

Cabinet

19 December 2012



Medium Term Financial Plan (3), Council Plan and Service Plans 2013/14 – 2016/17

Key Decision CORP/A/10/12/1

Report of Corporate Management Team

Don McLure, Corporate Director Resources, and Lorraine O'Donnell, Assistant Chief Executive

Councillor Alan Napier, Cabinet Portfolio Holder for Resources

Purpose of the Report

- 1 To provide an update on the following:
 - (i) Autumn Statement and Local Government Finance Settlement
 - (ii) 2013/14 Budget.
 - (iii) Development of the 2013/14 – 2016/17 MTFP (3) Model.
 - (iv) MTFP consultation to date.
 - (v) Equality Impact Assessments.

Executive Summary

- 2 The council continues to face significant challenges in setting a balanced budget for 2013/14 and planning effectively across the medium term financial plan due to still awaited key local government finance policy changes. This, along with uncertainty in public finances generally across the medium term due to the ongoing economic recession, is placing all councils in a very difficult position when planning budgets.
- 3 The impact of austerity cuts upon local authorities continues to be uncertain. The Chancellor of the Exchequer's Autumn Statement announcement on 5 December included further funding reductions for local authorities as detailed below:
 - (i) An additional 2% cut in funding for local authorities in 2014/15. This equates to an estimated further £4.5m funding reduction for the Council in 2014/15 increasing the forecast Government grant reduction to £21.9m.

- (ii) Government funding reductions will continue until at least 2017/18. An assumption in this regard will need to be taken into account when the Cabinet considers its next medium term financial plan for 2014/15 to 2016/17 - MTFP 4.
- 4 Although the council is forecasting a balanced budget for 2013/14, the level of savings to be achieved needs to increase from the £20.3m reported to Cabinet on 10 October 2012 to £22.1m. Over the four year MTFP (3) period the savings required have increased from the £89m reported to Cabinet on 10 October 2012 to £97.9m mainly as a consequence of the additional £4.5m funding cut in 2014/15 following the chancellor's autumn statement.
- 5 Having taken these further adjustments into account, the council will have needed to achieve savings across the 2011 – 2017 period of £190.9m which equates to 44% of the council's 2010/11 Net Revenue Expenditure budget. Following the autumn statement, additional savings will also be required in 2017/18 due to continued Government cuts which is likely to result in savings exceeding £200m in total. Although a wide range of savings plans are in place across the MTFP period, savings of £53.0m are yet to be identified for the period 2014/15 to 2016/17.
- 6 The two issues detailed below typify the challenges faced by councils at the present time:
- (i) **Local Government Finance Settlement** – usually the Government's finance settlement is received by the first week in December. Disappointingly, this year the Government only released the content of their Autumn Statement on 5 December with the Finance Settlement not expected until 19 December. This late announcement has left the council with very little time to critically analyse the major changes in local government funding being implemented in 2013/14, due to the introduction of the Business Rate Retention (BRR) scheme and the introduction of the Local Council Tax Support Scheme (LCTSS). This position will be further exacerbated if individual government departments delay publishing their specific grant allocations to the council until January.
 - (ii) **Council Tax Freeze Grant and Council Tax Referendum Levels** – the government have recently announced a further council tax freeze grant of 1% for 2013/14 which will be paid up to 31 March 2015, the final year in the current comprehensive spending review period. This announcement was also very late in the council's financial planning cycle and all of the council's financial plans have been based upon a 2.5% council tax increase across the medium term financial plan. The government has also announced that the council tax capping limit for 2013/14 has reduced from 3.5% to 2%. This means that councils can only increase council tax levels by higher than 2% if they gain the support of council tax payers in their area through a referendum process. The council's medium term financial planning up till now has been based upon a 2.5% council tax increase year on year but this has now

been replaced by 2% thus reducing the availability of funding by £0.8m in every year from 2014/15.

- 7 These two major issues above illustrate how the inconsistency and late timing of government policy announcements continue to hinder the council's financial planning processes and how options available to the council to fairly and democratically decide council tax levels are being limited.

