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EXECUTIVE COMMITTEE

Monday, 3 December 2012 (10.00 am)

Please find the attached report marked as "TO FOLLOW" on the Executive Committee agenda which was not received by the agreed cut-off time.

- 4** **2013/14 BUDGET STRATEGY UPDATE - (B) UPDATE TO BUDGET STRATEGY AND INITIAL DRAFT REVENUE BUDGET 2013-14**
(Pages 1 - 14)

To submit the report of the Interim Head of Function (Resources) and Section 151 Officer.

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Agenda Item 4

AGENDA ITEM NO.

| ISLE OF ANGLESEY COUNTY COUNCIL | |
|---|---|
| Report to | EXECUTIVE COMMITTEE |
| Date | 3 DECEMBER 2012 |
| Subject | UPDATED BUDGET STRATEGY AND INITIAL DRAFT REVENUE BUDGET 2013-14 |
| Portfolio Holder(s) | COUNCILLOR J CHORLTON (FINANCE PORTFOLIO HOLDER) |
| Lead Officer(s) | INTERIM HEAD OF FUNCTION (RESOURCES) AND SECTION 151 OFFICER |
| Contact Officer | GILL LEWIS/EINIR THOMAS |
| Nature and reason for reporting: | |
| To enable the Executive to approve the budget assumptions and the effect of the provisional settlement. | |

| A – Introduction / Background / Issues | | |
|--|---|----------------------|
| | | |
| B - Considerations | | |
| | | |
| C – Implications and Impacts | | |
| 1 | Finance / Section 151 | Author of the report |
| 2 | Legal / Monitoring Officer | |
| 3 | Human Resources | |
| 4 | Property Services (see notes – separate document) | |
| 5 | Information and Communications Technology (ICT) | |
| 6 | Equality (see notes – separate document) | |
| 7 | Anti-poverty and Social (see notes – separate document) | |
| 8 | Communication (see notes – separate document) | |
| 9 | Consultation (see notes – separate document) | |
| 10 | Economic | |
| 11 | Environmental (see notes – separate document) | |
| 12 | Crime and Disorder (see notes – separate document) | |
| 13 | Outcome Agreements | |

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|--|
| CH - Summary |
| |
| D - Recommendation |
| <ul style="list-style-type: none">• The draft standstill budget should be adopted by the Executive as a basis for the 2013-14 revenue budget;• That the Executive should seek to make sufficient savings in 2013-14 to balance the revenue budget without use of reserves;• That the Executive should plan to cover unavoidable costs of severance or other one-off costs of delivering savings without the use of reserves. |

Name of author of report:

Gill Lewis, Interim Head of Function (Resources) and Section 151 Officer

Date: 26 November 2012

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| Appendices: |
| Appendix A : Draft Standstill budget |

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| Background papers |
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1. BACKGROUND

1.1 Earlier Decisions

1.1.1 The Budget report to Commissioners in July updated the Medium term Financial Revenue Strategy and assumptions for the 2013/14 budget. The report set out the budget gap based on the likely WG settlement and the protection of services. Commissioners approved the direction of travel and the recommendation to model 7% efficiencies across the Council to meet the budget gap. All Directorates were subsequently asked to develop proposals to find 7% savings options in preparation for the 2013-14 budget setting process on the basis that the 2013-14 Aggregate External Finance (AEF) would be as forecast.

1.1.2 The Budget and Strategy Statement presented to Commissioners on 23 July 2012 laid the following underlying principals in establishing the standstill budget:-

- To adopt an intention to increase the Council Tax by 5%;
- Assuming up to 3% for possible 'catch up' pay increases;
- Increases to pensions;
- Actual inflationary increases where these are required by law or by contract, for non-domestic rates etc;
- Utilities inflation of 10%;
- Current inflation for other supplies and services of 2%;
- Other committed changes as a result of decisions already taken.

The plan also includes the expectation that the third year of the Affordable Priorities Programme would be achieved.

1.1.3 Use of reserves. It has been assumed that there will be no use of reserves to fund the revenue budget in 2013-14 as there is a general need to increase rather than reduce general reserves.

1.2 Provisional Local Government Settlement

1.2.1 The Minister for Local Government and Communities announced the provisional local government settlement on 16 October. Consultation has now closed and a response was sent by the Leader by the deadline.

