2011/12 Updated Revenue and Capital Budget

1. Introduction and Contents

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. The report also outlined the need to account for a number of corporate adjustments, including the impact of budget virements in 2010/11.

1.2 At the time of publishing the December draft budget report, the Council was still awaiting notification of it's Government settlement for 2011/12 along with details of the significant changes anticipated to specific grants, both revenue and capital, which would have a material impact in certain service areas.

1.3 The provisional settlement was finally received on the 13 December 2010, and final figures confirmed on 31 January 2011. Whilst significant year on year reductions had been anticipated, the Council along with all Councils nationally, had not anticipated the reductions to be so highly front loaded. In addition, the rolling in to the formula grant and other changes to a number of specific grant funding streams has made the settlement this year particularly complex, although the removal of ringfencing of many of the grants will give the Council greater flexibility to allocate revenue resources to corporate priorities.

1.4 As a result of the Settlement there is a need to revisit the original budget assumptions. This report outlines a balanced budget in the context of resources available.

1.5 This report builds on the December budget report providing an update on how the Council has allocated its revenue and capital resources across departments and priority areas for 2011/12 to improve outcomes for local people. It is fully linked and underpins the Council's Corporate Plan 2011/14.

1.6 The report also outlines amendments to the Prudential Indicators reflecting proposed revisions to the capital programme. These need to be referred to Full Council for approval.

1.7 The December report included a summary report from each Director outlining the departmental context, progress and investment against challenges and pressures faced and lays out a summary of what the department intends to do to deliver a balanced revenue budget in 2011/12, and the plans for 2012-2014. Detailed delivery plan actions were also outlined. Readers should refer to the original report for this information.

1.8 The December report also outlined how the budget interrelates with the following strategies:

- The ICT Strategy and Investment
- Human Resources and Workforce
- Asset Management Plan

- Value for Money and Efficiencies

1.9 The budget proposals have been subject to wide consultation culminating in scrutiny by the Overview and Scrutiny Management Board on 12 and 17 January 2011. This updated budget report takes into account the recommendations of the consultation process.

1.10 Appendices to this report provide the main detail and delivery plans that underpin the 2011/12 budgets:

Appendix A	Local Government Act 2003, Section 25 Section 1: Analysis of Budget Robustness Section 2: Adequacy of Reserves
Appendix B	Updated Departmental Net Revenue Budget for 2011/12
Appendix C	Fees and Charges
Appendix D	Capital Investment Programme 2010/11 to 2014/15
Appendix E	Prudential Indicators

2. The Medium Term Financial Outlook

2.1 In setting the budget for 2011/12, there is a need to consider the wider implications for the medium term. Although the Comprehensive Spending Review covered a four year period, the settlement announcement gave funding allocations for a two year period only and the Secretary of State announced that a Local Government Resource Review will commence in the new year. In future Local Government funding is expected to move away from a needs based formula towards a greater emphasis on incentivised funding. 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. In addition, the Government has instigated a full review of Public Sector pension provision.

2.2 Our ability for future capital investment in the city to stimulate growth and regeneration has also been reduced following the settlement. The reductions in core funding for the major blocks of Transport, Schools and Strategic Housing have been reduced between 20% and 50%. However it is anticipated that more resources from Central Government may become available from 2012/13 onwards. The capital programme will require robust management to ensure that outcomes are maximised and the impact on the Council’s revenue budget is kept to a minimum.

2.3 The settlement will see a reduction in revenue resources of over £18m over the two year period. This increases when all specific grant funding is taken into account. Against this, the Council face increasing spending pressures moving forward. In addition to the reported increase in the number of children in care and impact of the growing elderly population on adult social care budgets, waste disposal costs for the Council will significantly increase in the coming years, particularly in advance of the planned delivery of the waste to energy PFI scheme. Demand for Housing Benefits and personal finance advice has also significantly increased over the last 18 months, directly linked to the economic situation.