Background

- 8 The MTFP report to Cabinet on 10 October 2012 provided details on the following:
- (i) The increases in the forecast grant reductions from Government for 2013/14 and 2015/16.
 - (ii) The expected impact upon the council of the Business Rate Retention Scheme.
 - (iii) The balanced budget position for 2013/14 based upon a savings target of £20.3m.
 - (iv) The shortfall in the MTFP (3) model for the period 2014/15 – 2016/17 of £46m where additional savings would need to be identified.
 - (v) Updates were provided in relation to Council and Service Plans, Equality Impact Assessments and the MTFP (3) consultation process.
- 9 This report provides further updates especially in relation to the timing of the Local Government Finance Settlement, the 2013/14 budget outlook, MTFP (3) and the Business Rate Retention scheme.

Finance Settlement

- 10 It was hoped that the local authority finance settlement would be announced in early December to enable the council to fully understand the impact of funding changes resulting from the introduction of the Business Rates Retention scheme. This would have also enabled Cabinet to have received full details of the impact of the announcement upon MTFP (3) and especially the 2013/14 budget at this cabinet meeting.
- 11 The Government's late Autumn Statement of 5 December included the following key announcements which impact upon local authorities:
- (i) The majority of Government Departments will face an additional 1% cut in funding in 2013/14. Local Government has been excluded from this cut however due to the reduction in Council Tax Freeze Grant to 1% and the Council Tax Capping Level of 2% for 2013/14.
 - (ii) The majority of Government Departments will face an additional 2% cut in funding in 2014/15 including Local Government. The estimated funding reduction for the Council in 2014/15 is £4.5m which will increase the Government grant reductions in that year from £17.4m to £21.9m.

- (iii) From the data provided in the autumn statement, it appears that the 1% Council Tax Freeze Grant will be funded for two financial years only from 2013/14. It is therefore felt prudent to exclude the additional income for modelling purposes beyond 2014/15.
- (iv) Funding cuts are to continue into 2017/18 which is the year beyond our MTFP 3, therefore when MTFP 4 is developed, an assumption will have to be made to take into account a forecasted funding reduction in 2017/18.

12 The latest indications are that the Local Government Finance Settlement will not be announced until 19 December. The full impact of the Autumn Statement and the settlement upon the 2013/14 budget plans and across the whole of MTFP 3 will be fully analysed and reported to Cabinet on 16 January 2013.

Update of 2013/14 Budget Model

13 Since the 10 October 2012 MTFP (3) report to Cabinet, further adjustments have been made to the 2013/14 model resulting from budget reviews and updated information. The key changes are identified below:

(i) Council Tax Freeze Grant (CTFG)

The CTFG has been available to all councils for the last two years. The method of implementation has differed however as detailed below:

- In 2011/12 the CTFG was the equivalent of a 2.5% increase in Council Tax. The grant was also to be paid for a minimum four years for the Comprehensive Spending Review period.
- In 2012/13 the CTFG was also the equivalent of a 2.5% increase in Council Tax. The grant however was only a one-off with no payment in 2013/14 or future years.

The Government have recently announced a further CTFG for 2013/14. On this occasion the grant is the equivalent of only a 1% increase in Council Tax, although the funding is assured for only 2013/14 and 2014/15. The Government have also announced a council tax capping limit of 2% for 2013/14. Any council who wishes to levy a council tax above 2% will need to seek the support of council tax payers in their area through a referendum. In 2012/13 the capping limit was a 3.5% council tax increase.

The 2013/14 budget model assumes the CTFG is accepted for 2013/14 which would mean a reduction in income of **£2.36m** when compared to the previous model which was based on a 2.5% council tax increase. In addition the reduction in the council tax capping limit to 2% has been assumed to continue through the MTFP (3) for 2014/15 – 2016/17.

(ii) Pay and Price Inflation

A full review of pay and price inflation assumptions is now complete with the allowance required for 2013/14 increasing by **£0.281m**. This

increase in the main builds in an additional allowance for the new waste contract annual price increase from 2014/15 which will be at the Retail Price Index (RPI). This additional cost is more than offset however by the reduction in forecasted increased landfill costs that had been included in the previous Cabinet Report in October.

