

BABERGH DISTRICT COUNCIL

FROM: Deputy Chief Executive
and Director of Finance

REPORT NUMBER **K15**

TO: **STRATEGY COMMITTEE**

DATE OF MEETING **13 May 2010**

STRATEGIC AND FINANCIAL PLANNING (SFP)

1. PURPOSE OF REPORT

- 1.1 To explain the need to make early progress, including early Member involvement in the above and specifically the early work needed to identify savings, efficiencies and additional income for the 2011/12 Budget.
- 1.2 To approve the proposed approach and timetable for identifying and agreeing the necessary savings for the 2011/12 Budget and set out other key elements of this year's SFP process.

2. RECOMMENDATIONS

- 2.1 That the proposed approach and timetable for identifying and agreeing the necessary savings for the 2011/12 Budget set out in the report and the appendices be approved.
- 2.2 That the SFP Task Group report back on progress on this and the other key SFP issues referred to in the report to this Committee and Council during the year as necessary.

The Committee is able to resolve these matters.

3. FINANCIAL IMPLICATIONS

- 3.1 The Budget for 2011/12 will again need to be based on achieving significant savings, efficiencies and additional income, currently forecast at up to £1.5m, depending on the severity of cuts in future Government grants.
- 3.2 Those savings will have to be reflected in the Council's Medium-Term and One Year Delivery Plans.

4. RISK MANAGEMENT

- 4.1 The report links most closely with the Council's Significant Business Risk No.8 – Savings and Efficiencies. It also, however, links with other significant risks including Capacity and Political and Managerial Leadership. Key risks are set out in the table below.

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Members do not agree the proposals to achieve up to £1.5m savings, efficiencies and additional income in 2011/12.	Very High	Catastrophic	Early engagement with PLG, Members (through the Members' Seminar) and SFPTG in the process in order Members understand the challenge and process and to ensure Members views are reflected in the proposals that come forward.
Cuts in services and reduced customer satisfaction.	High	Critical	Equality impact assessments will be undertaken where appropriate e.g. on cuts in grants and rate relief. Officers will inform stakeholders on the proposals.
Reductions in staffing levels and terms and conditions with potential adverse effect on morale, motivation and employer/employee relations.	High	Critical	Regular discussions and communications with Unison and staff taking place including staff terms and conditions.

5. **KEY INFORMATION**

Introduction and Background

- 5.1 The Medium-Term Financial Strategy (MTFS) forecast for 2011/12, depending on the severity of cuts in Government grant, is that estimated headline savings, efficiencies and/or additional income of between £0.9m and £1.25m will need to be found. This excludes the need to agree the continuation of the temporary removal of PRP in the 2010/11 Budget with Unison.
- 5.2 The MTFS forecast is based on the following key assumptions. These will, of course, need careful consideration as work on the Budget for 2011/12 progresses:

Staffing/Salary costs:

- Pay award – 1% per annum. It is recognised that inflation and pay pressures could be at 2.5% or higher but 1% reflects the proposed cap on public sector pay announced by the Government in its pre-budget report
- Incremental progression – assumed 1% increase per annum
- Pensions costs – 1% per annum increase for the next 3 years and a one-off increase in the lump sum payments towards the Fund deficit of £50,000 in 2011/12, which will depend on the next triennial valuation of the Pension Fund
- NI – One-off increase of 1% in 2011/12 already announced by the Government

Other potential additional cost pressures:

- Provision for growth – this would only apply if savings are found to fund the growth – a provision of £100k a year has been assumed in the MTFS but, given the ongoing financial pressures, the Council should work on the basis that this will be removed from the Budget planning scenario
 - Contingency of £200k a year for other commitments, cost pressures, unexpected additional reductions in specific Govt. grants and lower income from fees and charges
 - Capital financing costs – an increase of between £25,000 and £50,000 a year in borrowing costs relating to the capital programme. A borrowing rate of 4% has been assumed for 2011/12 onwards
 - Concessionary Fares scheme – it is possible that the proposed transfer of responsibilities to upper-tier authorities nationally in April 2011 will result in a cost to the Council if more grant is transferred than the scheme actually costs. Initial indications suggest this could amount to around £100k - £200k.
- 5.3 Members have requested that we progress the above much quicker than the exercise in 2009/10 and in particular ensure their early participation in the process.
- 5.4 Early progress is also required in order that any changes/reductions in Babergh's budgets/areas of activities can be fed into the plans for merging/integrating with MSDC.

Savings Target – 2011/12

- 5.5 The headline and current position on the net remaining savings target is summarised in Appendix 1.
- 5.6 In terms of key areas relating to achieving the headline savings target, these are as follows:

- Voluntary Redundancies – the saving from the recent exercise of approx. £0.2m for the General Fund will contribute towards the 2011/12 headline target
- Long stay car parking charges – these should generate a further £0.1m in a full year, on the assumption that the annual net income forecast of £0.2m materialises
- MSDC integration – Net Savings should arise in 2011/12 (i.e. after redundancy costs) and these will contribute towards the overall remaining savings target - after allowing for the above. The level of savings will depend on the Business Case and detailed progress on the various aspects of management structures and operational integration

5.7 On the MSDC integration and the Budget generally, the scale of net savings will also depend on the treatment of redundancy costs. Specifically, this relates to the extent to which such costs can be capitalised or temporarily funded from reserves (over a clearly agreed 'payback' period) as opposed to having to fund these immediately. This is being assessed currently and the potential options will be considered by the SFP Task Group.

