REPORT TO:	**CABINET 10 DECEMBER 2012**
AGENDA ITEM:	
SUBJECT:	**BUDGET OPTIONS 2013/15**
LEAD OFFICER:	**NATHAN ELVERY** **DEPUTY CHIEF EXECUTIVE** **EXECUTIVE DIRECTOR OF CORPORATE RESOURCES AND CUSTOMER SERVICES**
CABINET MEMBER:	**COUNCILLOR MIKE FISHER , THE LEADER** **COUNCILLOR STEVE O'CONNELL** **CABINET MEMBER FOR FINANCE AND PERFORMANCE MANAGEMENT**
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 Transformation 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 helped shaped the budget options through a lengthy and on-going period of consultation ensuring that local priorities continue to influence the options proposed to the Cabinet.

FINANCIAL SUMMARY:

The draft savings programme identifies **£35.929m** of savings over the period 2013/15. These programmes combined will ensure the Council continues to balance the priorities of our community with the need to achieve a balanced budget for 2013/15 in line with the objectives of the Financial Strategy 2010/14 and ensures the continuation of a stable financial platform for the future medium term period whilst managing the significant reduction in central government funding for the Council.

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 2013/15 as contained in Appendix A;

1.2 The draft Cuts programme for 2013/15 as contained in Appendix B;

1.3 The draft Step Change programme for 2013/15 in Appendix C;

1.4 The draft Income programme for 2013/15 as contained in Appendix D;

1.5 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 2013/15 for the purposes of engagement and decision making.

1.6 The Council should carry out an engagement with the public on the proposed budget options;

To enable a balanced budget position for 2013/14 to be recommended to Council on 25th February 2013 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 The Cabinet received the ‘July Financial Review’ report on the 9th July 2012 as part of overall budget strategy preparation and baseline financial assumptions which set out a budgetary financial gap for 2013/14 of **£10.480m** and a gap for the next four years (2013/17) of **£52.728m**.

2.2 This report recommends to the Cabinet the approval for public engagement an efficiency programme of **£11.291m**, a Step Change programme of **£6.346m**, a cuts programme for 2013/14 of **£2.828m** and an income programme of **£0.884m** to enable a balanced budget for 2013/14 to be achieved. The proposals also recommended include a programme of efficiencies of **£10.417m**, step change programme of **£2.773m**, cuts programme of **£0.878m** and income programme of **£0.513m** for 2014/15. As part of an ongoing programme of consultation and engagement with residents, on 11th December a process of engagement with residents will begin on the budget options proposed within this report.

2.3 The Council has a duty under the Local Government Finance Act 2003 to set a balanced budget before 14th March 2013. 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

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 savings programme to the Cabinet. The Cabinet have been advised and are fully aware of the need to balance specific external financial influences which have been fully taken into account. The further reduction in central government grant represents the most significant of these external factors. A summary of the challenges and changing financial environment in which local government now operates is set out below.

The Local Government Settlement

4.2 The Local Government Finance Settlement in January 2011 was for a two year period up to and including 2012/13. This resulted in actual cash reductions, after damping in Croydon's formula grant of **11.2%** in 2011/12 and **8.3%** in 2012/13. Although the settlement did not go beyond 2012/13 the Treasury's spending review figures indicated that for 2013/14 and 2014/15 Croydon's Formula Grant (or its successor) would be reduced, in cash terms, by a further **7%** over the two years. These assumptions are included in the financial planning assumptions supporting the financial strategy for the Council as approved by the Cabinet in July.

4.3 Based on the revised economic forecasts of the 2011 Autumn Statement and reinforced by those in the March 2012 Budget, the Chancellor set the Public Expenditure control totals for the first two years of the 2014 Spending Review period (i.e. for 2015/16 and 2016/17) in line with the spending reductions over the previous 2010 Spending Review. This is estimated to be a real terms reduction during those years of 0.9% a year. If the CSR2014 reflects the differential distributions between government departments as contained within the CSR2010, protecting Education and Health spend, it is likely that Local Government's funding support will continue to significantly reduce. This is estimated to be a further reduction of **7.5%** per year of central government funding or **£26.3m**.

4.4 The Chancellor's 2012 Autumn Statement will confirm forecast Public Expenditure Control Totals with further details contained in the Local Government Finance Provisional Settlement due to be released on the **19th December 2012,** which is significantly late in the financial planning cycle.

Local Government Resource Review – Business Rate Localisation

4.5 The local government settlement for 2013/14 will see a major change in how local government is funded. Currently all business rates (also known as non-domestic rates or NNDR) income collected by billing authorities are paid into a central government pool and then redistributed to individual authorities through the formula grant system. From 2013/14 onwards local authorities will be able to retain a proportion of their business rates locally. The Government believes this will provide a financial incentive for growth through individual Council's economic development strategies and through the growth in their business rate income yield.