2.4 The Council is not unusual in facing these issues and is prepared for the challenge. The Council will need to take some difficult decisions in the future about what services it does and what services it doesn't provide. The Council will need to continue to radically change shape over the coming years if it is to continue to improve the City and the Council itself. The stock transfer process is a good example of what the Council needs to do more of – working closely with other partners in the public and private sector to provide the best solution for the Council tenants and, in this example, hand services over to another organisation with the resources to dramatically improve the service.

2.5 Despite reducing resources and increasing spending pressures, Plymouth City Council continues to remain ambitious with our future plans. For example, the build of The Plymouth Life Centre will generate significant benefits to the residents of Plymouth. Such projects demonstrate our determination to press on with the regeneration and economic growth of the City in order to achieve our long term vision, meeting long term growth aspirations of 50,000 increased population and more than 40,000 new jobs by 2026.

2.6 The Medium Term Financial Strategy will be updated at the start of 2011/12 to reflect the final budget for 2011/12 and changes required as a result of the settlement and will be kept under review as details of the Local Government Resource Review become known.

3. Priority focus

3.1 As previously reported the Council has reduced the priorities for the City, the Council and key partners to four: deliver growth, raise aspirations, reduce inequalities and provide value for communities. The Corporate Plan 2011-2014 outlines in detail the Council's contribution to the priorities and how it will achieve these over the medium term.

3.2 The aim is to match resources to priorities, moving away from those areas which are "less important" and where we can stop doing things. In 2011/12 the Council will focus on value for communities and the efficiency agenda. Budgets around 'growth' will also be protected.

4. The Local Government Settlement - Revenue Resources

4.1 The provisional settlement was received on 13 December 2010, with final figures confirmed on 31 January 2011. Whilst significant year on year reductions had been anticipated in our financial planning and indicative budget proposals, the Council along with all Council's nationally, had not anticipated the reductions to be so highly front loaded.

4.2 This announcement stated that Councils 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

4.3 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

4.4 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.

4.5 When considering the abolition of numerous specific grants, reduction in formula allocation and integration of other grants our overall revenue funding has reduced from £242.218m in 2010/11 to £231.091m in 2011/12 a reduction of £11.127m or 4.59%. However, the actual reduction in formula grant when adjusted for comparison purposes is 9%.

4.6 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 the Council would have received £9.338m more grant if the national damping had not been applied for 2011/12 .

4.7 The table below summarises the net revenue resource position over the medium term following the settlement.

Figure 1: Revenue resources following settlement

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Council Tax income including collection fund	95.803	95.907	95.907	95.907
Formula Grant	106.022	112.330	105.172	TBC
Net Revenue Budget for Statutory reporting purposes	**201.825**	**208.237**	**201.079**	**TBC**
Area Based Grant and transferred specific grants (for comparison purposes)	21.484	0	0	N/A
Council tax freeze grant	0	2.397	2.397	N/A
Specific grants	18.909	20.457	20.499*	N/A
Total Resources available	**242.218**	**231.091**	**223.975**	N/A
Reduction £m		**(11.127)**	**(7.116)**	N/A
Reduction %		**(4.59%)**	**(3.08%)**	N/A

**HB Admin grant not yet announced assumed at11/12 level for comparision*

5. Revenue Budget

5.1 The proposed budget report in December outlined indicative budget targets to Departments based on initial budget planning and resource assumptions. The report however outlined the need to revisit the targets not least to update for a number of corporate adjustments and budget virements made during the later part of 2010/11. There is also a need to revisit targets as a result of the settlement if the Council is to be able to deliver a balanced budget for 2011/12.

5.2 As a result the following adjustments have been made to the target budgets since the December report:

5.2.1 Corporate adjustments to cover: NNDR, Insurance premiums and fund contributions and JE pay protection.

5.2.2 Changes resulting from the transfer of grant funding to formula grant. As outlined above, the settlement this year has been complex with the rolling in to formula grant of a number of specific grants and the abolition of the area based grant. This has necessitated an amendment to the Departmental budget targets to reflect the removal of income lines from the individual services.

