC. If it is the latter, this funding will be included in our capital programme..
- 4.36 We have also received confirmation of indicative funding totalling £0.58m following bids submitted reference flood defence projects. PCC will have final Government Fund Approval late February / early March 2011.
- 4.37 The Flood defence projects cover Cattewater / Oreston Quay sea wall refurbishment; Marsh Mills tidal flood alleviation scheme; Stonehouse Creek tidal flood alleviation scheme and Durnford Street (The Tamar) sea wall refurbishment.

## **5 Summary and Recommendations**

### **Revenue**

- 5.1 Now that we have received more clarification of specific and area based grant allocation, and how this applies to existing spend commitments, we are working up solutions to address the overall funding shortfall which will be finalised by the end of January 2011. This solution will be a combination of the following elements:
- Reduction in spend directly correlating to the area where grant has been reduced (for example, Early Years funding);
  - Analysing and evaluating the flexibility of funding transfers from health compared to transferring spend commitments and funding constraints;
  - Exploring whether further savings can be generated through smarter procurement with external suppliers;
  - Considering potential revenue benefits through restructuring our overall debt portfolio;
  - Analysing grants that have been incorporated within the Dedicated Schools Grant and ensuring that existing revenue spend commitments are transferred accordingly;
  - Progressing negotiations with the trade unions on revised terms and conditions;

- Evaluating likely income obtainable through the new 'Homes Bonus' funding
- Where possible, bringing forward the implementation of 2011/12 budget delivery plans.

### **Capital**

- 5.2 The capital programme needs to be reduced / changed to reflect the funding reductions whilst allowing for schemes already under contract and ensuring we meet the City's priorities.
- 5.3 Officers are working on proposed detail changes to the capital programme to reflect the overall funding shortfall which will be finalised by the end of January 2011.

### **Next Step**

- 5.4 The proposed changes to both Revenue and Capital budgets will be presented within a supplementary budget report to Cabinet on 8<sup>th</sup> February and Full Council on 28<sup>th</sup> February 2011.

**Adam Broome**  
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**January 2011**