

PLYMOUTH CITY COUNCIL

Subject:	Delivering the Co-operative Vision within a 3 year sustainable balanced budget
Committee:	Co-operative Scrutiny Board
Date:	7 January 2014
Cabinet Member:	Mark Lowry
CMT Member:	Tracey Lee (Chief Executive)
Author:	Malcolm Coe
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Ref:	
Key Decision:	Yes
Part:	I

Purpose of the report:

The council issued draft budget papers in December 2013 detailing how we intend to deliver corporate and citywide priorities within a challenging local authority financial environment. A draft three year budget was proposed, balancing the projected fall in both revenue and capital resources with anticipated spend commitments between now and 2016/17.

There is a legal requirement for Full Council to approve a balanced and robust budget for 2014/15 before the end of March 2014. Despite identifying circa £16m of management actions and solutions for next year, at the time of publication, there remained a revenue funding gap of £1.1m for 2014/15.

The Local Government financial settlement for 2014/15, (with indicative allocations for 2015/16), was not announced until late December 2013. This update report details:

- the impact of the settlement for Plymouth compared with our resource assumptions;
 - progress in closing the £1.1m revenue gap for 2014/15;
 - a breakdown of costs to be incurred by, and benefits attributable to, the council's Transformation Programme in 2014/15
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The Brilliant Co-operative Council Corporate Plan 2013/14 – 2016/17:

In July 2013, the Council adopted a new Corporate Plan, to be a Brilliant Co-operative Council. The plan contains ambitious objectives around the themes of Pioneering, Growing, Caring and Confident Plymouth. It focuses on Co-operative values which will inform the way that the Council goes about its business.

Setting a robust, reliable three year balanced budget is crucial for the council to deliver against its co-operative vision. With falling resources and increasing demand and costs on our services, it is imperative that a more strategic, and prioritised, approach is taken to medium term budget setting.

Implications for Medium Term Financial Plan and Resource Implications:

Local Government Finance Settlement

On 18th December 2013, Plymouth City Council was advised of the provisional settlement funding for 2014/15 and indicative settlement for 2015/16. These figures remain provisional until late January 2014, as they are subject to consultation that closes on 15th January.

In broad terms, the revenue resource forecasts detailed in the December 2013 budget papers have not changed significantly for 2014/15 with a net benefit, compared to forecast, of circa £0.7m. However, there is a material change in indicative funding for 2015/16 with core revenue funding being £5.9m less than we anticipated. This is due to the government proposing to introduce new 'pooled' funding arrangements with health known as the Local Authority Better Care Fund. This fund has a combined indicative allocation of £17.7m, (which includes health funding), for Plymouth in 2015/16. Exact details of the fund, which also includes an element of capital, are still being worked through to understand what new responsibilities are attributable to the money and how this will impact on our existing revenue spend commitments.

Overall, Government has stated a reduction in 'spending power' of 3.6% for Plymouth in 2014/15. However, central government funding from the Revenue Support Grant has actually decreased by £14.2m compared to 2013/14 – a drop of 18.6%. Devon County Council's stated drop in 'spending power' is 1.6%, much lower than Plymouth, with an actual **increase** in spending of (0.54%) in 2015/16 compared to a further reduction of 3.0% for Plymouth.

Other key headlines from the settlement include:

- More reassurance around incorporating Council Tax freeze grants within base budgets – however, with Revenue Support Grant continuing to be cut, ultimately the freeze grant within the base budget is also cut;
- Reduced national 'top slice' of New Homes Bonus, retaining more of this funding within our Revenue Support Grant (RGS);
- A reduction of 8% in the Early Intervention Grant element of RSG;
- Business rates growth capped at 2% for 2014/15 not the Retail Price Index national assumption of 3.2%. This will have a negative impact on our budgets, however, the government has stated that shortfalls will be fully compensated through Section 31 grants (we are still awaiting clarity on this)
- Council Tax threshold and referendum limits still to be confirmed

Transformation

As previously reported, the Council has to fundamentally transform the way in which it operates and delivers services in order to address the financial challenges that we face. Our transformation programme is predominantly back loaded, delivering more benefits in 2015/16 and beyond. That said, the 2014/15 revenue budget is built on the premise that the programme will deliver an overall net financial benefit in 2014/15, (in addition to covering costs), of £1.2m. This figure was derived from the early engagement work with Ernst & Young.