5.2.3 Further reductions and amendments to departmental targets following the settlement to ensure a balanced budget for 2011/12.The front loading of reductions by the Government and the transfers of grant funding, meant the Council was left with further issues to address when comparing departmental targets to the available resources. This shortfall will be addressed by a combination of the following:

- Reduction in spend directly correlating to the area where grant has been reduced (for example, Early Intervention funding);

- Securing savings in interest payable by rescheduling our PWLB debt;

- 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 or speeding up the implementation of existing budget delivery plans, such as the senior management restructure, and procurement proposals;

- Increasing fees and charges on areas where charges are low compared to other authorities on benchmarking analysis;

- Improving housing benefit processes further to generate additional income;

- Finalising negotiations in respect of the Leisure Management Contract

A number of the actions proposed remain commercially sensitive. Indicative figures have been included in within the Corporate Items Budget and have not been disclosed in the detailed delivery plans. Further information on these proposals will be reported in the quarterly monitoring reports as and when negotiations have been concluded and the information becomes available for public review.

Appendix B tracks the movement on the budget targets at a service level.

5.3 The extent of the reduction in resources necessitates a programme of transformation across the whole of the Council. Therefore, target savings have been applied to all departments and services. However, the Council is keen to ensure that the reduced funding does not lead to a drop in the level of service provided in core priority areas. The Council has continued to make tangible improvements to client facing services whilst driving efficiencies throughout 2010/11. This principle underlies the strategy for the budget for 2011/12. The Authority has to direct scarce resources away from the support functions and towards the frontline services, but maintain the ability to provide the necessary level of support, not just for 2011/12 but the coming years.

5.4 The Council had been planning for a reduction in resources as part of the review of the Medium Term Strategy. In order to drive out savings, the Council set up eleven “Theme” budget delivery programmes, which cut across the departments of the Council. Each theme was sponsored by a Director, supported by a team drawn from all areas of the Council. These themes have developed robust, risk assessed delivery plans to underpin the achievement of the 2011/12 budget as well as making good progress towards achieving a balanced revenue position for the 2012/13 and 2013/14 financial years. The departmental delivery plans were outlined in the December report.

5.5 These plans have been subject to a thorough consultation and scrutiny process throughout December 2010 and January 2011, including for the first time the use of a budget consultation tool on the Council's website The results of this exercise together with formal written responses from:

- The Chamber of Commerce
- Police
- Cultural Board
- Third Sector Consortium

were fed into the scrutiny process. A separate report to today's meeting presents the recommendations of the Overview and Scrutiny Management Board.

5.6 The revised budget proposals as contained within this report have been prepared whilst considering the consultation and scrutiny outcomes. Any further necessary changes will be presented to the Full Council meeting on 28 February.

5.7 Revenue Budget Delivery Plans that specify planned action to achieve three year reduction targets were detailed in the December report. Progress against these plans will be incorporated within regular quarterly performance and budget reporting.

5.8 The table below shows the movement in budget resources between the years.

Figure 2 – Net Revenue Budget Comparison across years

	2010/11 *Adjusted Budget £000	2011/12 Proposed Budget Feb 2011 £000	Variance £000	% 'age variance
Children & Young People	49,987	49,383	(604)	(1.21%)
Community Services	111,064	109,180	(1,884)	(1.70%)
Development & Regeneration	17,597	17,074	(524)	(2.98%)
Corporate Support	31,808	27,400	(4,408)	(13.86%)
Chief Executives	1,728	1,509	(219)	(12.67%)
Corporate Items	6,742	3,691	(3,051)	(45.25%)
Totals:	**218,927**	**208,237**	**(10,690)**	**(4.88%)**

** 2010/11 budget adjusted for non recurring transfers from reserves and specific grant transfers for comparison purposes*

5.9 A more detailed analysis of budgets at Service level within each department is shown as **Appendix B** to this report.