4.6 The 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.

4.7 The DCLG have released consultation documents setting out how the scheme would work and the various options within it. The outcome of the consultation set out how the new scheme would operate. As set out there would be a **50:50 local government: central government share**. Therefore 50% of any growth would be retained locally and 50% would be paid to central government. The same would apply to losses. Additionally in London it has been agreed that the local 50% share will be shared **60:40 London Borough: GLA**. This means that for the Council 30% of the net business rates yield will be retained locally. The estimation of future business rates yields has now become a key element of the budget setting and medium term financial planning assumptions base.

Core Grants and other funding issues

4.8 As well as funding received through formula grant and business rates retention, the Council also receives a significant amount of its funding in core grants (which from 2011/12 replaced the area based grants and specific grants). The amounts will be confirmed in the Local Government Finance Settlement, but indicative details released already as part of the business rates retention consultation shows a significant reduction is expected for 2013/14 and 2014/15. These anticipated amounts are set out in table 2;-

Table 2 – Core Grants 2012/15 - estimates

Core Grants	2012/13 £m	2013/14 £m	2014/15 £m
Early Intervention Grant (EIG)	17.131	12.503	11.826
Learning Disability	15.271	15.651	15.995
Housing and Council Tax Benefit Admin. (HB and CTB)	3.540	TBC	TBC
Preventing Homelessness	1.125	0.996	0.996
Council Tax Freeze Grant	3.697	1.479	TBC
Public Health Grant	0	TBC	TBC

Total	**40.764**	**30.629**	**28.817**

4.9 The Department for Education have announced that councils will suffer a £684m reduction in Early Intervention Grant (EIG) in 2013/14 and a further £226m reduction in 2014/15 due to the removal of two elements

- £534m will be used to fund 'Free education for two year olds' in 2013/14, rising to £760m in 2014/15. This will be returned to council's Dedicated Schools Grant but it has yet to be confirmed whether this will be on a £ for £ basis.
- £150m will be returned to the central DfE allocation in each of the two years. DfE have indicated that this will be reallocated back to councils "in order to support evidence-based interventions". Again this will be returned to council's but not necessarily on a £ for £ basis.

4.10 The amount that councils received for the Housing Benefit (HB) and Council Tax Benefit (CTB) grant was previously based on their anticipated claimant caseload. However from 2013/14 this will subject to significant change:

- Council Tax Benefit will become a local responsibility with councils implementing their own individual Council Tax Support schemes. It has not yet been confirmed what level of funding councils will receive towards administration costs.

- Housing Benefit will be subsumed into the government's Universal Credit system of welfare benefit. Local government's role in the administration has not yet been determined nor has the pace of the phasing-in of the changeover been formally set by the Government.

4.11 Responsibility for the Public Health function is being transferred to councils from PCTs from 1st April 2013. The funding level associated with the transfer of responsibilities has yet to be confirmed.

4.12 Funding for Local Authority Central Spend Equivalent Grant (LACSEG) will be removed from the business rate retention scheme and transferred to the Department of Education (DfE). The amounts to be transferred nationally are £1.22bn in 2013/14 and £1.19bn in 2014/15. The DfE will then administer and distribute a separate un-ringfenced grant to local authorities and to academies proportionate to the number of pupils for which they are responsible. The Council will therefore see an initial reduction in business rates retention funding followed by an award of a non-ringfenced specific grant. Work is currently being undertaken to assess the impact on Croydon's finances. At this stage a forecast lose of £1m per annum has been factored into the financial planning assumptions.

Council Tax Benefit Localisation

4.13 As part of the Spending Review 2010 the Government announced that it will abolish council tax benefit and replace it by localising council tax support from 1st April 2013. This will be delivered via a grant to local government inclusive of a 10% reduction in the cost of meeting these needs as part of the Government's deficit reduction measures and funding reductions to local government.

4.14 The Council have consulted on its local scheme and the anticipated impact on the Council's budget has been estimated at £0.745m for 2013/14 and steadily increasing in future years to fund this new burden.

New Homes Bonus

4.15 The New Homes Bonus scheme was originally to be funded from a top-slicing of the formula grant. It has now been decided that this will be funded by a deduction from the business rates retention funding. Therefore CLG have confirmed that £500m in 2013/14 and £800m in 2014/15 will be set aside nationally, an amount which they deem sufficient to fund the New Homes Bonus. This amount will increase annually to reach £1,655m by 2017/18, based on the Government's assumptions on housing growth. In the early years this appears to remove significantly more money than is actually required. The surplus will be returned to local authorities, pro-rata to their start-up funding assessment.