Further work has been undertaken to better understand the costs and financial benefits of each of the respective transformation programmes as detailed in **Figure 1**.

Figure 1: Net Transformation Savings for 2014/15

	14/15 £k
Income	
Growth, Assets and Municipal Enterprise	3,900
Savings	
Integrated Health and Well Being	1,600
Customer and Service Transformation	300
Co-operative Centre of Operations	700
Growth, Assets and Municipal Enterprise	500
Investment	
Transformation investment	(5,000)
Investment in skills	(800)
Totals	1,200

Although we are accounting for £1.2m of net benefits next year, the profile of how, and when, we are going to drive out the savings has evolved across the individual work strands. Work will continue throughout January 2014 to firm up on the benefits achievable in 2014/15, hence the final figures are subject to change.

Transformation investment will be prioritised to ensure the delivery of savings plans. Any changes to the above figures will be fed into the Full Council budget debate on the 24 February 2014.

To provide further assurance, we will commission an independent review to appraise the overall status of our Transformation programme including an opinion as to the achievability of benefits.

Overall, the transformation programme aims to drive out circa **£54m** of gross savings and income over the next three years for a planned investment of circa £18.7m.

Progress in closing the £1.1m gap for 2014/15

The draft budget report detailed an unfunded revenue gap of £1.1m for 2014/15. Further challenge on cost pressures have added an additional £0.5m which ensures that there is now adequate provision for a staff salary pay award of 1% for each of the next three financial years.

Factoring in the positive variation of £0.7m from the settlement, there is further opportunity to replace an existing revenue cost pressure on highways maintenance with new funding of £0.2m that has recently been confirmed from the Department of Transport.

New Homes Bonus figures have improved by circa £0.4m which has been built into the overall transformation benefit profiles for next year.

A contingency of £1.3m was established in the base budget for 2013/14. Having reviewed call-off against this contingency, it is recommended that this could be reduced by £0.3m in 2014/15. Clearly, we will need to retain the remaining contingency of £1m to address any unforeseen budget issues throughout the year alongside a challenging agenda of delivering circa £16m of revenue savings. **Figure 2** provides a restated analysis of the current revenue budget gap for 2014/15:

Figure 2 – updated revenue budget gap for 2014/15

Item	£m	Comment
Budget Gap / (Surplus)	1.100	Per Indicative Budget papers
Add - Pay award	0.500	Account for a 1% pay award for each of the next 3 years.
Revised Budget Gap	1.600	
Less – additional resources	(0.700)	Additional revenue resources vs forecast from December '13 Settlement
Additional New Homes Bonus	-	Notified of £0.4m increase in December '13. This has been incorporated within the overall transformation savings profile.
Less – extra Department of Transport funding	(0.200)	Additional funding announced as part of Settlement. Used to offset existing cost pressure within 14/15 budget
Less – Revenue Contingency	(0.300)	2013/14 base budget assumes £1.3m revenue contingency fund Propose to reduce to £1m in 2014/15
Revised Budget Gap	0.400	

Assuming that the net benefit from transformation remains at £1.2m in 2014/15, there still remains a revenue budget gap of £0.4m for next year. It is recommended that on-going funding is identified to close this gap to avoid creating a residue funding problem in future years. Management will continue to work up further solutions over the next few weeks.

The Local Government funding environment remains highly volatile. As such, updates to Medium Term Financial Forecasts will be incorporated within quarterly monitoring throughout 2014/15 in order to factor in changes to estimates and spend commitments

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

All actions being taken have been considered for their impact on: council priorities, legal obligations, customers and other services and partners. Each separate action has been risk assessed in terms of potential barriers to implementation with corresponding mitigation put in place.

Due to the nature of financial savings required, it is inevitable that there are some over-arching risks associated with delivering a three year balanced budget. These high level risks are detailed in **Figure 3**

Figure 3 – high level risks associated with the revenue & capital budgets 2014/15 to 2016/17

