

To: Corporate Policy Overview & Scrutiny Committee –
3rd November 2011

BY: Paul Carter, Leader
Alex King, Deputy Leader
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Subject: REVENUE BUDGET 2012/13 AND MEDIUM TERM FINANCIAL PLAN 2012/13 TO 2014/15

Classification: Unrestricted

Summary: This report identifies the latest forecasts for next year's budget and the financial plans for the following years. This includes an analysis of the overall financial outlook for the whole council, appraisal of the existing plans for 2012/13, an update on the budget pressures facing the Business Strategy & Support Directorate and Financing Items budgets within the Corporate Services portfolios (hereafter referred to as Corporate Services portfolios) and recommendations from the Informal Member Group on areas for budget savings.

Recommendation: Members are asked to review and comment on the pressures outlined for the Corporate Services portfolios and to identify their priorities for savings in light of the overall financial outlook for the next three years.

FOR COMMENT

1. Introduction

- 1.1 The Autumn Budget Statement is due to be presented to Cabinet on 5th December 2011 and will set out the County Council's proposed budget strategy following the Chancellor of the Exchequer's statement to Parliament on 29th November. The Chancellor's statement will include the latest economic forecasts from the Office for Budget Responsibility (OBR). All the indications are that these forecasts will show the economy has not recovered from recession as quickly as earlier predictions on which the 2011 Budget announced on 23rd March 2011 were based.

- 1.2 The Spending Review 2010 (SR 2010) set out the Government's four year plans to reduce the budget deficit. This showed an anticipated 21.9% reduction in the Formula Grant for local government over the four year period¹. The Local Government Finance settlement for 2011/12 was published on 13th December 2010 and included provisional grant figures for 2012/13 but did not provide any provisional figures for 2013/14 or 2014/15. The 2012/13 provisional grant showed a £26.9m reduction in Formula Grant on 2011/12 (8.5%) for KCC.
- 1.3 Our overall planning assumption for the next medium term financial plan (MTFP) remains that we will need to make a £340m reduction in spend in real terms between 2011/12 to 2014/15.

2. Background

- 2.1 The MTFP for 2011/12 to 2012/13 was approved by the County Council on 17th February 2011. The approved MTFP for the Corporate Services portfolios is included as appendix 1. At the time the plan was approved we had £15m set aside for unforeseen "emerging" budget pressures and £28m of savings still to be identified in order to balance the budget for 2012/13 against the anticipated level of resources (CLG grants and Council Tax).
- 2.2 Monitoring reports during 2011/12 have identified a number of additional budget pressures arising during the year in other Portfolios not covered by this POSC, which will have a full year impact in 2012/13 and some changes in the planned savings. The overall position for the County Council is that we are preparing for £25m of additional pressures in 2012/13.
- 2.3 We will need to review the indicative pressures included in the plan for 2012/13 in light of the latest activity information and identify any new pressures likely to arise in 2012/13 to 2014/15. The current assumptions for the Corporate Services portfolios are set out in tables 1 to 3 below.

¹ The overall reduction in resources from the department for Communities and Local Government (CLG) was 19.6% over the four years after taking account of new money for Council Tax Freeze, New Homes Bonus and Transitional Protection.

Table 1	2012/13 £000's	2013/14 £000's	2014/15 £000's	Total £000's
Business Strategy, Performance & Health Reform				
Existing Approved MTP				
Base	47,352			47,352
Base Adjustments	-4			-4
Pressures	1,262			1,262
Grants	0			0
Savings & Income	-6,409			-6,409
Total Existing MTP	42,201			42,201
New Base Adjustments	3,262	0	0	3,262
Changes to Pressures	664			664
New forecast Pressures	823	614	166	1,603
Changes to Savings	0			0
New Proposed Savings	0	-5,114	-5,515	-10,629
Proposed Budget	46,950	42,450	37,101	126,501