6. Review of Fees and Charges

6.1 Councils have powers to charge for a wide range of services. Many of these powers derive from legislation that applies to specific service areas. However under the local Government Act 2003, Council's also have wide powers to charge for discretionary services.

6.2 Fees, charges and rents, will account for around 8% of the Council's income in 2011/12.

6.3 Service managers are expected to review charges as part of the annual budget setting exercise unless a service review has been, or is due, to be undertaken. The underlying principle is that fees and charges should be reviewed annually and uplifted by the rate of inflation (RPI), currently 4.7%, with the exception of services where charges have been implemented or amended to fund services improvements or where benchmarking shows that the Council's costs may be low (or high) in comparison to those charged elsewhere. In deciding whether to increase fees and charges departments continue to have regard to the current economic climate, as well as the impact of the recent increase in VAT from 17.5% to 20%.

6.4 **Appendix C** provides more detail on the increases to fees and charges proposed as part of the 2011/12 budget consideration and for which approval is now sought from Cabinet where appropriate. Fees and charges in some areas remain under review and will be subject to separate approval.

7. Review of Reserves, Risk Management & Invest to Save

7.1 In terms of Reserves, the Council retains a prudent approach to risk management. Our core Working Balance, as at 31 March 2010, at £11.5m is 5.7% of our net revenue budget and remains in line with the Unitary Council average. Our plans are to retain this Working Balance level throughout 2011/12.

7.2 In addition to the Working Balance, the Council holds money in earmarked reserves to meet future spending plans. Specific earmarked reserves are forecasted to reduce to £13.3m at the end of March 2011 and forecasted to reduce further to £10.1m by 31 March 2012. The Council keeps it's reserves under review. The reserves have been updated as part of the budget exercise and the next scheduled review will be in the light of the final outturn position for the year.

7.3 Sections 32 and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no set guidance on the minimum level of reserves that should be held.

7.4 A detailed analysis of the robustness of the budget, considering relevant risks, is detailed in **Appendix A** along with an analysis of actual, and planned, movement across all key Council Reserves.

7.5 Invest to Save

7.5.1 A vital element of effective financial management for future years is our ability to commission, and deliver, invest to save projects that will transform the council, improve services provided to our customers and generate efficiencies in the way in which we work.

7.5.2 A review of all the Council's reserves during 2010/11 has enabled a transfer £2.2m of previously earmarked resources to a new one off revenue Invest to Save Fund.

7.5.3 In addition to revenue, the Council's intention to support capital 'invest to save' initiatives, has been fully reported. At this stage two projects have been approved:

- The Accommodation Strategy £6.45m
- Environmental works at Jennycliff café £0.05m, subject to approval of the revised capital programme.

7.5.4 The business cases for three further projects are being finalised and once signed off by the Corporate Management Team (CMT) will be recommended to Cabinet for approval and inclusion in the Capital Programme:

- Children's Autistic Spectrum Disorder £0.65m,
- Corporate Web improvements £0.25m
- Care First.

7.5.5 The Council will continue its policy of investing both revenue and capital resources in projects which deliver ongoing sustainable reductions to the revenue budget. Officers have been asked to come forward with proposals that can be evaluated by the Capital Delivery Board and Corporate Management before recommendation to Cabinet. They will be assessed against deliverability, payback period, the level of savings achieved and how they fit with the Council priorities.

8. Capital Resources and Prioritisation

8.1 The Comprehensive Spending review indicated a reduction in capital resources of up to 45%, leading to a review of the capital programme. The local Government Settlement on 13 December 2010 confirmed the proposal to remove all supported borrowing, instead replacing borrowing allocations for Transport and Schools by a capital grants only regime. These grants are however in the main unringfenced, although the allocations have currently been allocated to the relevant service area.

8.2 The Council's financial strategy for capital has been to fully utilise the supported capital borrowing allocation available in tandem with maximising the availability of grant and third party payments. This will change to maximising the use of grants following the removal of government revenue support towards capital borrowing, which has been replaced by cash grants.

