

# CABINET

## Medium Term Strategy: Finances and Resources 09 November 2010

### Report of the Deputy Chief Executive and Head of Financial Services

#### PURPOSE OF REPORT

To provide an interim update on the Council's strategic planning for finances and resources in context of the recent Government Comprehensive Spending Review (CSR) and to seek:

- approval of Cabinet's future aims for Council Tax, for referral on to Council
- any early indications of areas in which Cabinet is minded to propose savings, to inform planning.

Key Decision



Non-Key Decision

Referral from Cabinet  
Member

Date Included in Forward Plan

August 2010

This report is public.

#### RECOMMENDATIONS OF COUNCILLOR LANGHORN

1. That Cabinet notes the broad outcome of Government's Comprehensive Spending Review and the indicative savings required in order to balance future years' budgets.
2. That Cabinet recommends a Council Tax freeze for 2011/12 and target increases of between 0 – 2% for future years' at this stage, for referral on to Council.
3. That in view of the substantial savings needed in future years, Cabinet be requested to identify principles and /or any specific services or functions in which they are minded to make savings, in order that arrangements can be developed at this early stage to manage the staffing and other resource implications of service reductions or withdrawals.

#### 1 Background

- 1.1 In planning for the future, the Council needs to be clear about what finances and other resources it will have to both shape and deliver against corporate priorities, and how best to manage such resources.

- 1.2 This is reflected in the Council's strategic planning framework. Whilst 'use of resources' is not now assessed separately by the Audit Commission, effective planning and use of finance and other resources is crucial. Affordability has always been a difficult challenge, but now it is even more so.
- 1.3 In broad terms resources may be considered as 'people, pounds (£) and property' and this report provides an update on the key related strategies, which will continue to be reviewed and updated as the Budget develops. As a result of the CSR, however, the focus at this stage is very much on finance.

## 2 Financial Planning

- 2.1 At the August meeting Cabinet considered an interim report on the Council's financial prospects underpinning its Medium Term Financial Strategy (MTFS). At that time, Members chose not to amend council tax and other targets, as Government's outline spending plans were not known and there was considerable uncertainty.
- 2.2 Whilst it is still the case that there is no information available specific to individual authorities, the CSR has provided a useful insight into Government's spending plans and this report builds on that information, particularly with regard to council tax and levels of general government support, known as formula grant. **Appendix A** sets out some of the key points arising and further information is available through [www.lga.gov.uk](http://www.lga.gov.uk) and [www.communities.gov.uk](http://www.communities.gov.uk).
- 2.3 This update does not attempt, however, to give an in-depth update on the Council's finances. The aims at this stage are :
  - to ensure an appreciation of the scale of financial challenges that the Council is likely to face, in order that it can formulate how best to tackle those challenges;
  - more specifically, to determine Cabinet's proposals regarding Council Tax targets for 2011/12, and gain an early indication of possible targets (or a range) for subsequent years, in order to inform financial planning; and
  - to gain any early indications of areas in which Cabinet will propose savings, to help with planning and management.
- 2.4 This report does not cover any specific issues in relation to housing and the Housing Revenue Account. Whilst it is clear the Government intends on reforming the current housing finance system, it is not yet known what that may mean for the City Council and its tenants.
- 2.5 **Government Funding Prospects**
  - 2.5.1 The key messages arising from the CSR so far are:
    - Over the next four years major reductions will be made in Government funding. Typically headline figures refer to real terms total cuts of around 28% or around 7% a year, but the reductions are scheduled to be front

loaded for local authorities and the different tiers and types of authority will be affected differently. For the City Council, the best estimate would seem that its formula grant may reduce by 29% in cash terms over the next four years.

- Most ring-fenced funding streams will be incorporated into general formula grant.
- Whilst some new funding opportunities will arise, such as through the Regional Growth Fund, in the main these are considered likely to replace other existing sources of funding, albeit indirectly and at a lower level.

## 2.6 Council Tax

- 2.6.1 One aspect that is now much clearer following the CSR is Government's intention to compensate authorities should they approve a council tax freeze for 2011/12.
- 2.6.2 Under the proposals, Councils would receive additional grant funding equivalent to 2.5% of their council tax revenues, based on the current year's tax rate. By agreeing to a freeze, tax income would be foregone for all future years' budgets, though it is understood that compensating grant income would be receivable in each year to 2014/15. Thereafter, it is reasonable to assume no further compensation would be payable but by then other factors may well have come into play regarding council tax, e.g. linked to outline plans for localising council tax benefit.
- 2.6.3 It is also understood that no further compensation would be receivable should councils choose to maintain the freeze beyond 2011/12.
- 2.6.4 If the City Council wishes to benefit from this proposal, its Band D tax rate must be no more than £192.25 for 2011/12, excluding parish precepts. The Council would then receive approximately £209K additional grant per year for the next four years, to compensate for the council tax income foregone.