Table 2	2012/13 £000's	2013/14 £000's	2014/15 £000's	Total £000's
Deputy Leader				
Existing Approved MTP				
Base	6,421			6,421
Base Adjustments	0			0
Pressures	0			0
Grants	0			0
Savings & Income	-35			-35
Total Existing MTP	6,386			6,386
New Base Adjustments	552	0	-12	540
Changes to Pressures	0	0	0	0
New forecast Pressures	335	0	0	335
Changes to Savings	0	0	0	0
New Proposed Savings	0	0	0	0
Proposed Budget	7,273	7,273	7,261	21,807

Table 3	2012/13 £000's	2013/14 £000's	2014/15 £000's	Total £000's
Finance & Business Support				
Existing Approved MTP				
Base	134,636			134,636
Base Adjustments	7			7
Pressures	39,366			39,366
Grants	0			0
Savings & Income	-7,096			-7,096
Total Existing MTP	166,913			166,913
New Base Adjustments	-85,651	0	12	-85,639
Changes to Pressures	-10,000	0	0	-10,000
New forecast Pressures	6,503	28,903	28,500	63,906
Changes to Savings	0	0	0	0
New Proposed Savings	0	-354	-244	-598
Proposed Budget	77,765	106,314	134,582	318,661

- 2.4 There have been some changes in the likely grant settlements since the budget and MTFP were agreed by County Council on 17th February which improve the position slightly. In particular the Chancellor announced in October 2011 that a further one-off grant would be available in 2012/13 where councils agree to a continued freeze on Council Tax, and a number of grants which were unclear have now been included in an un-ringfenced Local Service Support Grant.
- 2.5 The overall planning assumption in light of these changes is that some savings still need to be identified to balance the 2012/13 budget and that over the following two years substantial savings (estimated £110m) will be needed. In a break from previous convention we are not planning to set individual portfolio cash limit targets for the next three years. Cash limit targets were an appropriate mechanism in times of relative growth but are not an appropriate mechanism to determine spending priorities at a time of budget cuts.
- 2.6 For 2012/13 POSCs are asked to consider what savings would be feasible or acceptable in order to close the estimated overall £32m gap (3.5% of net spend) arising from the combination of additional pressures and the unidentified savings in the existing plan partially offset by the additional grant that will be available. For the medium term, POSCs are asked to consider what strategies should be considered if overall the council needs to make 15% saving over the next two years.

3. Latest Developments: National Context

- 3.1 The Government has launched a consultation about re-localising business rates. If the proposals are implemented they would mean that in effect existing Formula Grant allocations would form a set base for the future (adjusted to the overall spending totals within the Spending Review) and any increase (or reduction) in overall resources available to the council would be determined according to changes in the business rate tax base.
- 3.2 Local authorities would also still be able to set the level of council tax and would also receive any resources from changes in the Council Tax base (as now). The effect of these changes mean that any increase in funding can only come from increase in the local business rate base or Council Tax and local authorities would no longer be reliant on Government grants.
- 3.3 At this stage we have no announcements on decisions following the consultation which is due to be implemented from 2013/14. We have factored in our best estimates into the planning assumptions for 2013/14 and 2014/15 but POSC members need to be aware that the overall funding available is likely to be heavily reliant on local factors in future rather than Government decisions on the allocation of grants.

4. Revenue Budget Strategy

- 4.1 The council's overall strategy will be set out in the Autumn Budget Statement setting out how the authority plans to deal with reducing funding and continuing additional spending pressures. POSC is invited to comment on the strategy proposed within the Corporate Services portfolios.
- 4.2 Previously we have managed demand for support services through a combination of charging and delegated budgets with service level agreements. As part of the restructuring of the council we are centralising a number of support functions which were provided by staff within service directorates. As a consequence of this centralisation we abandoned the delegation of support service budgets in 2011/12. Since then we have also undertaken a review of the appropriateness of internal recharging and concluded that in many cases it was creating its own industry and gave no clearer picture of the true cost of services than a simpler end of year apportionment of support costs. These changes mean service managers within Business Strategy and Support have been set the task of reconsidering how demand for support services can be managed within the (larger) budgets now allocated to them.