Proposed Approach and Timetable

5.8 The proposed approach seeks to build upon the good work in 2009/10 and take into account any new and relevant cost/performance/customer satisfaction information. It will require early judgements to be made by officers on the areas for savings and will seek early guidance and decisions from Members.

5.9 In addition, the issue of support costs will need addressing, specifically surrounding the various shared services proposals (e.g. Revs & Bens) and the MSDC integration proposals. The aim should also be to complete initial work on this early – i.e. in the first quarter of this financial year.

5.10 A high level proposed timetable is attached at Appendix 2. Further work is required on this to ensure co-ordination with PLG meetings, Members Seminars and the involvement of the two Overview and Scrutiny Committees.

Other Key SFP Issues

5.11 Although the SFP process will heavily focus on the savings target, there are a number of other very important aspects of the SFP process that will be addressed by officers and Members, including:

- Reviewing and updating the Medium-Term Financial Strategy to reflect the position on Government grants and future savings targets
- Reviewing the Capital Programme, its financing the impact of borrowing costs on future Budgets
- Consultation, including the annual State of the District debate

- Drawing up a One Year Delivery Plan for 2011/12 that sets out the key actions that the Council will undertake for the year, based on the reduced resources that are likely to be available.

5.12 The above will be reflected in the detailed work plan and timetable of the SFP Task Group.

6. **APPENDICES**

- 1 – 2011/12 Budget - Proposed Approach to Savings
- 2 – 2011/12 Budget – Proposed High Level Timetable

7. **BACKGROUND PAPERS REFERRED TO:**

None.

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2011/12 BUDGET

PROPOSED APPROACH TO SAVINGS

1. **TARGET TO BE ACHIEVED**

Savings Target - as set out in 3 Year MTFS £0.9m - £1.25m

ADD:

- PRP (temporary removal in 2010/11 – continuation of saving for 2011/12 subject to negotiation with Unison) +£0.3m

Headline Total Savings Target £1.2m - £1.55m

LESS:

- Savings and additional income already identified -£0.3m (Max.)
- Allowance for growth in forecast – if not required -£0.1m

NET potential remaining target to be achieved £0.8m - £1.15m
(including PRP of £0.3m)

2. **ALLOCATION OF SAVING ACROSS DIVISIONS**

Each division has been tasked with providing a list of items, individually costed, that produce net revenue savings for General Fund that total:

Option 1	£100k (minimum net target)
Option 2	£170k (maximum target)
Option 3	£200k (maximum target + 'safety net')

3. **APPROACH/METHODOLOGY TO BE USED IN ARRIVING AT SAVINGS**

In developing savings suggestion account to be taken of:-

- Mitigating the inevitable adverse impact on delivery of Babergh's priorities i.e. savings of least damage, accepting this is a 'judgement call' in which political direction will be obtained as we go through the process
- Take into account the good work in 2009/10 on budget deconstruction and benchmarking cost comparisons. NB: recent District Audit publication "VFM Profile of Babergh" comparing our costs and performance across a range of services

- Take into account any other recently available cost comparison, VFM and customer satisfaction data.

By adopting the above approach we should be able to assess what areas offer the greatest potential for saving with the least damage to our priorities.

2011/12 BUDGET SETTING

PROPOSED HIGH LEVEL TIMETABLE

20 April	PLG informed and guidance sought from them on approach to be taken.
April/May	Directors/HoS commence implementing the agreed approach on savings. Initial consideration given to suggested approach to tackling the issue of Support Service Costs.
29 April	Members Seminar advised of the size of the savings/efficiencies required, on the approach to be taken and on how and when Members are involved in the process.
13 May	Strategy Committee: if required, formal endorsement obtained of approach to be taken and on key elements eg. actual savings target to be achieved.
May/June	MT/Directors/HoS present <u>initial</u> costed suggestions on savings and also the issues/suggested actions on Support Services/costs to S&FP Task Group/MT.
July/August	Directors/HoS in consultation with MT develop proposals for further consideration by S&FP Task Group in September. Members Seminar.
September	S&FP Task Group consider <u>final</u> draft proposals.
Early October	Special Strategy Committee – late September/early October? (16/9/10 too early, 4/11/10 too late?) to consider outcome of S&FP Task Group work, provide guidance/decisions on any contentious issues and if necessary refer to 19/10/10 Council (State of District Debate).
W/C18 October	S&FP Task Group with MT/HoS meet to consider outcome of Strategy (early October) and Council (19/10/10) and agree action/further work to be undertaken in order to report to next Strategy (4/11/10) and Council (14/12/10). Council consider recommendations from S&FP Task Group (if decision is taken that the S&FP Task Group report to Strategy on 4/11/10, then recommendation from that Strategy will be considered by Council on 14/12/10).
28 October	Members Seminar: Review outcomes to date, including any issues that remain outstanding.
W/C 15 November	S&FP Task Group meet with MT/HoS to review Strategy decision (early October or 4/11/10) and report to Council.