8.3 The principle that capital schemes are only approved into the programme where specific funding has been clearly identified and supported by business cases is maintained. Thereby, the capital investment programme, at any set point in time, will evidence 100% funding allocation against approved schemes. Capital investment is prioritised to ensure that outcomes are maximised against the council's Priorities.

8.4 The Council continues to challenge the affordability of its five year capital programme for the period 2010/11 to 2014/15. There remains significant volatility around future capital grant funding and income generation through capital receipts. Currently unringfenced grants notionally allocated for Transport have been announced for 2011/12 and 2012/13, with indicative figures for 2013/14 – 2014/15. Grants notionally allocated for Childrens' and Strategic Housing Services have only been announced for 2011/12 with some indicative figures for future years.

8.5 A grant of £0.6m for Flood Defence schemes following a recent grant submission is expected and will be added to the programme following confirmation and internal signed business cases.

8.6 The BSF programme was suspended by the Government in June 2010. However Plymouth has now been awarded £19.134m funding split between Marine Academy Plymouth £8.561m and All Saints Church of England Academy £10.573m. This will be received sometime after March 2011 once plans are agreed with Department of Education. At this stage it is not clear whether the grants will be paid direct to the Academies or through the City Council, but at this stage the funding has been added to the proposed Childrens' Services programme in 2011/12 until the process is clarified The proposed programme following central government funding changes is as follows:

Figure 3: Five year proposed Departmental Capital Programme

	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s	**Total £000s**
Children's Services	30,759	33,412	10,211	-	-	**74,382**
Community Services	20,212	24,007	2,331	-	-	**46,550**
Development & Regeneration	23,828	20,795	5,386	5,160	5,829	**60,998**
Corporate Support/items	2,658	6,987	560	500	-	**10,705**
Total	**77,457**	**85,201**	**18,488**	**5,660**	**5,829**	**192,635**

Figure 4: Five year proposed Funding

	Capital Receipts £000s	Unsupported Borrowing £000s	Supported Borrowing £000s	Grants & Contributions £000s	S106 etc £000s	Revenue and Funds £000	**Total £000s**
2010/11	4,126	12,756	8,089	48,690	1,969	**1,826**	**77,457**
2011/12	19,641	16,251	78	42,642	6,572	15	**85,200**
2012/13	1,459	949	-	15,680	400	-	**18,489**
2013/14	500	-	-	5,160		-	**5,660**
2014/15	-	-	-	5,329	500	-	**5,829**
Total	**25,728**	**29,956**	**8,167**	**117,502**	**9,441**	**1,841**	**192,635**

8.7 The current programme has little new investment showing in years 2013/14 and 2014/15. This will however change as new grant allocations are confirmed for the City. For example, we await confirmation of funding to replace the previous capital grants for investment in Schools etc. Full details of the programme shown at Service and Sub-programme level are included as **Appendix D.**

8.8 The Council remains committed to a significant capital investment programme despite the current economic climate. The Council, engaging with partners in major regeneration of the City, will not only contribute towards delivering improvement priorities, but will also help to sustain much needed work opportunities in the local area (for example, the construction industry). Significant schemes that will be delivered by 2014 include:

- £46.5m on The Plymouth Life Centre;
- £37.5m on the state of the art new college, Tor Bridge;
- £14.2m on improving Schools in the Southern Way Federation;
- £8.6m for a new School at Efford;
- £22m on improving transportation Plymouth (Local Transport Plan);
- £20m on improving transport access in Eastern side of the City Centre;
- £3.88m on bringing Devonport People's Park 'back to life';
- £0.5m on a new Library for Plympton
- £1.0m electrical refurbishment at City Market

Note 1: total project costs, some of which were incurred prior to 2010/11

8.9 In addition, a long term waste disposal solution is being developed with Torbay and Devon County Councils, building a multi million pound Waste to Energy plant, with the Waste Partnership having announced its preferred bidder MVV Umwelt in December 2010. Subject to approval by the three Councils in early February the partnership will be submitting its final business case to DEFRA to secure PFI credit support, prior to signing a long term delivery contract.