5. The Current Budget for the Corporate Services Portfolios

5.1 POSC members should be well informed on the current budget through the regular monitoring reports and should refer to these as part of their discussions. The current budget for the Corporate Services portfolio(s) under the oversight of this POSC are summarised in table 4 below:

Table 4	Gross Exp £'000	Service Income £'000	Net Exp £'000	Gov't Grants £'000	Net Cost £'000
Business Strategy, Performance & Health Reform	93,959	-36,230	57,729	-8,903	48,826
Deputy Leader	8,380	-1,014	7,366	0	7,366
Finance & Business Support	155,806	-18,956	136,850	0	136,850
Total	258,145	-56,200	201,945	-8,903	193,042

5.2 More details on the 2011/12 budget are included in appendix 1. In very brief summary this budget provides for the following outcomes, outputs and/or service improvements:

- Support to service directorates in delivering front-line services
- Corporate and democratic core costs
- Financing of the capital programme

6. Informal Member Group

6.1 Members of this POSC have had informal member group meetings (IMG) throughout the summer/autumn. IMGs have found these meetings useful to gain a more detailed insight into budgets controlled by the Corporate Services portfolios. The IMGs main recommendations are as follows:

6.2 The IMG recommends that members are given more information on the following aspects of BSS budgets:

- a) Activity levels associated with spend in individual units
- b) Staff establishments and the assumptions about turnover/vacancy rates assumed within staffing budgets
- c) Base budget savings which have been achieved from shared services
- d) Property leases and other contract renewal dates/costs
- e) Surplus properties identified for sale and estimated valuation
- f) Cost of providing/screening transparency data
- g) Numbers of staff employed on job-share contracts and details of contractual hours

- 6.3 The IMG recommends the following areas of spend within BSS where further savings should be identified:
- a) Demand for support services
 - b) Further sharing of support services with district councils and other public agencies
 - c) Cost of running council elections
 - d) Cost of servicing historic debt when current arrangements come up for renewal
 - e) Corporate and Democratic core to ensure costs are not a disproportionate burden on the rest of council services
 - f) Internal Audit of Legal Services
 - g) Stringent management review of hours required for all KCC roles
 - h) Apply discipline to recruitment of agency staff
 - i) Lobby Government for review of transparency and FOI requirements
- 6.4 The IMG recommends the following changes to the presentation of all budgets:
- a) Separation of pensions costs between past and current service
 - b) Identification of all other “sunk” costs that do not relate to the current cost of providing services
 - c) FTE staffing establishments and planned changes as a result of the budget being approved

7. Recommendation

7.1 Members are asked to

- (i) note the latest forecasts for 2012/13 and the next two years
- (ii) comment on the outline 3 year plan for the Corporate Services portfolios in Tables 1 to 3
- (iii) comment on the IMG recommendations and identify priorities for delivering the 3.5% saving requirement for 2012/13 and 15% for the following two years

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Appendix 1 – 2011/12 Revenue Budget

