

# Report

Report to:	<b>Executive Committee</b>
Date of Meeting:	<b>8 June 2011</b>
Report by:	<b>Chief Executive</b>

Subject:	<b>Revenue Budget Strategy 2012/13</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide the details of an updated financial strategy for the Council's Revenue Budget for the year 2012/13.

## 2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the contents of the report be noted;
- (2) that given a flat-lined Government Grant and the utilisation of centrally held budgets, the projected savings requirement of £12.1m in 2012/13, be noted; and
- (3) that officers be authorised to develop for Committee's consideration a package of savings proposals totalling £12.1 m, from the prioritisation matrix used for the current year.

## 3. Background

- 3.1. A Financial Strategy for the Council's Revenue Budget was presented to the Executive Committee on 10 May 2010. This strategy covered years 2011/12 to 2013/14. Now that the Revenue Budget for 2011/12 has been approved, it is appropriate that the strategy be revised to reflect the most up-to-date base information and that it be focussed on producing a revenue budget for the next financial year, 2012/13.
- 3.2. The report will provide an updated financial strategy, will present an overview of the assumptions on which the strategy is based and outline an approach to progressing the 2012/13 revenue budget.
- 3.3. It should be noted that the budget for 2012/13 will cover the majority of the first year of the new Council, following the 2012 election. To ensure flexibility for the new Council, it is not considered appropriate at this point to produce detailed revenue budget proposals for the years beyond 2012/13. However members can take assurance in terms of medium term financial planning, from the Council's financial strategy, reported to Committee in May 2010

#### **4. Projections of Government Grant**

- 4.1. It is worth noting that as in previous years, the most significant area of risk is in relation to the assumed level of Government Grant. On the 24 January 2011, the Cabinet Secretary announced high level indicative budget figures for the years 2012/13, 2013/14 and 2014/15 (Scottish Government, Draft Budget 2011-12, November 2010; Letter from Cabinet Secretary for Finance & Sustainable Growth to Finance Committee, January 24th 2011).
- 4.2. This Government advice highlighted a 'flatlined' budget settlement for local government for the years 2012/13 to 2014/15. At present this is the only notification of future year figures which the Council has in its possession. Given the Council's dependence on funding from the Scottish Government, if levels of Government Grant funding prove to be significantly different from those outlined in the Cabinet Secretary's letter, then the budget strategy would have to be revisited.

#### **5. Budget Strategy Assumptions**

- 5.1. In order to progress the budget strategy for the Council for year 2012/13, it is necessary to make assumptions in relation to Council Tax and a variety of expenditure commitments.
- 5.2. These assumptions will result in a net savings requirement for the Council as it is likely that anticipated spend will outweigh expected income. The main income and expenditure assumptions are noted below.

#### **6. Council Tax**

- 6.1. For financial year 2011/12, a modest increase in the Council Tax base (approximately 1,000 houses at band D) was taken into account in the budget set. The level of collection rate was assumed as 97.125%, as in previous years. It is proposed that this is not changed as we move into years 2012/13 to 2014/15.

#### **7. Pay Increases (Teachers and Non-Teachers)**

- 7.1. A pay award of 0% has been assumed in 2012/13 for all staff, in line with the current pay agreement. Superannuation increases have been applied in line with information previously issued by Strathclyde Pension Fund adding approximately £2.0 m to the Council's expenditure budget each year.

#### **8. Price Increases**

- 8.1. As in previous years, the assumed increase for prices refers to the inflationary commitments re the Secondary Schools PPP contract (£1.9 m) and the potential increases in utilities prices (£1m). The increase in respect of the Secondary Schools PPP contract is higher than that required in previous financial years due to an increase in the Retail Price Index for 2011/12 and 2012/13.
- 8.2. Also, an amount of £0.500m has been included in 2012/13 in respect of a potential increase in fuel prices of 10%.
- 8.3. A figure of £0.800m included in the strategy in 2012/13 for carbon reduction tax. This is based on emissions at a cost of £12 per tonne. It should however be noted that the price is only fixed for a set period and then costs will be determined by the market. Any future variations in emissions will also have an impact on the cost to the Council.

## **9. Funding for Priorities**

- 9.1. In line with previous years' strategies, monies have been earmarked for Loan Charges to support the Primary Schools Modernisation Programme (£3.5m) and £1m to reflect the demographic changes likely to impact on Social Work Resources' service provision.
- 9.2. An amount of has been added to the 2012/13 budget in respect of a potential budget requirement in relation to the costs of the new Waste Management contract to address the Council landfill diversion targets (£1.9m in 2012/13).

## **10. Related Parties and Joint Boards**

- 10.1. In the case of Joint Boards, Strathclyde Fire and Rescue, Strathclyde Police and SPTE/Concessionary Fares, each of these bodies have provided a set of proposals covering year 2012/13. These proposals provide a total reduction in precepts and payments to service provider organisations of around £0.700m in 2012/13
- 10.2. It should be noted that if settlements on wage awards are not held static, then Joint Boards may re-examine this indicative reduction in precepts each year.