1.2.2 The provisional settlement informs us of our likely AEF of £99.96m which comprises of Revenue Support Grant (RSG) of £78.92m and Redistributed National Non Domestic Rates (NNDR) of £21.04m. There is expected to be further changes to the split between RSG and NNDR, but with no significant changes in the overall AEF.

1.2.3 The provisional settlement confirms a number of 'transfers in' to the settlement of specific grants funding as highlighted below.

1.2.4 In addition to these, there is a significant additional sum for the additional burden of Council Tax Support. Council Tax Support is the new scheme to replace Council Tax Benefit. The sum included in RSG (£4.468 million for Anglesey) has been calculated on the basis of past costs, reduced by 10% and, as Council Tax Benefit claims figures vary over time, we believe the distribution to be out of date. Representations have been made to the Minister to reverse this treatment and to provide specific grant which can be amended during the year.

- 1.2.5** The other 'transfers in' have replaced specific grants according to agreed formulae. Finance Officers have been concerned for a number of years about the detrimental effect to the budget of the transfer in of the Learning Disabilities Resettlement Grant. As it happens, the figures have been transferred on more or less a like for like basis and, therefore, have a neutral overall effect on the Council's budget and services. For Learning Disabilities Resettlement Grant and some other cases, this is the result of phasing in the change over time. It is to be expected that these amounts will change in the final settlement as data is updated.

Transfers Out:

- None

Transfers In:

- Blue Badge Grant Scheme - £9k;
- Appetite for Life Grant - £62k;
- School Counselling Grant - £90k;
- Local Government Borrowing Initiative Grant - £124k;
- Post 16 - SEN in Mainstream £98k;
- Post 16 - SEN Special Schools and Out of County - £411k;
- Learning Disabilities Resettlement Grant £976k.

- 1.2.6** The provisional settlement suggests a 1.07% increase in AEF for Ynys Môn, the sixth lowest increase in Wales and, as was the case last year, that there will be no floor mechanism. The increase in the AEF is £1.007m after allowing for the above transfers in.

Changes in the settlement are caused by data changes in the formula. The updating of the figures within the formula also includes numbers of people and other data which measure the demand on the Authority's services. For these statistics, ultimately it is the Authority's share of the Welsh total which determines whether it has done better or worse than the rest of Wales.

1.3 The Chancellor's Autumn Statement

- 1.3.1** The Chancellor will present his Autumn Statement on 6 December 2012. This will give an update on public finances and the economy.

- 1.3.2** Although this is not expected to impact significantly on the final funding announcements for 2013-14, it will give an indication of the direction of travel.

1.4 The Final Settlement

- 1.4.1** The Final Settlement is due on 11 December. There will be changes to reflect data changes in the formula. The main issues from the consultation are the Council Tax Support Scheme and the top-slice for Collaboration.

2. REVENUE BUDGET 2013-14

2.1 Standstill Budget

- 2.1.1** Appendix A presents the initial draft high level standstill revenue budget for 2013-14. This takes the 2012-13 finalised budget as the starting point and reflects budget movements throughout the year, grant transfers, staffing movements, inflation and committed changes.

- 2.1.2 The standstill budget has taken account of the factors described in 1.1.2 as per the Commissioners Budget Strategy Statement:

Inflation reduced during 2011-12, ending the year below 3%. It has fallen further this year. The Bank of England projection for August suggested inflation at 2% during 2013-14. The November projection shows a slightly higher rate. It should also be noted that certain factors such as energy have been consistently higher than general inflation for the last few years. A 10% allowance was put in the 2013-14 budget as energy have announced a fresh round of price increases. This will once again need to be monitored carefully due to its volatility and unpredictability.

- 2.1.3 The main change from the Budget Statement is a reduction in the projected pay increase for the year from 3% to 1% based on the initial stages of the pay negotiations and comparisons with other authorities across Wales and the UK. This has a significant effect on the strategy.

- 2.1.4 The standstill budget has also allowed for:

Loss of Specific Grant income. The specific grants added to the RSG settlement of £2.155m mean a loss of specific grant income of £2.149m from service budgets. The individual grants are listed in paragraph 1.2.4.

Staff increments. An increase in cost of £514k due to staff incremental progression.