4.16 The amount of £1,655m suggests that CLG believe that the level of resources allocated through New Homes Bonus is likely to increase by higher amounts than current levels (i.e. the in-year allocation for 2013/14 onwards will be higher than the £232m in 2012/13). This view appears contrary to some analysts' view that increases in new homes are expected to fall in future years.

It should be noted that:

- If amounts deducted by CLG are too high, the additional amount taken will be refunded to authorities in the same way as it would have been allocated originally (i.e. as a proportion of authorities' baseline funding levels).
- If the CLG forecast level of new homes is accurate, this will mean authorities that are not forecasting increasing levels of new homes in future years will be losing resources (in comparison to if resources were being distributed based on need).
- CLG may have taken a cautious approach to determining its £1,655m figure to avoid having to take further amounts from the resource baseline in future years (and therefore lower resource forecasts for those that had previously taken a worst case scenario of no refund in 2017/18).

Inflation

4.17 The latest ONS figures, for October 2012, show annual rates for CPI of **2.7% and for RPI of 3.2%**. The Bank of England's November 2012 Inflation Report forecasts that: "It is likely that twelve-month CPI inflation will pick up over the next few months…..and appears likely to remain above the 2% target in the near term". However, it should be noted that inflation has remained above the Government's 2% target since November 2009 and that the pressures from both recently announced increase in energy prices and food are likely to exert further upward pressure over the next year. Therefore prudent inflationary pressures have been allowed for in the financial planning assumptions of the Council. As inflationary pressures occur without compensating increases in the resource base of the Council this places further pressure on service expenditure. Thus increases in inflation are a potential key external factor which will require planning for in the financial assumptions of the Council.

5.0 Financial Strategy – Efficiency Track Record

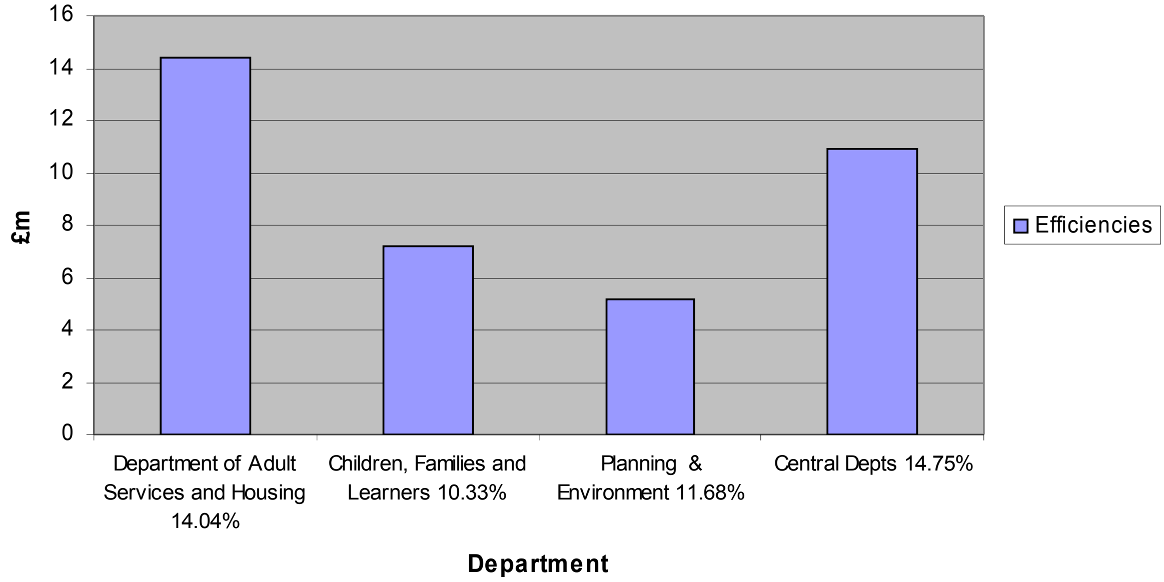
5.1 The CSR 2010 set the public sector a significant financial challenge by reducing local government grant funding by 26%, with larger grant reductions front-loaded for the first two years for the sector. A reduction of this size at this pace has placed pressure on the Council to focus on the pace of 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 2013/15 period. Table 3 below shows the efficiencies and cuts per department for 2013/15.