## 2.7 Indicative Savings Targets

- 2.7.1 Taking account of the above information, the Council's savings targets have been updated but it cannot be over-emphasised that these are indicative only, based on headline information and they could change radically. It is expected that Government will not announce the provisional Local Government Settlement until early December; it is only then that there will be any information available specific to individual authorities. By then the first full draft of the Council's budgets will also have been produced and therefore a much more accurate position should be available for the December Cabinet meeting.
- 2.7.2 Nonetheless, even given the uncertainties, it is considered that the Government's proposals now provide sufficient information to inform Cabinet's consideration of council tax targets for 2011/12. **Appendix B** sets out the indicative savings requirements for various council tax and government support scenarios.

- 2.7.3 Two scenarios are included for government support; at this point the more likely position is expected to be closer to a 14% reduction in 2011/12. This is because from the figures included in the CSR it is apparent that that savings for local authorities such as the City Council are frontloaded, although attempts are being made to seek some further clarification from Government.
- 2.7.4 In the past, Government has used a system to limit how much an individual authority may lose in grant from one year to the next, but even assuming that such arrangements apply for next year, it is difficult to see from the CSR how any such arrangements could have a material impact. It is also possible that actual grant reductions could be even higher.
- 2.7.5 As examples for 2011/12 therefore:
- a. Based on a 7.25% reduction in Government support and a 0% increase in council tax, indicative savings of £1.3M would be needed.
  - b. Assuming a 14% reduction in government support and 0% tax increase, the indicative savings target is around £2.4M.
  - c. If the Council ran the risk of retaining its tax increase at 3.75% and faced possible veto through the proposed local referendum arrangements, next year's savings target would still be £2.3M if a 14% reduction in government support was experienced. One reason why the difference is so comparatively small is that the Council and its residents would not benefit from the tax freeze compensation grant.
- 2.7.6 The scale of the reductions in government support put decisions regarding future council tax increases in a different context. Previously, decisions regarding council tax increases have had a significant effect on the amount of savings needed. In future, however, with a 1% increase in tax amounting to around £84K, proportionately the savings targets are now far less sensitive to tax rate changes.
- 2.7.7 Given this new context, Cabinet is requested also to indicate its preferences regarding council tax targets for 2012/13 and beyond. This could be expressed as a single target increase, e.g. 2%, or a range, e.g. 0 to 2%. Various examples and their impact on indicative savings targets are also set out at Appendix B. This clearly shows the expectation that further substantial savings will be needed after next year too.
- 2.7.8 Any recommendations would be referred on to Council and form the initial basis for the budget and planning exercise. **As usual, there will still be the opportunity to make changes to Council Tax targets later in the budget exercise. This is particularly so for years 2012/13 and beyond.**

## 2.8 Indicative Areas for Saving

- 2.8.1 As reflected in other items elsewhere on the agenda and in the Forward Plan, there is work underway to identify savings proposals in support of balancing the Budget. Furthermore:
- Arrangements are in place to ensure that where possible, any recruitment is made on a fixed term basis to help manage the staffing position.

- The draft revenue budget and capital programmes are currently being produced, based primarily on existing levels of service and known commitments.
- The first stage of public consultation on the Council's priorities has recently been completed.
- Arrangements are in place for budget challenge workshops to be held with Members, with external facilitation and support.

2.8.2 Given the increased need to make savings, Cabinet is requested to indicate whether at this early stage there are any service areas or functions in which Members are clearly minded to propose savings, in order to help with planning. Whilst this is difficult, the reality is that the Council cannot expect to continue to deliver the same range and standard of services that it currently provides.

### **3 Property and Human Resources (HR) Management**

3.1 The ways in which the Council manages its people and property clearly contribute to the delivery of its priorities and achievement of its financial objectives. Likewise though, the way that the Council responds to its financial challenges will have a direct bearing on its property and HR needs.