Staff turnover savings. New staff starting at bottom of scale of £350k.

Employers Superannuation increases. Increase in superannuation rates from 22% to 22.5% estimated to cost an additional £145k per annum.

Increase in capital financing. A net increase of £107m in costs due to the approved growing level of external debt.

Penhesgyn gas generation. A reduction in income budget of £45k because the electricity generation project is not generating as much surplus as was projected in the 2009-10 project – although remaining a viable project.

- 2.1.5 Limited demographic changes have been applied. There is little change in pupil numbers for the year. Discussions are still ongoing with Social Services on their demographic and demand figures and these are discussed as pressures later in the report.

- 2.1.6 The standstill budget assumes that the current year savings under the Affordable Priorities Programme are achieved as far as those projects already underway, but with a small number of amendments to reflect known changes and slippage. The longer term savings, principally from collaboration initiatives, have been removed but are likely to be included in the future years of the Efficiency Strategy.

2.2 Risk and Contingencies

2.2.1 There are a number of key risks which the Authority faces in 2013-14 which may have an impact on its finances as the year progresses. Some of these risks cannot be quantified at this stage, include but not limited to:

- The localisation of Council Tax Support is the most significant financial risk in the coming years. This volatile area is difficult to predict and there are uncertainties around the level of support which should be awarded; the likelihood of collection (the expected rate of collection has been reduced by 1% this year); and the ongoing cost of collection and recovery;
- Changes in benefits as a result of government housing benefit reforms. From 1st January 2012 new benefit rules were introduced and the plans for Universal Credit are well advanced. Changes so far include capping the amount of benefits individuals can claim and will undoubtedly mean pressures on our benefits and housing functions; Pay Award - As highlighted in Para 1.1.2, the budget strategy paper assumed that there could be a pay award in 2013-14 and recognised that this could be between 0 – 3%. In the light of more recent announcements and liaison with other organisations, this has been revised down to 1%, this will remain a risk;
- Specific Grants - As this report is presented there is currently very little detailed information on grant allocations for 2013-14. The standstill position currently reflects some grants which are at 2012-13 levels. Any reductions in grant levels in 2013-14 will have to be managed by equivalent reductions in expenditure, either directly related to the grant or through other areas of the budget. The income budgets in respect of grants that have been transferred in as part of the provisional settlement have been stripped out of the budget, however, this has had a largely neutral effect as mentioned in section 1.2 above;
- Cost of Intervention - Uncertainty remains around the future costs of the intervention. The Commissioners have reduced from 5 to 3 and taken on a different role. However, the Executive have now resumed control from 1 October 2012 and a full year effect will need to be built into the 2013-14 budget. In addition, following the Estyn review earlier in the year, a Recovery Board has now been put in place to assess the improvements measured against the Council's action plan. The costs of this are currently being determined and will need to be built into the 2013-14 budget. It will be necessary to take a view on this before the budget is set;
- The current activity in relation to the potential nuclear power station and the Enterprise Island Programme has been covered in previous budgets. It may be necessary to amend them from time to time and the pressures on the budgets are being reviewed.

2.2.2 Often the uncertainty surrounding proposed budgets is because of a number of major contracts out to tender. This is due to the final value not being known until the tendering exercise is completed. There are only a small number of major contracts due for retendering in 2013-14 and this reduces the uncertainty.

- 2.2.3** The annual contingency budget for Job Evaluation and Employment Costs now stands at £900k, i.e. 2% of the relevant pay bill. This has been this rate for the last 3 financial years. This reflects a decision in 2010-11 to proceed with a review of lower paid workers, mainly on spot salary. More work has now been undertaken on Job Evaluation and potential equal pay claims and the Pay and Grading Panel decided to proceed with the whole Council on Job Evaluation, not just part. A Project Plan has been drawn up with an expected timetable and work will shortly commence to build on the ground work undertaken in the last year. This is a key financial risk and it will require continual review as the Job Evaluation process is developed and methodology agreed. The Medium Term Financial Strategy includes an additional £400k from 2013-14 and a further £400k in the following year. Although reserves have been built up over a number of years, the outcome of this exercise is currently unknown and, given the varying experiences of other Authorities within the UK, is difficult to assess. However, reviewing other schemes and costs, it is likely that there may be insufficient in the reserve currently to implement fully.
- 2.2.4** The 'process' contingency contains an additional £500k which is held to cover uncertainty as the budget process proceeds. It should be possible to remove the main part of this contingency in the next phases of the budget round. No significant contract contingency is required, but a general contingency will be required to deal with unforeseen events during the year.
- 2.2.5** The budget also includes contingency of £190k for mainly one-off spend to support the performance and implementation activities. The service budgets assume £355k Outcome Agreement Grant funding. The major uncertainty is the use of contingency to fund the costs of intervention and also the possibility of a proportion being withheld if the outcome agreements are not achieved.

