

REPORT TO:	CABINET 12TH DECEMBER 2011
AGENDA ITEM:	25
SUBJECT:	BUDGET OPTIONS 2012/13
LEAD OFFICER:	NATHAN ELVERY DEPUTY CHIEF EXECUTIVE EXECUTIVE DIRECTOR OF CORPORATE RESOURCES AND CUSTOMER SERVICES
CABINET MEMBER:	COUNCILLOR MIKE FISHER , THE LEADER COUNCILLOR DUDLEY MEAD CABINET MEMBER FOR HOUSING, FINANCE AND ASSET MANAGEMENT(DEPUTY LEADER)
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT: The Council's Financial Strategy 2010/14 ensures the strategic direction and allocation of our resources to support and enable the achievement of our communities priorities through the Corporate and Service plans of the Council and in particular our corporate priority to delivery high-quality public services and improve value for money for the residents of the borough. Our communities have shaped to budget options through a lengthy and on-going period of consultation ensuring that local priorities continue to be reflected in the options proposed for the Cabinet.	
FINANCIAL SUMMARY: The draft savings programme identifies £43.892m of savings over the period 2012/15. These programmes combined will ensure the Council continues to balance the priorities of our community with the need to achieve a balanced budget for 2012/15 in line with the overall Financial Strategy 2010/14 objectives and ensures the continuation of a stable financial platform for the future medium term period managing the predicted challenging times for the public sector which lay ahead of the Council.	
FORWARD PLAN KEY DECISION REFERENCE NO. not a key decision	

RECOMMENDATIONS

The Cabinet is asked to approve for consultation:-

- 1.1 The draft departmental Efficiency programme for 2012/15 as contained in Appendix A;
- 1.2 The draft Cuts programme for 2012/15 as contained in Appendix B;
- 1.3 The draft Step Change programme for 2012/15 in Appendix C;
- 1.4 The draft Income programme for 2012/15 as contained in Appendix D;
- 1.5 The draft Revenue Investment programme for 2012/15 as contained in Appendix E; and
- 1.6 To delegate to the Executive Director of Corporate Resources and Customer Services, in consultation with the Leader, to add further budget options, as necessary, for 2012/15 for the purposes of consultation and decision making.

To enable a balanced budget position for 2012/15 to be recommended to Council on 27th February 2012 and to establish a solid and stable financial platform for the Council for future years in accordance with the Councils financial strategy.

2. EXECUTIVE SUMMARY

- 2.1 In the 2010 Spending Review the coalition Government set out detailed spending plans for the rest of this Parliament. The outcome was, as expected, a very constrained and challenging settlement for local government. Given the stated priorities of education and health there were severe pressures placed on many of the services delivered by local government. These reductions were heavily front-loaded for local government, meaning that the grant reductions were weighted towards larger percentage reductions in earlier years compared to latter. These options are those proposed for the second budget to be set under these constraints within the current Comprehensive Spending Review (CSR) period.
- 2.2 In September the coalition Government announced an additional grant to enable Council's to maintain council tax levels at the current level for the 2012/13 financial year. The grant allocation for Croydon would be £3.716m. The guidance associated with this additional grant makes it very clear that this grant will only be in place for a one year period and no additional grant will be available for the subsequent year(s). It is the intention at this stage of the consultation process and subject to the outcome of the consultation, to set a **zero increase** for council tax for 2012/13 for the Croydon element.

- 2.3 The Cabinet received the 'July Financial Review' report on the 11th July 2011 as part of overall budget strategy preparation and baseline financial assumptions which set out a budgetary financial gap for 2012/13 of **£8.504m** and a gap for the next three years (2012/15) of **£27.082m**.
- 2.4 This report recommends to the Cabinet the approval for consultation an efficiency programme of **£26.319m**, a Step Change programme of **£14.508m**, a cuts programme for 2012/13 of **£1.869m** and an income programme of **£1.196m** to ensure a balanced budget is achieved for the 2012/13 year. Given the scale of the financial challenges faced by the Council over the last 18 months we have been going through a period of budget consultation with all our residents. As part of this on-going consultation programme a paper will be issued on the 13th December to ask for views on the initial budget proposals set out in this paper in accordance with the constitution of the Council.
- 2.5 The Council has a duty under the Local Government Finance Act 2003 to set a balanced budget before 11th March 2012, this report supports the enablement of that duty to be fulfilled.