(iii) **Highways Operations**

It is planned to review the Highways Operations work force as a result of forecasted ongoing lower levels of income being achieved from external contracts. In doing so, the Highways Operations income target will be reduced by £3m which, when adjusting for the 27% mark up for overhead cost and 'profit' element will result in an associated lower service cost of £2.4m. It is therefore recommended that this **£0.6m** pressure should be built in to the MTFP model to compensate for the reduction in Highways Operations trading surplus.

(iv) **Investment Income**

A review has been finalised in relation to the cash flow and investment income returns for the council. It is now more certain that bank interest rates are unlikely to increase as quickly as was forecast in the October Cabinet report. It is prudent therefore to reduce the assumption for income on investments in 2013/14 by **£0.213m**.

(v) **Essential Car User Allowance**

The savings associated with the policy of withdrawing the Essential Car User Allowance is part of the ongoing Single Status negotiations. The saving originally associated with this policy was calculated eighteen months ago. Since this time budgets for the allowance have been reduced as qualifying posts have reduced as part of MTFP staffing restructures. There is therefore now a forecast reduction in the saving of **£0.140m**.

(vi) **New Homes Bonus**

The forecast increase in the New Homes Bonus (NHB) in the 10 October 2012 Cabinet MTFP (3) report was £1.6m. The payment of New Homes Bonus is based upon a Council Tax Base (CTB1) return that all councils submit in October of each year, detailing the tax base as at 30 September. This return has been analysed to enable an assessment to be made of the additional NHB to be paid in 2013/14. The estimated figure is £2.248m which is **£0.648m** higher than the forecast in the October Cabinet report.

(vii) **Landfill Tax**

The new waste contract will result in no further waste going to landfill from 1 June 2013. On that basis, the allowance for landfill tax in 2013/14 has been reduced from £1.03m to £0.171m, a reduction of **£0.859m**. The assumed additional costs of landfill for 2014/15

onwards have also been deleted from the remainder of the MTFP model.

(viii) **Concessionary Fares**

Analysis of the 2012/13 forecast of outturn has identified that the **£0.08m** pressure identified for concessionary fares for 2013/14 will no longer be required.

(ix) **Local Council Tax Support Scheme**

The financial forecasts for the impact of the Local Council Tax Support Scheme (LCTSS) and review of discounts on empty properties and second homes, including the introduction of the long term empty property premium are included in the updated MTFP model. The LCTSS grant figures will need to be verified against the settlement.

For budget setting purposes there is an assumed 1% growth in LCTSS caseload next year. The Council is however expecting a growth in the tax base arising from the Single Person Discount Review which is currently underway and new build in 2013/14. The impact of this has not been built into the tax base projections and will provide an element of contingency should the LCTSS caseload grow by more than 1% next year.

The cost of the Durham LCTSS will be kept under continuous review and may prove to be affordable in 2013/14 only when the Government's £1.094m of LCTSS Transition Grant funding will cease. The MTFP model assumes that when the LCTSS grant drops out in 2014/15 the Council will introduce amendments to its LCTSS or factor in additional council tax revenues to offset the loss. The overall financial implications on the Council in 2013/14 from the LCTSS and withdrawal of discounts are as follows:

- Loss of Council Tax yield from Council Tax Base reductions linked to the introduction of the LCTSS = -£42.784m;
- Council element of the forecast LCTSS Grant 2013/14 = +£37.394m;
- Additional Council Tax yield from Council Tax Base increases linked to removal of discounts and general growth in the tax base in year = +£5.465m;
- Net Impact on MTFP in 2013/14 = Balanced

- 14 Based upon the adjustments identified in paragraph 13 this caused a £2m shortfall in the 2013/14 budget. In line with previous reports to Cabinet, research has been carried out into how additional 'corporate' savings could be identified to contribute to MTFP savings shortfalls. These 'corporate' savings were expected to result from procurement reviews, from reduction in consumption of goods and services and from maximizing financial opportunities. Work is being finalised in these areas but there is confidence that the £2m shortfall can be brought into balance.