Budget Book Heading	Cash Limit			Financing	Total
	G	I	N	Items	
	£'000s	£'000s	£'000s	£'000s	£'000s
Business Strategy, Performance & Health Reform portfolio					
Strategic Management & Directorate Support budgets	1,628	-9,484	-7,856		-7,856
Governance & Law	8,248	-9,472	-1,224		-1,224
Business Strategy	3,865	-99	3,766		3,766
Property & Infrastructure	28,559	-7,129	21,430		21,430
Human Resources	12,129	-2,028	10,101		10,101
Information & Communication Technology (incl Schools ICT)	36,928	-16,921	20,007		20,007
Health Reform	250		250		250
Contribution to IT Asset Maintenance Reserve				2,352	2,352
Total BSP&HR portfolio	91,607	-45,133	46,474	2,352	48,826
Deputy Leader portfolio					
Finance - Audit & Risk	1,671	-742	929		929
Business Strategy - International, Partnerships & Cabinet Office	1,089	-269	820		820
Democratic & Member Services	3,948	-3	3,945		3,945
Local Democracy:					0
- County Council Elections	505		505		505
- District Grants	703		703		703
Audit Fees				464	464
Total DL portfolio	7,916	-1,014	6,902	464	7,366
Finance & Business Support portfolio					
Finance & Procurement	19,637	-4,648	14,989		14,989
Business Strategy External Funding	0	0	0		0
HR Business Operations	8,150	-5,431	2,719		2,719
Carbon Reduction Commitment Levy				1,368	1,368
Contribution to/from Reserves				-11,245	-11,245
Insurance Fund				3,479	3,479
Modernisation of the Council				4,038	4,038
Net Debt Charges (incl Investment Income)				115,012	115,012
Other				6,490	6,490
Total F&BS portfolio	27,787	-10,079	17,708	119,142	136,850
TOTAL CORPORATE POSC	127,310	-56,226	71,084	121,958	193,042

Appendix 1 – Existing 2012/13 Medium Term Plan

Business Strategy, Performance and Health Reform Portfolio Revenue Budget		
		2012-13
		£'000
		Original
		Restated
Base budget		47,352
Base Budget Adjustments - Internal		-4
Revised Base Budget		47,348
<u>UNAVOIDABLE PRESSURES FUNDED IN INDICATIVE CASH LIMITS:</u>		
Pay:		0
Prices:		
Corporate Gas & Electricity		550
Landlord		
Corporate Rent		17
Landlord		
Corporate Rates		18
Landlord		
		585
Unavoidable Government/Legislative Pressures:		
Corporate Loss of zero rates for youth centres		150
Landlord		
		150
Demand/Demographic Led:		
Property Dilapidations		-88
		-88
Service Strategies & Improvements:		
CMB Tapering of PFI Grant		23
All Prudential borrowing costs for Portfolio Capital Programmes		456
Corporate The Bridge		2
Landlord		
Policy Libraries Modernisation programme		134
		615
Total unavoidable pressures funded in indicative cash limits:		1,262
Total Pressures		1,262

Business Strategy, Performance and Health Reform Portfolio Revenue Budget

2012-13
£'000
Original
Restated

SAVINGS AND INCOME:

Income Generation:

Property	On-selling of approved list, advice & access to Framework Agreements	-35
Legal	Increased Income levels	-379
CFE	Increase income from schools and academies	-98
CFE	Workforce & professional development - moving to a trading basis	-398
		-910

Identified in published 2010-13 MTP:

KASS	Fall out of early Retirement Costs	-7
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Streamline back office support functions

KASS	Systems	-51
KASS	Personnel	-51
KASS	Policy Team	-29
KASS	Performance Team	-51
KASS	Training	-51
KASS	Facilities	-50
		-290

Efficiency Savings:

All	Management Structures	-301
All	Essential/Lease User	-7
All	Agency Staff	-16
All	Reduction in staff travel	-3
All	Staffing Efficiencies	-505
All	Reduction in Early Retirement Added Years	-76
All	Smarter/Collaborative Procurement	-233
Property	Centralise Maintenance budgets	-70
Property	Restructure KCC Property function (Corporate Landlord)	-175
ICT	Multi Agency Network Unification	-535
ICT	Multi Agency Aggregation of operational activity	-250
	Total Place	-1,270
ICT	Internal efficiency & Demand reduction	-346
HR	Restructure of HR function - Non Business	-383
		-4,170

Business Strategy, Performance and Health Reform Portfolio Revenue Budget

		2012-13
		£'000
		Original
		Restated
De-prioritisation savings:		
C&P	Management Information - staffing	-68
C&P	Strategic Planning, Partnership and Democratic Services - staffing	-62
CPIG	Capital Development Unit - non staffing	-110
RAP	Personnel - staffing	-44
CPIG	Business Support & Client Services - staffing	-200
CPIG	Health & Safety / Outddor Education - staffing	-21
Corporate Landlord	Review of Service Provision -hybird model property impact	-61
Planning	Reduce planning capacity	-71
HR	Review of strategy for staff	-187
ICT	Multi Agency Network Unification	-215
		-1,039
Total Savings and Mitigations		-5,499
Total Savings and Income		-6,409
Budget controlled by this portfolio		42,201