3. BACKGROUND

Financial Strategy Objectives

- 3.1 The objectives framework of the Financial Strategy is set out in Diagram 1 below with the ten financial strategy objectives outlined in table 1.

Diagram 1

Financial Strategy Objectives Framework

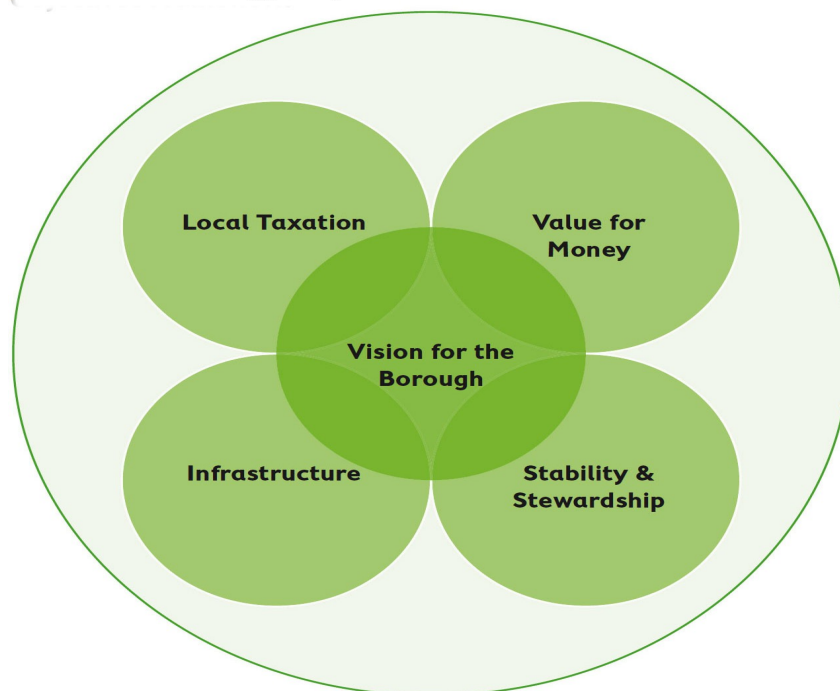


Table 1 – The Financial Strategy Objectives

	Financial Strategy Objectives
1	To work with our partners to enable the achievement of the Vision for the borough.
2	To ensure all resources allocation is policy led based on the best evidence and strongly influenced by our residents priorities.
3	To keep local taxation increase to a minimum.
4	To deliver a minimum of 20% efficiencies over the life of the strategy.
5	To optimise income opportunities.
6	To increase general fund balances to 5% net operating expenditure, maintaining a minimum of 3% over the life of the strategy.
7	To maintain an appropriate level of reserves and provisions.
8	To provide strong financial services, systems and processes to deliver and support a balanced budget.
9	To remain within prudential borrowing limits at all times, and
10	To prioritise future capital investment within the borough to deliver our infrastructure needs.

4.0 The demands of the current Financial Environment

- 4.1 In recommending the programmes to the Cabinet the need to balance specific external financial influences has been fully taken into account. These external financial factors of **£13.872m** and are beyond the direct control of the Council and are described in more detail below:-

The Local Government Settlement (CSR 2010)

- 4.2 The Local Government Finance Settlement in January 2011 was for a two year period and included 2012/13 figures which resulted in actual cash reductions, after damping, **8.3%** in Croydon's formula grant. Although the settlement does not go beyond 2012/13 the Treasury's Spending review figures indicates that for 2013/14 and 2014/15 Croydon's Formula Grant (or its successor) will be reduced, in cash terms, by a further **1.0%** and **6.5%** respectively. These assumptions are therefore included in the financial planning assumptions supporting the financial strategy for the Council.