## **11. Winter Maintenance**

- 11.1. The experience of recent winters indicates that the current provision may be insufficient. An amount of £1m has been added to the budget in 2012/13.

## **12. Housing and Technical Resources – Trading Services Allocation**

- 12.1. Due to changing patterns of workload, the level of trading surplus achieved by the Housing and Technical Resource trading service is becoming increasingly difficult to sustain. As part of the strategy, £1m has been added to the budget in 2012/13 to assist in managing this.

## **13. Revenue Consequences of Capital**

- 13.1. The assumptions in the financial strategy include figures for revenue provision for newly opening and recently opened Community Resources facilities.
- 13.2. A submission for Revenue Consequences of capital projects has also been made by Education in relation to the Primary Schools. The majority of these additional costs relate to increased rates and electricity costs for the new schools. It is proposed that a total of £1.2m be put towards these costs, for both Resources, for 2012/13.

## **14. Summary of Savings Requirement**

- 14.1. Taking into account the funding available, the current base budget and the commitments identified above, Table 1 below details the level of savings required in 2012/13 to ensure delivery of a balanced budget assuming a 'flatlined' government grant.

**Table 1 – 'Flatlined' Government Grant**

	2012/13 £m
Estimated Income	
- Government Grant	589.021
- Council Tax	126.500
<b>Total Estimated Income</b>	<b>715.521</b>
Base Expenditure Budget	715.521
Pay / Pensions	2.000
Price Increases	4.200

Funding for Priorities	6.400
Related Parties and Joint Boards	(0.700)
Other (Winter Maintenance and Trading Service)	2.000
Revenue Consequences of Capital	1.200
<b>Total Expenditure Before Savings</b>	<b>730.621</b>
<b>Savings Requirement in Year</b>	<b>15.1 m</b>

## **15. Funding Options and Next Steps**

- 15.1. If Government grant is flat-lined, there is a requirement to make savings of £15.1m in 2012/13. However, there is scope to use funding from centrally held budgets to limit the extent of savings required. These centrally held funds in the main relate to loans fund budgets and total £3m. This means that in 2012/13 there would be a reduced savings requirement of around £12.1m.
- 15.2. Taking this into account, it is then necessary to consider how these savings can be achieved. It is suggested that the first funding option to be considered should be the residual from the original 2011/12 to 2013/14 Savings Prioritisation Exercise, ie those savings which were neither utilised nor rejected during the 2011/12 exercise. After removing savings rejected during the 2011/12 exercise, there remains a prioritised package in excess of £20m for 2012/13, against a potential savings requirement of £12.1m.
- 15.3. It is therefore proposed that the review group of officers which prepared the savings matrix be reconvened, via the Corporate Management Team, to carry out an exercise of service and savings prioritisation, revisiting the prioritised package of savings for 2012/13. The outcome will be brought back to members later in 2011.
- 15.4. Committee should be aware that, if cash levels of grant remain static, a draft package of savings has been collated with sufficient capacity to deliver the savings requirement of £12.1m. Moreover, there would be significant scope for prioritisation of those savings.
- 15.5. This position is however based on the only formal communication yet issued by the Government on budgets post 2011/12. If further, future correspondence adversely changes this picture, a revision to the strategy would be required and scope for savings prioritisation could diminish.

## **16. Employee Implications**

- 16.1. There are no employee implications.

## **17. Financial Implications**

- 17.1. The financial implications are as detailed throughout this report.

## **18. Other Implications**

- 18.1. The paper clearly identifies a number of key risks affecting the finances of the Council and states the assumptions made in relation to each risk. Reference has been made where appropriate, to the implications of these assumptions not holding true. The financial strategy is a way of managing a number of key risks which directly impact on the level of money available to deliver Council objectives. The financial model which is in place in support of the strategy, allows flexible management of changes in the level of risks. However, significant risk is attached to future levels of Government grant. If grant levels for 2012/13 are substantially less than those currently assumed within the report, a fundamental revision of the strategy may be required.

- 18.2. Other, low level operational risks have been considered, but are being appropriately managed without the need to incorporate within the financial strategy.
- 18.3. There are no significant issues in terms of sustainability arising from the recommendations contained in this report.
- 19. Equality Impact Assessment and Consultation Arrangements**
- 19.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.
- 19.2. There is also no requirement to undertake any consultation in terms of the information contained in this report.

**Archibald Strang**  
**Chief Executive**

26 May 2011

**Link(s) to Council Values/Improvement Themes/Objectives**

- ◆ Accountable, effective and efficient

**Previous References**

- ◆ Executive Committee, 10 February 2011 – Revenue Budget and Level of Local Taxation 2011/12
- ◆ Executive Committee, 26 May 2010 - Financial Strategy 2011-2014

**List of Background Papers**

- ◆ Various working / back-up papers

**Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

Paul Manning, Head of Finance

Ext: 4532 (Tel: 01698 454532)

E-mail: paul.manning@southlanarkshire.gov.uk