2.3 Budget Gap

- 2.3.1** It is recommended that the draft standstill budget should be adopted by the Executive as a basis for the 2013-14 revenue budget.
- 2.3.2** Taking the Provisional Settlement figures and assuming the Council increases the Council Tax by 5%, a reduction in tax base of 0.65% (as approved by the Executive), would give a total council tax revenue increase of 4.32%. Therefore, the affordable total budget requirement is:-

| | £000 |
|----------------------------|----------------|
| Aggregate External Finance | 99,961 |
| Council Tax | <u>27,867</u> |
| | <u>127,828</u> |

- 2.3.3** The standstill budget, i.e. budget, before any additional growth is considered. The budget gap at the draft initial standstill position is £2.3 million.

2.3.4 The Budget Strategy report included a top level forecast showing a potential funding gap of £4.3m for 2013-14. This included £0.7m growth projection over and above demographic growth and protection for schools budgets. The position at standstill is now £3.45m. The main changes are:

- a reduction in the assumption for the pay award from 3% to 1% - less cost of £1.4m;
- a reduction of £0.8m in assumed saving from the third year of the Affordable Prioritise Programme;
- increase in net external funding of £0.2m.

3. BUDGET STRATEGY

3.1 Efficiency Strategy

As part of the budget and service planning framework, an efficiency strategy is now being prepared, based on Annual Service reviews and designed to obtain sustainable efficiency savings over the life of the new Council. These medium term savings are likely to cover:

- Better use of technology;
- Standardisation of systems;
- Procurement and commissioning;
- Internal collaboration and centralisation;
- Collaboration;
- Better use of assets.

3.2 Revised Budget Projections for 2013-14 onwards

3.2.1 Taking account of the foregoing, the following table shows an updated three year budget projection:-

| Funding Available: | 2012-13 £m | 2013-14 £m | 2014-15 £m | 2015-16 £m |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Welsh Government | 92.3 | 100.0 | 100.7 | 100.7 |
| Council Tax | 26.7 | 27.9 | 29.3 | 30.8 |
| Total | 119.0 | 127.9 | 130.0 | 131.5 |
| Previous Year Budget | 119.0 | 125.6 | 127.9 | 130.0 |
| Schools Budgets | | | | |
| Inflation/Growth | 0.5 | 0.8 | 0.5 | 0.5 |
| Other net cost increases | 1.9 | 1.3 | 2.6 | 2.6 |
| Demographic changes | 0.3 | 0.6 | 0.5 | 0.5 |
| Capital Financing & Interest | -0.1 | 0.1 | 0.1 | 0.1 |
| Financing unsupported borrowing | 0.1 | 0.2 | 0.4 | 0.4 |
| Salary & Grading Review | 0.0 | 0.4 | 0.4 | 0.0 |
| Investing in change/ severance | 0.0 | 1.5 | 0.0 | 0.0 |
| Pressures | n/a | 1.3 | below | below |
| Other growth | 1.3 | | 0.7 | 0.7 |
| Rounding | -0.1 | 0.1 | n/a | n/a |
| APP savings | n/a | -0.5 | n/a | n/a |
| Funding Gap | -3.7 | -3.5 | -3.1 | -3.3 |
| Budget | 119.2 | 127.9 | 130.0 | 131.5 |
| Adjustment to base | 6.4 | | | |

The funding figure is derived from the WG provisional settlement. However, this could change further with both the final settlement and future data changes and the current economic environment.