Table 3 – Savings by Departments 2013/15

Department	Efficiencies Programme £m	Cuts Programme £m	Step Change Programme £m	Income Programme £m	Total
DASHH	(9.001)	(0.493)	(1.565)	(0.090)	**(11.149)**
CFL	(4.795)	(2.481)	(3.050)	(0.607)	**(10.933)**
P&E	(1.749)	(0.431)	(1.042)	(0.490)	**(3.712)**
Central Departments	(6.163)	(0.331)	(2.898)	(0.210)	**(9.572)**
Corporate	0.000	0.000	(0.563)	0.000	**(0.563)**
Total	**(21.708)**	**(3.706)**	**(9.118)**	**(1.397)**	**(35.929)**

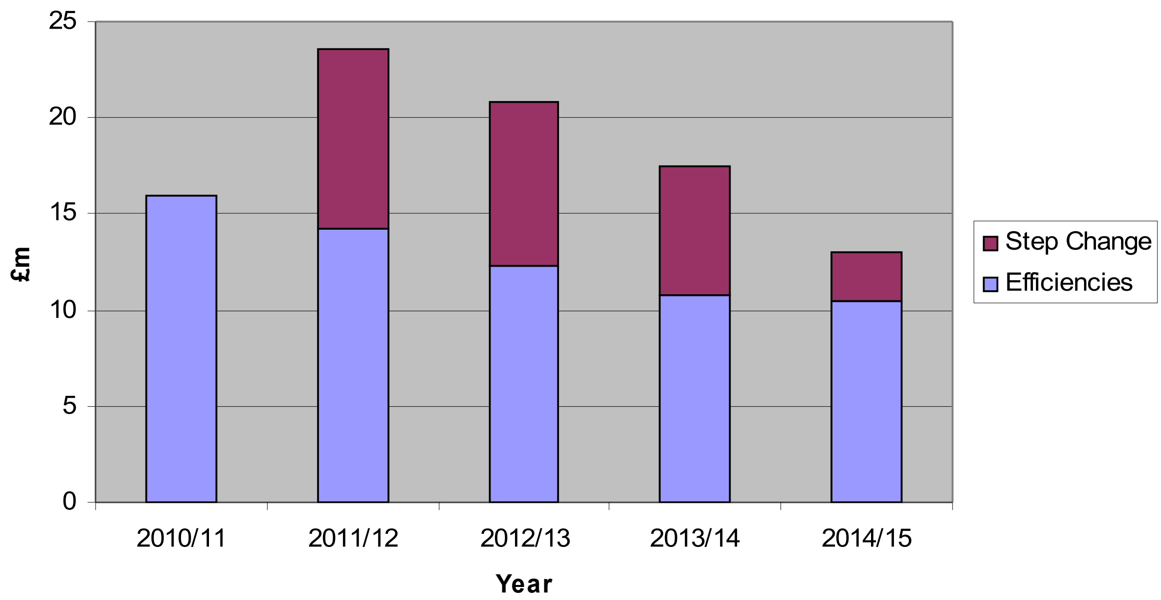
5.2 Graph 1 below gives the details of the efficiencies over 2010/12 by department. Were these efficiencies not achieved it would have resulted in an equivalent increase of **29.13%** in council tax over the financial period.

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. FINANCIAL CONSIDERATIONS

6.1 This report recommends to the Cabinet the approval for public engagement:-

- An efficiency programme of £21.708m;
- A Step Change programme of £9.118m;
- A Cuts programme for 2013/15 of £3.706m; and
- An income programme of £1.397m to enable the achievement of a

balanced budget for 2013/15.

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

7 COMMENTS OF THE SOLICITOR TO THE COUNCIL

7.1 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 2013 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.

7.2 The draft budget does not assume full year savings in respect of every saving proposal for 2013/14 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.

8. HUMAN RESOURCES CONSIDERATIONS

8.1 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.

8.2 Whilst the total number of possible redundancies below cover a 2 year period, it should be noted that under current legislation if any organisation is proposing to make more than 99 compulsory redundancies within a 90-day period it must consult with its recognised trade unions for a minimum of 90 days before giving notice of dismissal due to compulsory redundancy. Consultation periods together with subsequent contractual notice periods will need to be factored into timescales and the cost/savings analysis.

Table 4 – Staffing Change per department

STAFF NUMBERS	Transfer of FTE	FTE change	FTE At Risk of Redundancy
Children, Families and Learning	0.0	(23.0)	(19.0)
Department of Adult Social Care, Health and Housing	0.0	(5.6)	(3.0)
Corporate Resources and Customer Services	(30.0)	(76.0)	(32.0)
Planning and Environment	(16.0)	(60.0)	(23.0)
Chief Executive's	0.0	(1.0)	(1.0)
Total	**(46.0)**	**(165.6)**	**(78.0)**

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

9 EQUALITIES CONSIDERATIONS

9.1 An equalities impact assessment (EIA) will be prepared for the Council to inform the final decision on the budget for 2013/14. 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.

9.2 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.

10 ENVIRONMENTAL CONSIDERATIONS

10.1 There are no direct environmental considerations arising from this report.

11 CRIME AND DISORDER REDUCTION CONSIDERATIONS

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

12 HUMAN RIGHTS CONSIDERATIONS

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

13 FREEDOM OF INFORMATION AND DATA PROTECTION CONSIDERATIONS

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

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