Medium Term Financial Plan

15 The MTFP (3) report to Cabinet in October identified that the savings shortfall for the period 2014/15 – 2016/17 was £46m. An updated MTFP (3) model is attached at Appendix 2. The key adjustments for the period 2014/15 – 2016/17 are as follows:

(i) Government Cuts

The additional 2% cut in Government funding in 2014/15 has been factored in.

(ii) Council Tax Income

The previous model assumed an annual Council Tax increase of 2.5%. This assumption has been reduced to 2.0% for 2014/15 – 2016/17 in line with the recently announced referendum level. This results in an increase in the shortfall of **£2.557m**. In addition in 2015/16 it is assumed that the Council Tax Freeze Grant from 2013/14 will no longer be received.

(iii) Pay / Price Inflation

The recently completed pay and price inflation reviews have resulted in increased allowances. This has resulted in the 2014/15 – 2016/17 shortfall increasing by **£0.814**.

(vi) Carbon Reduction Commitment (CRC)

The Government has announced that the CRC will be applied to Street Lighting from 2014/15. The additional annual cost is estimated to be **£0.280m**.

(vii) Landfill Tax

The new waste contracts will result in a significant increase in the treatment of waste with no waste going to landfill from 1 June 2013. The previously forecasted future increases in landfill tax will therefore no longer apply. The **£2.81m** included in the MTFP for 2014/15 – 2016/17 will therefore not be required reducing the shortfall.

16 Overall, after taking the adjustments into account from paragraph 15 therefore, the MTFP shortfall has increased from £46m to **£53.0m** for the period 2014/15 – 2016/17. Work will continue to identify the savings required to eradicate this shortfall in the coming months.

Business Rate Retention

17 The MTFP 3 report to Cabinet on 10 October provided details of the Government's Business Rate Retention (BRR) consultation paper. At that time, the council was forecasting that the Government would not be publishing a response to the consultation paper before the financial settlement. Although the Government have subsequently confirmed this will be the case, the Department for Communities and Local Government published a Briefing

Note on 21 November confirming the Government's approach to a number of key issues in relation to the operation of the BRR scheme. The key issues detailed are as follows:

- (i) The share of business rate income retained by councils (the local share) is confirmed as 50% with the Government retaining 50% (the central share)
- (ii) The safety net level will be 7.5%. The Government's consultation had identified a range of 7.5% to 10%.
- (iii) The Government have increased the sums councils can retain from additional business rates it generates from new business start-ups in their areas. The 'levy' will now be 50p in the pound allowing councils to retain a greater proportion of so called 'excessive' increases in business rates.
- (iv) In line with the consultation paper the council will need to pay 2% of the local share to the County Durham and Darlington Fire Service.

MTFP Consultation

- 18 This year's budget consultation continues to build on our on-going approach to involving local people in our decision making processes. The consultation provides a range of opportunities for local people to get involved and have their views heard; including Area Action Partnership (AAP) Forums, the Citizens' Panel, fora that represent people that meet the protected characteristics within equalities legislation and an online questionnaire.
- 19 The budget consultation closes on the 28 December 2012 and a full analysis of all results will be presented to Cabinet on the 16 January 2013.
- 20 At the time of preparing this report, the consultation had recently been completed with the 14 AAPs. Approximately 870 people attended these meetings where they were asked to consider two questions:

Question One - Having listened to the presentation on the Council's approach to funding reductions in its services, how well do you think we have managed the process?

An initial analysis clearly indicates a high level of satisfaction with the way the Council has managed the process. On a scale of 1 to 10, with 10 being excellent, the average score was 8.

Comments indicate an appreciation of the high level of consultation and the involvement of local people in shaping decisions.

The overwhelming view was that the Council had managed the process very well given the difficult circumstances and the tough economic decisions necessary; but it is essential that the involvement of local people remains central to this process.

Question Two - Do you have any comments or suggestions to help us manage further budget reductions?

It was stressed that the Council should, wherever possible, continue to protect frontline services and any future staffing cuts should be applied across all levels including senior management.

A recurring suggestion was to seek opportunities for collaborative working across sectors including the community and voluntary sector, Town and Parish councils and the private sector.