3 Year Sustainable Balanced Budget Risk Register								
ROW No.	POTENTIAL RISKS IDENTIFIED	RISK RATING @ Jan '14			REVISED RISK RATING		COMMENTS / MITIGATION	
		P	I	Score	P	I		Score
1	Lack of plans to deliver £700k savings in the co-operative centre of operations transformation programme	5	5	25	4	5	20	Relying on £1.5m salary savings in 'management solutions' for Corporate Services in '14/15. Clear plans needed by 31 Jan '14.
2	Ability to generate £1.7m in 14/15 from the commercial services & income strands of the GAME transformation programme	5	5	25	3	5	15	Engaged commercial expertise to help firm up exact work strands and financial benefits before 31 January 2014
3	Unquantified benefits of £750k in 14/15 from the 'Childrens' element of integrated health and well-being transformation	5	5	25	3	5	15	Being worked through by Programme Board. Financial benefits to be confirmed by 31 January 2014
4	Revenue costs of Transformation outweigh the benefits achievable in 2014/15	5	5	25	3	5	15	Costs continue to be incurred in 2013/14. Mitigation to scale down costs until benefits are more certain + Independent QA.
5	Ability to deliver £14.8m of management 'solutions' alongside £1.2m of transformation net benefits in 2014/15	5	5	25	3	5	15	Robust governance and reporting at each DMT and Board level.
6	Reducing cost base in 2013/14 and 2014/15 will negatively impact the ability to achieve future year transformation savings.	5	5	25	3	5	15	Not relying on full projected transformation savings in 2015/16 & 16/17 for a balanced budget. Identifying potential double counts
7	Revenue resources for 15/16 appear to be circa £5.9m less than PCC forecast (in 3 year balanced budget report)	5	5	25	3	5	15	Greater clarity needed on links with, and access to, £17.7m Local Authority Better Care Fund (pooled health funding)
8	Rules around NNDR still changing. Potential impact of Appeals, Devon-wide pool impact etc.	5	5	25	3	5	15	£1m revenue reserve will roll forward into 14/15. Limited call against this reserve in 13/14 to date
9	Continuing reduction of capital funding available impacting on ability to generate revenue savings and/or deliver priorities	5	5	25	3	4	12	Better prioritisation of capital investment (including member engagement). Targeted bidding for priority grants.
10	Redundancy reserve insufficient to meet demand (e.g. VRS, senior management review etc.)	4	4	16	3	4	12	£500k left in reserve @ Jan '14. Looking to increase this reserve at 13/14 end of year out-turn (depending on final position)
11	Pensions re-valuation reserve could be insufficient to meet actual deficit	3	5	15	2	5	10	£500k cost pressure has been put into 14/15 revenue budget. Actual valuation due in Jan '14.
12	Civic Centre on-going operating costs running in conjunction with new property	3	5	15	2	5	10	One off resources allocated in 2014/15 to cover timing of decant from Civic Centre relocating to alternative buildings
13	Failure to deliver a balanced budget in 13/14 and impact of any legacy budget delivery plans	3	5	15	2	4	8	Monitoring trends in last few months looking positive - Nov '13 forecasting £800k overspend. Management action put in place.
14	Modelling on 2013/14 collection rates for NNDR and Council Tax; risk that current rates do not hold going forward	3	3	9	3	3	9	Continue monthly monitoring and benchmarking with other Unitary Authorities. Incorporate with overall debt recovery.

We will continue to develop further mitigation and regularly update the risk register which will be integrated within routine monitoring.

Equality and Diversity

Equalities Impact Assessments have been fully considered for all relevant management actions and budget solutions that underpin this budget.

Recommendations and Reasons for recommended action:

1. The local government settlement, transformation update and re-stated 2014/15 revenue funding gap are fed into the January 2014 budget scrutiny process;

2. Management will continue to work up solutions to address the remaining revenue shortfall of £0.4m for 2014/15;
 3. Transformation costs and financial benefits continue to be firmed up with any subsequent changes fed into the Full Council budget debate on 24 February 2014.
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Alternative options considered and rejected:

A one year financial planning horizon will not support the long term decision making required to deliver the objectives of the Corporate Plan. The Council's financial stability will be put at risk unless a transformative approach is taken to revising its delivery arrangements in the coming years.

Published work / information:

Delivering the Co-operative Vision within a 3 year sustainable balanced budget – December 2013

LGA local government finance briefing for Leaders, Lead Members and Chief Executives 31 July 2013

Local Government Chronicle 26 June 2013

Delivering the Co-operative vision Council report Sept 2013

Plymouth City Council Medium Term Financial Plan

Background papers:

Ernst and Young interim report to Plymouth City Council July 2013

Sign off:

Fin		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Tracey Lee													
Have the Cabinet Members agreed the contents of the report? Yes													