Council Tax Benefit Localisation

- 4.3 As part of the Spending Review 2010, the Government announced that it intends to localise council tax benefit (CTB) from 2013/14 (1st April) with a 10% reduction in the cost of meeting these needs. These plans were included as part of the terms of reference for the Local Government Resource Review and as it currently stands, the Welfare Reform Bill contains provisions to abolish council tax benefit.
- 4.4 As at the end of the financial year 2010/11 Croydon administered over **£38.5m** of council tax benefit for our residents, therefore considering these figures and the ongoing upward expenditure trend a 10% cost of £3.85m has

been allowed for in the financial planning assumptions of the Council.

Inflation

- 4.5 The latest ONS figures, for October 2011, show annual rates for CPI of 5.0% and for RPI of 5.4%. The Bank of England's November 2011 Inflation Report forecasts that: "*we think inflation will slow sharply through 2012 to at or around the inflation target (for CPI of 2.0%) thereafter*". However, it should be noted that inflation has remained above the 2% target for 23 months and of those, 20 months have been over by more than 1%. Therefore prudent inflationary pressures have been allowed for in the financial planning assumptions of the Council.

Local Government Resource Review – Business Rate Localisation

- 4.6 Currently, all Business Rates (also known as non-domestic rates or NDR) income collected by billing authorities are paid into a central government pool, and then redistributed to individual authorities through the formula grant system. The coalition Government's intention is that from 2013/14 onwards local authorities will be able to retain a proportion of their business rates locally. The coalition Government believes this will provide a financial incentive for growth through councils economic development strategies and through the growth in their business rate income yield.
- 4.7 The coalition Government's stated policy is that the business rates retention scheme will operate within local government's annual expenditure control totals for 2013/14 and 2014/15, as determined by the 2010 Comprehensive Spending Review. This means that any overall proceeds of growth that local government generates will, for the first two years of the scheme, go towards reducing central government funding rather than rewarding local government as a whole. The scope, therefore, for individual councils being rewarded for expanding its business rates income for 2013/14 will be non-existent and for 2014/15 will be limited to being at the expense of other councils whose business rates decline. The extent to which individual councils will actually be rewarded from 2015/16 onwards is unclear at this stage because the government has also stated that it intends to more closely align local authority functions and responsibilities with income from business rates when it decides the determination of the annual expenditure control totals from the next Spending Review in 2014.
- 4.8 The DCLG released a consultation document in July 2011 setting out how the scheme would work and the various options within it, to which the Council responded. At this stage it is difficult to estimate what level of funding Croydon would receive after 2014/15 and therefore financial assumptions have been based on the original Treasury forecasts under the 2010 CSR.

Formula Grant

- 4.9 Formula Grant (Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR)) for Croydon is calculated as follows:-

Table 2 - Formula Grant for 2011/12 and 2012/13

	2011/12 Final	2012/13 Provisional
	£m	£m
Grants	18 .425	18 .313
Relative Needs Amount	115. 286	101. 721
Relative Resource Amount	(51. 023)	(47. 112)
Central Allocation	48 .065	42 .971
Floor Damping	(7. 407)	(3. 565)
Formula Grant	123. 345	112. 328
Comprised of:		
Revenue Support Grant	29 .124	*Not available from DCLG
Payments from NNDR Pool	94 .221	*Not available from DCLG
TOTAL	123.345	-

* These amounts will be known when the provisional settlement is released in early December 2011.