Further ideas included reviewing the use of accommodation, selling council assets and better management of council premises in terms of energy efficiency and usage. Attention focused on the monitoring of procurement and ensuring that all contracts are efficient and represented value for money.

- 21 These findings represent an initial analysis of the results to date. A detailed picture will be available at the end of the consultation period and, as highlighted above, this will be included in the report to Cabinet in January, 2013.

Equality Impact Assessments (EIAs)

- 22 An essential element of the MTFP process is ensuring that equalities implications of all proposed budget reductions are built into the development of savings proposals and decision-making. The purpose of conducting EIAs on MTFP proposals is:

- (i) To identify any disproportionate impact that proposed budget reductions may have on service users or staff based on the 'protected characteristics' of Age, Gender (including pregnancy/maternity and transgender), Disability, Race, Religion or belief, and Sexual Orientation (in line with the Equalities Act 2010);
- (ii) To identify and take mitigating actions to reduce impact where possible;
- (iii) To ensure that unlawful discrimination does not take place as a consequence of MTFP decisions.

- 23 As explained in the July and October Cabinet reports on the MTFP, this is in line with the Equalities Act 2010 which under the public sector equality duty requires us to pay 'due regard' to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited under this Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 24 Prior to the October Cabinet report, Equality Impact Screenings were developed for all proposals to ensure that equalities considerations inform the development of the MTFP. Services are now working to further develop these screenings in line with the further development of savings proposals. For each savings area services are systematically considering:
- Whether there are service or staffing implications of proposed budget reductions which mean an EIA will be needed;
 - Whether a screening or full assessment will be needed to support members in setting the budget.
- 25 For the January Cabinet and February Council meeting which set the budget, EIAs will be available for all savings proposals. Where a final decision on a proposal is being made then a full EIA will be provided, but in many instances work will be at too early a stage for a full EIA. In these instances, where an in principle decision is being made subject to further detailed development and consultation work, an equalities screening will be provided. The full EIA will be completed as part of the further proposal development, and provided to Cabinet or the delegated decision-maker to inform final decision making.
- 26 Members will also be provided with an update on the ongoing cumulative impact of MTFP decisions in relation to characteristics protected under the Equality Act 2010. This will give decision-makers the opportunity to adjust proposals if feasible to reduce any cumulative impacts that may occur.

Recommendations

- 27 Cabinet are asked
- (i) To note the impact of the Autumn Statement announcements on 5 December upon MTFP 3.
 - (ii) To note that it is expected that the local government finance settlement could be announced as late as 19 December 2012;
 - (iii) To agree the adjustments in relation to the 2013/14 budget and the current expectation that additional 'corporate' savings will be brought forward to balance the £2m budget shortfall;
 - (iv) To note the revised MTFP shortfall for the period 2014/15 to 2016/17 of £53.0m;
 - (v) To note the update in relation to the Business Rate Retention scheme;
 - (vi) To note the update in relation to Equality Impact Assessments.

Contact:	Jeff Garfoot	Tel: 03000 261946
	Gordon Elliott	Tel: 03000 263605
	Jenny Haworth	Tel: 03000 268071

Appendix 1: Implications

Finance - The report identifies a forecast balanced budget for 2013/14 although there is recognition of uncertainty relating to the Local Government Finance Settlement. The report highlights a £53.0m budget shortfall for the period 2014/15 – 2016/17.

Staffing - The savings proposals within the MTFP (3) and any additional savings identified could impact upon staff. Due HR processes will need to be followed.

Risk - Risks continue to be assessed with analysis building upon risk assessments in previous MTFP (3) reports.

Equality and Diversity / Public Sector Equality Duty - Equalities considerations are built into the proposed approach to developing the MTFP (3), Council Plan and Service Plans, as a key element of the process.

Accommodation - None

Crime and Disorder - None

Human Rights - Any Human Rights issues will be considered for any detailed MTFP (3) and Council Plan proposals as they are developed and decision made to take these forward. There are no Human Rights implications from the information within this report.

Consultation - Initial feedback is provided in this report with detail to be provided in the January 2013 MTFP (3) report.

Procurement - None

Disability Issues - All requirements will be considered as part of the equalities considerations outlined within the main body of the report.

Legal Implications - None