In this table, 2012-13 is a summary of what was done that year and 2013-14 is taken from the latest standstill budget figures, as outlined at section 2 above. The projections for 2014-15 and 2015-16 have been taken from those presented in the Budget Strategy statement, updated for the latest AEF figures from the final settlement. The Council Tax projections assume an annual increase in yield of 5%, although, in practice, this could be made up of an increase in taxbase of 1% say, and an increase in the Council Tax rate of 4% should the housing market/sector pick up in the future.

- 3.2.2** The savings requirement has been treated as a balancing figure in this analysis. It is consistent with the top level analysis in the Budget Strategy report presented in July, that savings totalling around £144 million need to be made over the next three years, although the figures have reduced slightly with the revised assumptions.

3.3 Savings Proposals

- 3.3.1** The need to make revenue savings on an unprecedented scale, not just for 2013-14 but for the foreseeable future, is of course the dominant issue of the budget strategy. The proposals that have been put forward to date by directorates are a mix of Savings, Efficiencies and Service Reductions.
- 3.3.2** The report to the Board of Commissioners in July 2012 highlighted the level of savings needed to balance the budget. If Members choose to protect education and social care in line with the Welsh Government expectations, then the Council will need to find efficiencies of at least 7% without growth pressures.
- 3.3.3** The savings targets will not necessarily be applied in an even pattern across all services, but will reflect choices and priorities as set out by the Executive. To facilitate those options, all services are currently working through proposals for 2013-14 and the following two years to re-model service delivery in line with a reducing financial envelope.
- 3.3.4** The outcome of these deliberations will be discussed at the All Member workshop on 4th December and further refined in preparation for consultation on proposals.
- 3.3.5** The saving proposals that have been submitted to date do not include any allowance for any anticipated redundancies.
- 3.3.6** The majority of the savings proposals that have been submitted to date will, inevitably, have an impact on service delivery to different degrees, which will need to be considered when deciding which options to package.
- 3.3.7** The proposals will depend also on the Executive's objectives. There is a potential that not all the proposals that have been submitted will be implemented, some need further verification, some are not new and many will take time to deliver savings. The Council is currently undertaking service reviews across the Council and, in parallel, is developing an efficiencies strategy to help in taking the Council forward in meeting budget targets over the next three years.

3.3.8 Some of these savings proposals will, inevitably, involve reduction in staff numbers, some of which may be achievable by “natural wastage”. The savings proposals currently assume a full year’s worth of saving in relation to staffing reductions. There is a timing risk associated with these, in that if the staffing is not reduced on 1st April, then the full saving will not be achieved. It is also likely that there will be staff severance costs involved in making savings. For this purpose, it will be necessary to set aside a further contingency for redundancy on a similar scale to that approved in the 2012-13 budget, i.e.£1m.

3.3.9 It is recommended that:

- (a) that the Executive should seek to make sufficient savings in 2013-14 to balance the revenue budget without use of reserves;
- (b) that the Executive should plan to cover unavoidable costs of severance or other one-off costs of delivering savings without use of reserve.

3.3.10 Capital

The provisional settlement for 2013-14 and the indicative settlements for the following two years are:-

| Financial Year | Funding indicatives and provisional settlement £’m |
|----------------|---|
| 2013 - 14 | 3.446 |
| 2014 - 15 | 3.446 |
| 2015 - 16 | <i>Indicative figure not provided by Welsh Government</i> |

This is a reduction of 15% on the £4.050 million allocation. The 2012-13 capital budget was set by rolling forward the budget from the previous year and by:

- Reviewing and updating budgets for capital maintenance and / or replacement of fixed assets;
- Including known changes;
- Including new grants where known;
- Using the Welsh Government General Capital funding together with an assessment of the capital receipts likely to be available;
- Reviewing and revising the general contingencies (the unsupported borrowing contingency and unallocated contingency) with new budgets of £1m and £0.8m respectively;
- Including the Housing Revenue Account according to the revised and updated 30 year plan.

During the last two years several major programmes were under review, the residential homes programme and the leisure centre rationalisation programme required a new direction and the housing renewal policy was being finalised. This has meant that related capital budgets were not and have not been allocated.

3.3.11 Work is underway on an options appraisal to identify an appropriate solution to the Authority's investment needs for its assets. This is linked to the 21st Century Schools programme; modernisation of adult social care; as well as other key parts of the authority's estate. A new Capital Investment Strategy will also be prepared. As these preparations are made, the proposed approach for 2013-14 is:-

- To complete the current projects;
- To use available capital grant and supported borrowing allocations;
- To allocate £1m in unsupported borrowing for spend to save initiatives;
- To consider allocating budgets for upgrade of the Authority's schools, funded from unsupported borrowing, and to complement the 21st Century Schools programme.