- 4.10 Core Grants which from 2011/12 replaced ABG and specific grants (that were either ended or transferred into formula grant) have been provisionally set as follows. With the exception of Dedicated Schools grant (and the Public Health Grant from 2013/14) they are:-

Table 3 – Core Grants 2012/13

Core Grants	£m
Early Intervention Grant (EIG)	16.683
Learning Disability	15.246
Housing Benefit and Council Tax Administration	3.668
Preventing Homelessness	1.125
Council Tax Freeze Grant	7.375
Total	44.097

5.0 Financial Strategy – Efficiency Track Record

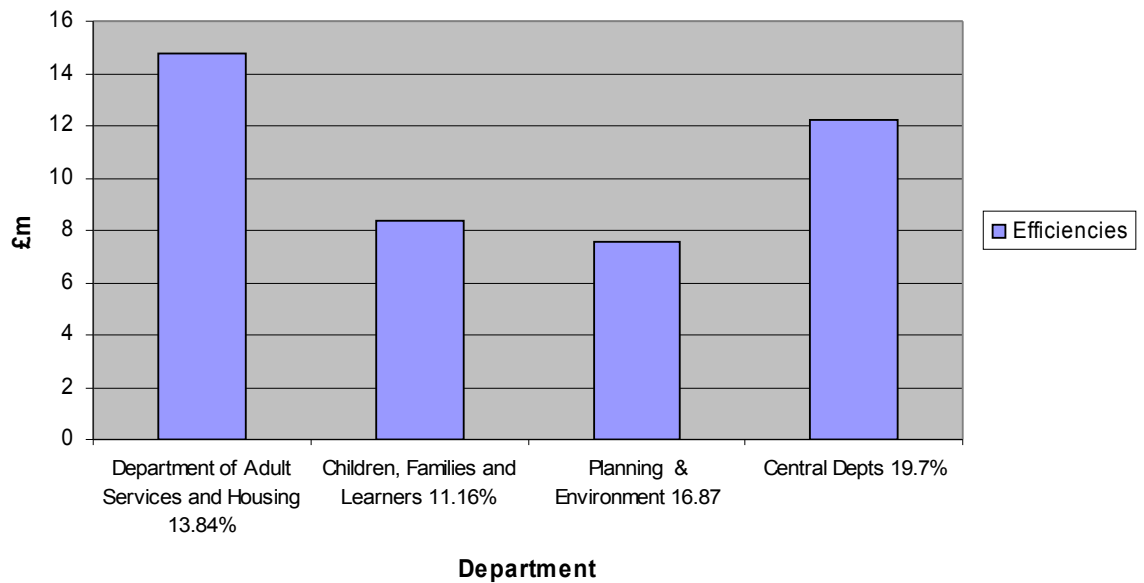
5.1 The CSR 2010 has set the public sector a significant financial challenge by reducing local government grant funding by 26%, with larger reductions front-loaded for the first two years. A reduction of this size at this pace has placed pressure on Council's, and Croydon is no exception, to focus on the pace of transformational change in order to deliver a balanced budget and minimise the impact on front-line services. This Council was well placed to manage this challenge through the creation and subsequent implementation of the Step Change programme. Nonetheless it is inevitable that with the level of central government grant loss not all of the reduction can be managed through increased efficiencies and therefore a cuts programme is necessary over the 2012/15 period. Table 4 below shows the efficiencies and cuts per department for 2012/15.

Table 4 – Savings by Departments 2012/15

Department	Efficiencies Programme £m	Cuts Programme £m	Step Change Programme £m	Income Programme £m	Total
DASHH	9.848	0.504	1.090	0.070	11.512
CFL	6.593	0.085	6.503	0.470	13.651
P&E	1.332	0.554	2.079	0.616	4.581
Central Departments	8.546	0.726	2.461	0.040	11.773
Corporate			2.375		2.375
Total	26.319	1.869	14.508	1.196	43.892