8.10 The Council will continue to regularly review the assets that it owns to ensure that they are fit for purpose and optimise the use of capital receipts, where deemed beneficial, in order to support the overall capital investment programme. However, the ability to generate capital receipts has been severely impacted in the last couple of years due to significantly falling land and property prices.

8.11 In reviewing the capital programme as part of 2011/12 budget setting the council has continued to reduce reliance on capital receipt funding, now £25.7m over the five year period. This funding is based on a schedule of specific assets, with current estimated valuations and proposed timing for disposals. Assumptions are that very few assets will be sold over the next three years, with disposals increasing towards the end of the five year programme on the assumption that market conditions will improve.

8.12 The Council has built in the requirement for additional temporary borrowing to cover the shortfall in capital receipt income for the 2010/11 and 2011/12 financial years. It is planned that this borrowing will be repaid in future years to coincide with our forecasted capital receipt income. Capital receipt generation will be kept under constant review by the Capital Delivery Board as part of regular monitoring. Any variations to the forecasted position will be reported to Corporate Management Team and Cabinet at the earliest possible opportunity.

8.13 Prudential Indicators

The Prudential Code governs the Council's ability to borrow for capital expenditure by requiring the Council to demonstrate affordability, prudence and sustainability as demonstrated by Prudential Indicators. The Prudential Indicators are reported as part of the annual Treasury Management Strategy reflecting the close association with the costs of borrowing for capital investment, and are required to be approved by Full Council.
The Treasury Management Strategy and Prudential Indicators for 2011/12 was scrutinised by Audit Committee on 21 January 2011, who recommended their submission to Full Council, subject to any changes required to the Prudential Indicators as a result of amendments to the capital programme by Cabinet. In the light of the changes to the capital programme now proposed and, in particular, the funding changes from supported borrowing to capital grant funding there is a need to revise the Prudential Indicators.

Appendix E outlines the updated Prudential Indicators. Cabinet is requested to recommend the Prudential Indicators as now reported to Full Council for approval.

9. Summary

9.1 This budget has been set under very challenging conditions, with unprecedented reductions in Government resources, both in terms of revenue grant and capital support.

9.2 Despite this operating environment, the Council is continuing its aims of transforming, modernising and increasing efficiency across the whole Council.

9.3 This budget builds on, where possible, protecting frontline services whilst rationalising and reducing the back office running costs.

9.4 All areas are under review, including initiatives to make savings from greater procurement efficiency, and invest to save projects, both revenue and capital, which will reduce future cost pressures.

9.5 As the Council undertakes transformation, there will be a need to reduce staff numbers, but this will continue to be managed in such a way as to reduce the need for redundancies.

9.6 The Council has a good track record in delivering budget savings as demonstrated by the achievement of over £10m savings in 2010/11 as at end of December 2010. The budget for 2011/12 relies on the delivery of further savings of £13m and a number of these actions contain risk strategies. The budget robustness statement at Appendix A provides more detail and a risk analysis of the budget. Monitoring reports during the year will continue to report on the progress of the delivery plan actions.

9.7 The Council remains very ambitious in terms of its capital investment programme and over the next year will continue to deliver projects such as , The Plymouth Life Centre at an investment of £46.5m; three new schools in Estover, the Tor Bridge campus; an ambitious Accommodation Strategy; a new Plympton Library and a new homeless hostel.

10. Recommendations

10.1 The proposed net revenue budget requirement of £208.237m for 2011/12 and five year capital programme (2010/11 – 2014/15) of £192.635m is recommended to Full Council on 28 February 2011, subject to any final amendments.

10.2 Increases to fees and charges as outlined in **Appendix C** be approved.

10.3 The Revised Prudential Indicators outlined in **Appendix E** be recommended to Council for approval.