Deputy Leader		
		2012-13
		£'000
		Original
		Restated
Base budget		6,421
Total Base Adjustments		0
Revised Base Budget		6,421
<u>UNAVOIDABLE PRESSURES FUNDED IN INDICATIVE CASH LIMITS:</u>		
Pay:		0
Prices:		0
Unavoidable Government/Legislative Pressures:		0
Demand/Demographic Led:		0
Service Strategies & Improvements:		0
Total Pressures		0
<u>SAVINGS AND INCOME:</u>		
Income Generation:		
CFE	Increase income from schools and academies	-7
		-7
<u>Savings and Mitigations:</u>		
Efficiency Savings:		
All	Management Structures	-27
All	Essential/Lease User	-1
		-28
Political Prioritisation:		
		0
Total Savings and Mitigations		-28
Total Savings and Income		-35
Budget controlled by this portfolio		6,386

Finance and Business Support Revenue Portfolio

	2012-13
	£ '000
	Original
	Restated
Base budget	134,636
Base Budget Adjustments - Internal	7
Revised Base Budget	134,643
<u>UNAVOIDABLE PRESSURES FUNDED IN INDICATIVE CASH LIMITS:</u>	
Pay:	0
Prices:	0
Unavoidable Government/Legislative Pressures:	
Learning Disability Transfer and Health Reform	100
Grant - increase in expenditure	
Fin. Items Carbon Reduction Commitment levy	228
	328
Demand/Demographic Led:	0
Service Strategies & Improvements:	
Fin. Items Drawdown from Prudential Equalisation Reserve	292
Fin. Items Financing the Capital Programme	7,702
Fin. Items CSR Impact: 1% increase in borrowing cost	1,300
	9,294
Emerging Pressures	15,000
Repayment of one-off funding	
Fin. Items Moratorium in 2010-11 to increase underspend	1,000
Fin. Items Roll forward of 2010-11 projected underspend	4,711
Fin. Items Release of reserves	9,033
	14,744
Total unavoidable pressures funded in indicative cash limits:	39,366
Total Pressures	39,366

Finance and Business Support Revenue Portfolio

		2012-13
		£'000
		Original
		Restated
<u>SAVINGS AND INCOME:</u>		
Grant Increases:		
	Learning Disability Health Reform Grant	-100
		-100
Income Generation:		
F&P	Increase income from schools and academies	-91
		-91
<u>Savings and Mitigations:</u>		
Removal of one-off funding		
Fin. Items	Children's Social Care Improvement Plan	-2,491
Fin. Items	Modernisation of the Council	-500
Fin. Items	Borrowing costs PEF2	-292
		-3,283
Identified in published 2011-13 MTP:		
F&P	Streamline Back office support functions	-250
	Total	-250
Efficiency Savings:		
F&P	Management Structures	-80
All	Publicity	-5
All	Essential/Lease User	-2
All	Agency Staff	-6
Fin. Items	Further management savings from reorganisation	-1,000
F&P	Staffing efficiencies	-63
All	Reduction in Early Retirement Added Years	-17
Fin. Items	Impact of reduced capital programme	-1,300
Fin. Items	Impact on debt costs from savings on capital procurement	-300
HRBO	Restructure of HR function - Business Operations	-400
		-3,173
Deprioritisation savings		
F&P	Finance staffing	-108
F&P	Removal of support from Benefits Partnership	-50
F&P	Reduction in support services	-41
		-199
Total Savings and Mitigations		-6,905
Total Savings and Income		-7,096
Budget controlled by this portfolio		166,913