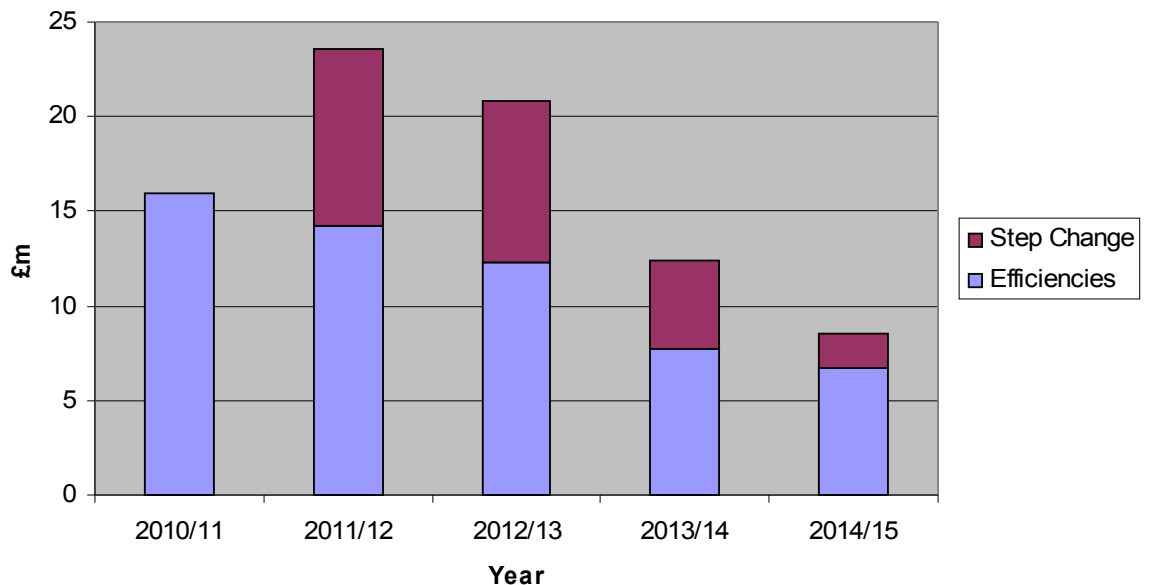
5.2 Graph 3 below gives the details of the efficiencies over 2010/12 by department. Were these efficiencies not achieved it would have resulted in an equivalent increase of **29.13%** in council tax over the financial period.

Graph 1 - Efficiencies by Department 2010/12



5.3 Graph 2 below gives details of the Councils achievements in this financial strategy period (2011/14).

Graph 2- Efficiencies and Step Change Savings



6.0 The Priorities of Our Community

It is important for the Council to understand the priorities of our community and therefore to allow these priorities to shape, influence and direct the resources of the Council to these priorities. This is not a new concept but one which has shaped the financial strategy of the Council for many years.

The on-going consultation and influence of our community's priorities will continue to shape the resource alignment through the policy and budget framework of the Council.

6.1 **Budget Consultation**

A budget consultation simulator has been used over the last two years to engage and consult with our residents to identify their priorities and choices and therefore which in turn shapes the policy and budget framework of the Council. The budget consultation simulator works by letting our residents:

- Understand the financial challenge facing the Council;
- Understanding more about the Council's services and spending levels;
- Prioritise their choices whilst understanding the consequences of their choices on services and council tax levels;
- Prioritise and compare their choices to the Council's previous level of spend and service spend allocation; and
- Communicate to the Council their priorities thus shaping the budget decisions of the Council and ensuring that consultation outcome would be listened to.

6.2 Through the consultation process our residents prioritised the following key core service areas:-

- School Education;
- Children's Social Care
- Support for Special Needs Education;
- Community Safety and
- Adults Social Care.

