

Norwich City Council

SCRUTINY COMMITTEE

Item 7

BRIEFING PAPER for meeting to be held on 16 December 2010

Budget Strategy - General Fund 2011/12

Background

In the past three years the council has been adversely impacted by the recession (fall in income from fees and charges and investment income), government policy (additional cost of concessionary fares) and this required the council to save £10 million over 2008/9 and 2009/10. For 2011/12 the council will see further pressure on its resources as the national government implements its deficit reduction programme. In addition to this the council has to fund between £1.0 million and £2.0 million each year to meet its normal inflationary pressures. The council is already implementing a programme to achieve savings of £3 million for 2010/11, which is the level of savings that has been estimated is needed to close the budget gap for this year.

The council's approach to this position has been to use its medium term financial strategy to underpin its annual budget setting process. This has enabled the council to manage savings programmes that are both structured and aligned to the council's objectives and based on a longer term view.

The approach the council uses for its medium term financial strategy (MTFS) is that of emergent strategy. This has given the council the required degree of flexibility to manage its financial resources in a manner that contributes to the achievement of its corporate plan promises and effective service delivery.

When the revenue support grant settlement for 2011/12 is announced the medium term financial strategy will be reviewed and an assessment will be made as to if further cuts are needed.

Medium Term Financial Strategy

The latest iteration of the financial projections used in the medium term financial strategy is shown in Annex 1 of this report. The overall budget envelope for 2011/12 is highlighted; this is a budgetary requirement of £25.034 million. It is this element of the MTFS that forms the budget strategy.

Assumptions used in the MTFS

Employment costs

Payroll inflation has been estimated at 3.0%, this is made up as follows: 1.5% incremental and salary drift, 0.8% for possible settlement for lower paid workers, 0.5% increase in employers' pension contribution and 0.2% other items. The risk of this amount being understated is considered low. If the LG employers do not make an offer in the present round of pay negotiations, then there may be a possibility that final figures for increase will be 2.2%.

Non-employee cost inflation

This has been estimated at 5% currently the RPI is at 4.7%, a 0.5% reduction in the inflation estimate would reduce the budgetary requirement by approximately £150,000. At this stage, with the level of uncertainty surrounding prices, particularly world commodity prices, a 5% increase is considered prudent.

Reduction in government grants including the formula grant

The national government has stated that it wishes to reduce its revenue grant funding to local government by approximately 28% over the next four years. At the time of writing this report the formula grant settlement has not been published (the expected publication date was 2 December 2010). The Department of Communities and Local Government is currently re-working the formula grant as the original calculation and the Revenue Support grant settlement will be announced when this has been completed.

The new formula grant will now include a number of grants that were ring-fenced the impact of this will be only fully understood when the grant is published.

Council Tax

The government has stated that it will make a grant to those councils that freeze their level of council tax. The effect of this grant would be equivalent to a 2 ½% increase in council tax. The medium term financial strategy assumes that council tax will be frozen over the period of the government.

Unavoidable continuing expenditure

Experience shows that the council has levels of unavoidable growth. This can be due to government policy, unplanned expenditure the council has to make etc. Recent history shows that this is in the order of £1.0 million per year.

Unavoidable one-off expenditure

This includes redundancy and pension strain costs.

Savings

This is the amount required to be saved to balance the budget.

Budget cuts by the County Council and Police Authority

Both of these bodies are making large cuts and some of these will have direct impacts on the City Council's spending plans, these will be assessed and their impacts incorporated into the council's budget when they are confirmed by the above bodies

Reserves

The medium term financial strategy assumes a prudent but not excessive level of reserves.

Contact Details:-

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Possible position (General Fund)

	2010/11 £'000'	2011/12 £'000'	2012/13 £'000'
1. Employees	21,887.2	22,543.9	23,220.2
2. Premises	9,955.3	10,453.1	10,975.7
3. Transport	381.5	400.5	420.6
4. Supplies & Services	19,997.1	20,996.9	22,046.8
5. Third Party Payments	3,673.4	3,673.4	3,673.4
6. Transfer Payments	1,485.6	1,485.6	1,485.6
7. Finance costs	2,931.0	3,000.0	3,000.0
11. Receipts	-25,852.1	-26,627.6	-27,426.5
12. Government Grants	-5,372.8	-4,969.8	-4,566.8
21. Recharge Expenditure	26,341.1	27,658.2	29,041.1
22. Recharge Income	-30,730.4	-32,266.9	-33,880.2
unavoidable continuing expenditure		1,000.0	1,000.0
accumulative impact		0.0	1,000.0
unavoidable one off costs		1,000.0	1,000.0
Savings new	0.0	-3,700.0	-2,650.0
accumulative impact	0.0	0.0	-3,700.0
Contribution to reserves	400.0	500.0	300.0
Budgetary requirement	25,097.0	25,147.2	24,939.8
RSG/NNDR	-15,913.9	-15,703.9	-15,493.9
Collection Fund Surplus	-100.0	0.0	0.0
Council Tax requirement	9,083.1	9,443.3	9,445.9
Band D equivalents properties	40214	40766	41000
Council Tax Band D	225.87	231.52	231.52
Council Tax collectable	9,083.1	9,438.0	9,492.1
Level of reserves	4,200.0	4,700.0	5,000.0

Annex 1

2013/14 £'000'	2014/15 £'000'
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23,916.8	24,634.3
11,524.5	12,100.7
441.6	463.7
23,149.1	24,306.6
3,673.4	3,673.4
1,485.6	1,485.6
3,000.0	3,000.0
-28,249.3	-29,096.7
-4,163.8	-3,760.8
30,493.1	32,017.8
-35,574.3	-37,353.0

inflation 3% pa
inflation 5% pa
inflation 5% pa
inflation 5% pa

risk of possible higher charge
inflation 3%
£403,000 reduction in grants pa
inflation 3%
inflation 3%

1,000.0	1,000.0
2,000.0	3,000.0
1,000.0	1,000.0
-2,550.0	-2,900.0
-6,350.0	-8,900.0

0.0	0.0
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24,796.8	24,671.5
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-15,283.9 -15,073.9
0.0 0.0

RSG reduce by 210,000 pa

9,512.9	9,597.6
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41250 41500

231.52	231.52
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adjusted for CT grant

9,550.0 9,607.9

5,000.0	5,000.0
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