3.2 These aspects of the Council's strategic planning are also being reviewed and updated to support and reflect the direction of the Council in moving forward. As an example, the development of shared services poses issues and opportunities for both property and HR and the Council's planning and management framework needs to reflect these links.

### **4 Details of Consultation**

4.1 As mentioned earlier, the first stage of consultation on priorities has recently been completed in line with the community engagement and consultation plan approved back in August, and the outcome will be fed into this Cabinet meeting.

4.2 The Council's updated financial prospects need to inform the context and content of any further consultation, to help manage expectations regarding the range and level of services that the Council will be able to afford in future.

4.3 Cabinet will be aware that communications have been received from various other stakeholders affected by the CSR and no doubt this will continue. As reported in August, the Council's spending plans will be affected both directly and indirectly by Government changes, through involvement with various partners. This will impact on the Council's ability to take forward or contribute financially to various initiatives and services.

### **5 Options and Options Analysis (including risk assessment)**

#### **5.1 Council Tax Targets:**

5.1.1 For 2011/12 it is considered likely that there is a relatively narrow band of options available to the Council regarding tax increases, from say 0% to

2.5%, assuming that it wishes to avoid any form of challenge. From the earlier consultation exercise on whether to introduce local referendum arrangements that could veto 'excessive' tax increases, it is clear that in one way or another, Government is prepared to tackle authorities that retain plans for higher tax rises.

- 5.1.2 That said, the outcome of that consultation is not yet known and therefore Government's firm views on what level of increase may be deemed acceptable are not yet known.
- 5.1.3 There is a clear financial benefit in recommending a Council tax freeze; there is also a clear disincentive to increase council tax anywhere between just above 0% up to 2.5%.
- 5.1.4 The main risks attached to any option relate to the ability of the Council to take decisions on matching service levels with the money available to fund them. Furthermore there is a real risk that actual savings targets prove to be substantially different from those indicated. To help counter this to a degree, there will be further opportunities to review target increases during the forthcoming budget as more accurate information becomes available.
- 5.1.5 In terms of options, the impact on Council Tax payers is key and this is particularly so regarding the council tax freeze proposals. There will be reputational, operational and financial risks, opportunities and trade-offs attached to whichever option Cabinet chooses.

## **6 Officer Preferred Option and Comments**

- 6.1 The decision regarding council tax targets is clearly a matter for Members but that said, both the Chief Executive and the s151 Officer consider it advisable for the Council to take advantage of Government's proposals and aim for a Council Tax freeze for 2011/12, subject to no other conditions or changes arising in connection with the proposed scheme.
- 6.2 Regarding 2012/13 and beyond, both the Chief Executive and the s151 Officer would advise against planning for a general Council Tax increase outside of a range of say 0 to 2.5% at this time. In due course more information will become available to inform such target setting. It may well be the case that from 2013/14 specific changes to the council tax benefit scheme are to be financed through additional flexibilities on council tax and these would need to be considered at the appropriate time.
- 6.3 Whatever Council Tax targets are in place, Members need to have supporting plans in place to achieve a balanced budget.

## **7 Conclusion**

- 7.1 It is expected that the CSR will result in the Council needing to make significantly more savings than was previously forecast and whilst the exact implications are not known, this scenario is similar to that being faced by other local authorities nationwide. It is reiterated that the Council cannot expect to continue to deliver the same range and standard of services that it currently provides.

- 7.2 There is, however, some clarity on certain aspects of Council tax and this helps to a degree with planning.
- 7.3 Whilst it expected to be early December before reasonably accurate budget forecasts can be produced, in the interim the Council is advised to focus on how to tackle the financial challenges ahead, including reviewing its priorities and key strategies and objectives, to fit with what will be affordable.

**RELATIONSHIP TO POLICY FRAMEWORK**

The MTFS is part of the current policy framework. It should represent, in financial terms, what the Council is aiming to do (and what is affordable to do) through the rest of the policy framework.

**CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

There is no direct, quantifiable impact arising at this stage, although the MTFS sets out the level of funding expected for the delivery of council services. As such, it will have a direct bearing on the level and impact of services provided in future.

**LEGAL IMPLICATIONS**

There are no direct legal implications arising at this time.

**FINANCIAL IMPLICATIONS**

As set out in the report.

**OTHER RESOURCE IMPLICATIONS (All other, property, HR etc)**

As referred to in the report; there are no other direct implications arising at this time.

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has produced this report.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Spending Review 2010

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