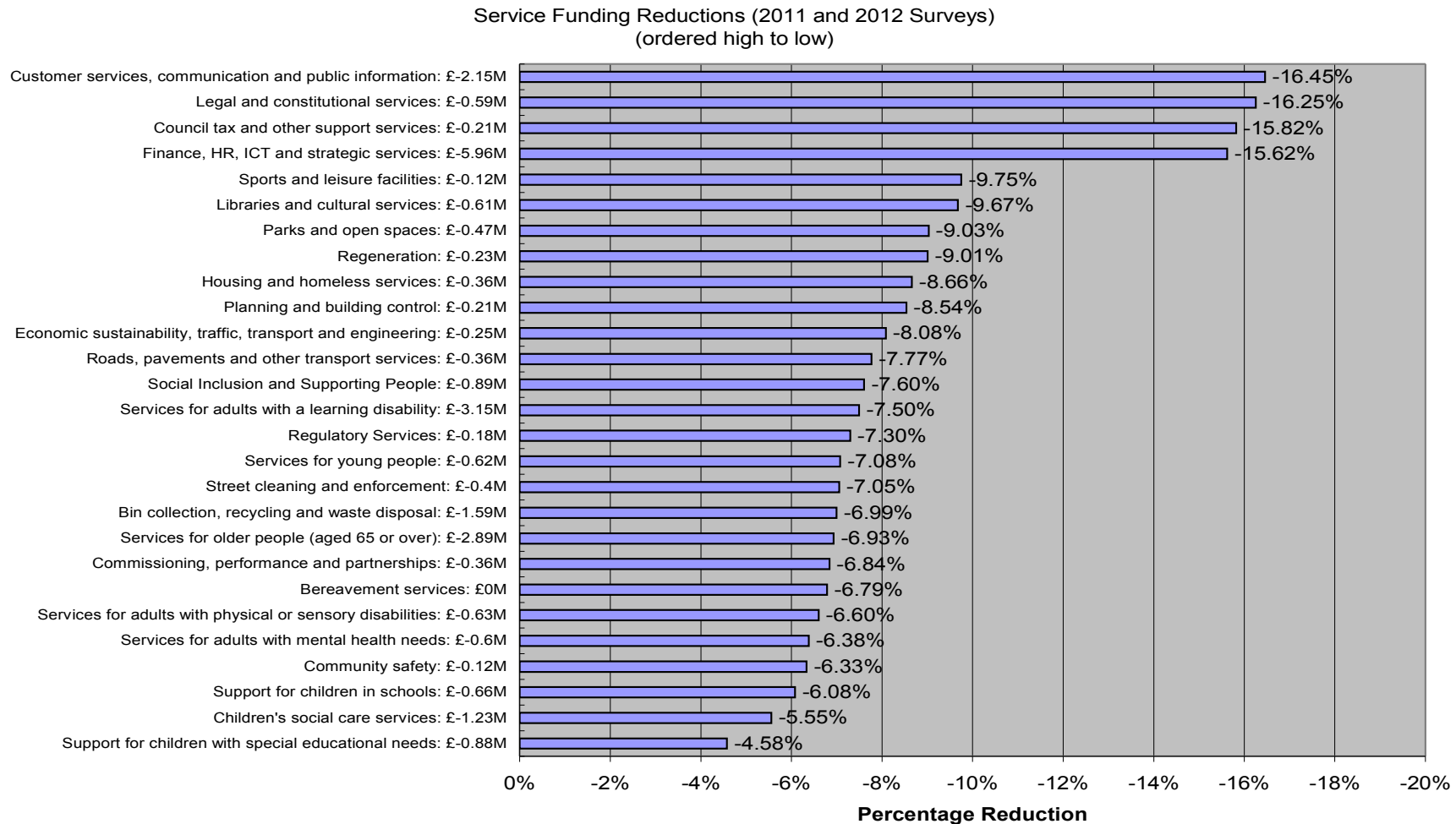
6.3 Other clear messages for the consultation were:

- 1% was the average tax rise posted by respondents
- 15% or more – the level of cuts people made to Customer Services, Council Support, Legal and Constitutional Services, Finance, HR and ICT Services.
- 8.6% - the overall reduction in the Council's budget, taking all service reductions into account.