3.5 Growth Bids and Pressures

3.5.1 There was an allowance of £0.7 million for growth in the top level forecast presented in the Commissioners' strategy and budget statement in July.

3.5.2 This has now been reviewed and updated and allowance has been made for a number of pressures, the most significant being:

| |
|---|
| Welfare reform |
| Rebase foster care budget |
| Protection for schools (shown separately in forecast) |
| Auto-enrolment for pension schemes |
| Severance contingency |
| Cost of change – to underpin the savings and modernisation agenda |

3.5.3 It should also be noted that a number of growth proposals have also been submitted. The total of the above proposals comes to £2.1 million. These will need to be prioritised against the savings proposals requiring either further saving proposals to be taken or further saving proposals to be identified.

3.5.4 Based on the above the revised gap is £3.45 million as shown in the appendix. There are some options around contingencies and contributions to balances and reserves that require careful consideration before the budget is eventually set.

4. SCHOOL BUDGETS

4.1 Indicative budgets will be issued to schools during December 2012 as soon as the final WG settlement is confirmed. The provisional settlement sets out a level of protection for schools budgets which will need to be modelled taking into account contracts and demographic changes.

4.2 All assumptions applied to the schools budget have been the same as that of other directorates within the Authority. The exception to this is the Authority has not, at present, requested a specific savings level. This request will be dependent on the Authority's overall position and priorities. It should also be noted that all recommendations above and within para 7.3 apply to schools budgets.

4.3 There is to be further consultations with the schools, including the schools forum, during the consultation period.

5. MATTERS FOR DECISION

- 5.1** The content of the Budget is not prescribed, but its timetable requires the co-operation of the the Executive, Scrutiny and the full Council if it is to be adopted in March 2013.
- 5.2** An all Member workshop has been established for 4th December 2012 to go through the options for growth and savings.
- 5.3** The initial proposals for the budget will be presented to the Executive in January. Following that meeting the completion of a consultation document covering both strategy and annual budget issues should serve both the requirements of the Constitution and public consultation.
- 5.4** This report has recommended:-
- The draft standstill budget should be adopted by the Executive as a basis for the 2013-14 revenue budget;
 - That the Executive should seek to make sufficient savings in 2013-14 to balance the revenue budget without use of reserves;
 - That the Executive should plan to cover unavoidable costs of severance or other one-off costs of delivering savings without the use of reserves.

APPENDIX A - Summary of draft standstill budget and budget gap

| Directorate | Draft Standstill Position |
|---|--|
| | £000 |
| Lifelong Learning (including schools) | 47,485 |
| Community Services | 31,883 |
| Sustainable Development | 22,592 |
| Deputy Chief Executive | 8,316 |
| Corporate and Democratic Costs | 2,269 |
| Council Tax Support - additional responsibilities | 4,468 |
| Levies | 3,223 |
| Capital Financing and Interest | 7,185 |
| Recharges to HRA/ DSO | - 358 |
| Affordable Priorities Programme Initiatives (savings) | - 480 |
| Total | 126,583 |
| Outcome Agreement Grant | - 545 |
| Improvement Contingency | 190 |
| Process Contingency | 500 |
| General Contingency | - |
| Job Evaluation Contingency | 900 |
| Sub Total Standstill Budget | 127,628 |
| From Medium Term Plan: | |
| Additional Job Evaluation Contingency | 400 |
| Additional Unsupported Borrowing Contingency | 200 |
| Pressures: | |
| - Looked after Children | 600 |
| - Autoenrolment | 200 |
| - Welfare Reform | 200 |
| - Schools Protection | 500 |
| Severances Contingency | 1,000 |
| Cost of change Contingency | 500 |
| Contribution from/ to Balances | - |
| Total before Savings | 131,228 |
| Funded by: | |
| Aggregate External Funding | 99,961 |
| Council Tax | 27,867 |
| Discretionary Rate Relief | - 50 |
| Total Funding | 127,778 |
| Funding Gap | 3,450 |

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