6.4 The graph below shows the cumulative data from the consultation process. These outcomes have been fully taken into account in the proposed budget options for decision by the Cabinet and in influencing the Council's financial strategy. Whilst as a consequence of the current tough public sector funding reductions these areas can not be fully protected the Council has focused transformational and efficiency to these service areas and focussed therefore

any cuts options to the areas our community have prioritised for reduction.

Table 5 – Our Residents priorities for the Financial Strategy



- 6.5 This reports sets out the proposed savings options for the Council for 2012/15, those where a previous decision has not been made will form part of the on-going consultation process which will be issued on the 13th December and run for approximately 6 weeks. A number of the budget options contained within the appendices will be subject to the appropriate statutory or other consultation requirements and undertaken in such a way so as to ensure the requirement of the Equalities Act 2010 are met.

7.0 Step Change

- 7.1 Given the significant challenging financial environment Step Change Croydon has been targeted to make a significant contribution to the savings that the Council needs to find over the next four years. The Step Change programme is expected to deliver up to £40 million savings between 2011/12 and 2014/15. The more that the Council can save through the Programme and through wider efficiencies, the less pressure there will be on the Council to identify and develop service cuts and therefore the greater degree of protection to front-line services can be afforded.
- 7.2 Step Change Croydon brings together 38 projects and work streams across the organisation and ensures that they operate as a single coherent programme of change. The Programme is taken forward through two complementary transformation strands:
- Activities that are cross-cutting, engaging many parts of the organisation and changing the way the organisation operates internally
 - Activities that also involve significant change, but each targeted within a particular service area, and include new delivery models.
- 7.3 Many of the transformation projects include strengthening the Council's approach to service commissioning, establishing a range of new delivery models such as new local authority trading companies, shared services and outsourcing to business or voluntary sector delivery partners or new models of co-design with service users.
- 7.4 Further transformation projects include unifying and applying more professional rigour to key functions such as procurement, customer services and performance management, optimising organisational structures and introducing new arrangements for business support across the organisation.
- 7.5 A significant proportion of the savings relating to Step Change programme will come from the following key areas:-
- Phase 2 of the procurement taskforce through re-negotiation and extension of some of the Council's highest value contracts, alongside amendments to scope and specifications, and stronger client management.

- The review of layers and spans across the organisation, optimising spans of controls and management layers to ensure that staff and teams are able to work most effectively with the right balance of control and initiative.
- The unification of business support activities across the organisation, providing more professionalised, streamlined and responsive service for similar administrative activities.
- The unification of strategy, commissioning, performance and procurement, completing the changes started in 2011 and ensuring that the Council is better able to respond to the changing national and local policy context and the changing priorities of local residents.
- Exploring opportunities for shared services with other boroughs including through the Council's new Local Authority Trading Company.
- Savings achieved as part of a move to new delivery models for a range of Council services.

Table 6 – Core Step Change Projects

Core Step Change Projects	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Management Layers and Spans Review	1.247	0.410	0.000	1.657
Access Strategy	0.530	0.060	0.000	0.590
Information Management and Mobile Working	0.192	0.142	0.125	0.459
Business Support	0.400	0.400	0.000	0.800
Procurement Taskforce Programme	2.372	1.270	0.477	4.119
Asset Strategy	0.390	0.135	0.000	0.525
Other Projects	3.525	1.753	1.080	5.278
Total	8.656	4.170	1.682	14.508

8.0 Budget Options and Identified Programme Summary

- 8.1 A summary of the identified programmes and associated contributions from these programmes to balance the Council's budgetary needs for 2012/13 is set out in Table 7 below:-

Table 7 – Summary of Identified Programme contribution 2012/13 – 2014/15

Programme	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Efficiencies	12.683	7.491	6.145	26.319
Step Change	8.656	4.170	1.682	14.508
Cuts	1.694	0.030	0.145	1.869
Income	1.171	0.025	0.000	1.196
Total	24.204	11.716	7.972	43.892

9. FINANCIAL CONSIDERATIONS

- 9.1 This report recommends to the Cabinet the approval for consultation an efficiency programme of **£26.319m**, a Step Change programme of **£14.508m** , a cuts programme for 2012/13 of **£1.869m** and an income programme of **£1.196m** to ensure a balanced budget is achieved for the 2012/13 year.

Approved by: Richard Simpson, Director of Finance, Corporate Resources and Customer Services

10 COMMENTS OF THE SOLICITOR TO THE COUNCIL

- 10.1 The Solicitor to the Council comments that the Cabinet is requested to agree a number of recommendations set out above for further consultation following which there will be a report back with the intention of recommending a budget to the Council for decision in February 2012 in accordance with the constitution. The measures proposed include draft cuts and efficiencies some of which may only be delivered following specific statutory consultation and/or other legal procedures having been completed. The specific legal implications, including details of the statutory regimes, are provided in each report.
- 10.2 The draft budget does not assume full year savings in respect of every saving proposal for 2012/13 as it takes account of the possibility that there may only be part year savings as the results of the consultation may lead to changes to draft proposals with further reports and savings needing to be identified.

Approved by: Julie Belvir, Council Solicitor and Monitoring Officer.

11 HUMAN RESOURCES CONSIDERATIONS

- 11.1 The implementation of the efficiency and cuts programme is most likely to necessitate a change of structure and/or skill mix of staff and a change of

working practices. These issues must be taken full account of and the impact on; the council's workforce strategy and plan; learning and development needs; as well as individual posts and staff needs to be considered fully. This must be done in consultation with staff and trade unions. Where this may result in redundancies or changes to terms and conditions of service, full statutory consultation with trade unions and staff concerned must start at the earliest opportunity. For this reason the unions will be engaged through the CSC meetings, including with regards the changes within this report which are being contemplated subject to Cabinet approval. Support from HR Consultancy should be planned for and resourced accordingly. The table below indicates the likely levels of staff reductions if the changes detailed in this report are implemented

Table 8 – Redundancies per department

REDUNDANCY NUMBERS	fte
Children, Families and Learning	86.0
Department of Adult Social Care, Health and Housing	5.0
Corporate Resources and Customer Services	13.0
Planning and Environment	22.0
Chief Executive's	4.5
Corporate	19.0
Total	149.5

Approved by: Pam Parkes Director, Workforce and Community Relations.)

12 EQUALITIES CONSIDERATIONS

- 12.1 An equalities impact assessment (EIA) will be prepared for the Council to inform the final decision on the budget for 2012/13. The information to inform the EIA, identify any negative impacts and hence mitigating actions required will in some instances come from the forthcoming consultations, both on the initial proposals in the budget and those taking place on individual proposals contained within the budget. The significant proposals that are going forward will, where required to enable the Council to take proper account of it's public sector equalities duty, have a full EIA completed to support them.
- 12.2 Therefore while the overall budget can be agreed where such consultation and the EIA's identify impacts that mean the savings package for a particular service cannot be achieved the Council may need to consider alternative options for these to be achieved elsewhere.

13 ENVIRONMENTAL CONSIDERATIONS

- 13.1 There are no direct environmental considerations arising from this report.

14 CRIME AND DISORDER REDUCTION CONSIDERATIONS

14.1 There are no savings which should impact upon this Corporate Priority.

15 HUMAN RIGHTS CONSIDERATIONS

15.1 The potential impact on an individual's Human Rights will be a relevant consideration in relation to any savings proposal for a particular service.

16 FREEDOM OF INFORMATION AND DATA PROTECTION CONSIDERATIONS

16.1 There are no direct freedom of information or data protection implications arising from this report.

Report Author:	Nathan Elvery, Deputy Chief Executive
Contact Person:	Nathan Elvery, Deputy Chief Executive
Background documents:	Financial Strategy 2010/14