

## APPENDIX

### CALDERDALE MBC

#### MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2013/14

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## **Section 1 Introduction**

The Medium Term Financial Strategy (MTFS) is a key element within the Council's strategic planning framework. The Strategy takes a three year perspective and sets a framework for how budgets will be prioritised within the best estimates of available capital and revenue resources. A continuous review of Value For Money is implicit in order to ensure that budgets can be maximised and allocated to meet community needs. Given the reductions in public spending required over the next few years this prioritisation will be particularly important.

This document outlines how revenue and capital budgets will be allocated to priorities set out in the Council's corporate strategies and plans. This is prepared in the context of significantly constrained resource availability and clear community and national expectations regarding affordable council tax levels.

At the time of publication of this MTFS the resources allocated to the Council in future years is uncertain. The outcome of the national Spending Review and the Local Government Finance Settlement will not be known until later in the year. Prudent assumptions have therefore been made within this document in respect of the anticipated levels of funding over the next three years based on the in year grant reductions and the Chancellor's Budget statement and this forms the central forecast in this strategy. The strategy has also been modelled to provide alternative forecasts should any of the assumptions vary to those which have been estimated.

Along with the need to plan for further efficiencies and reductions in spending this updated MTFS identifies additional provision for the following priority areas:

- Protecting vulnerable people and particularly children in care
- Social care needs to reflect changes in client numbers, in particular for increasing numbers of adults with learning difficulties
- Protecting the environment – ensuring that we can reduce reliance on landfill to dispose of waste, but providing for the additional cost of landfill where necessary
- Other improvement priorities
- Schools – these will remain a high priority both nationally and locally and the plan assumes that funding through the Dedicated Schools Grant will continue to have some degree of protection from the cuts in funding.

The MTFS is the first of four phases in the process for setting the Council's budget:

1. Preparation of the MTFS (September)
2. Consultation on the prioritisation of Council services (September)
3. Preparation and presentation of the consultation budget (January 2011)
4. Presentation of final budget proposals to Budget Council (28 February 2011)

## **Section 2 The Policy Framework**

Cabinet has recently reviewed and updated its policy objectives covering both the style of local governance and specific policy areas. The new coalition programme includes the following priorities:

### **Getting the basics right**

- Including core public services such as highway maintenance, winter maintenance, street cleaning etc

### **Open Government and effective consultation**

- Including constitutional development within the Council
- Public and councillor access to Cabinet
- All party briefings
- Improved consultation on major policies

### **Children & Adults Safeguarding and care**

- Including implementing the recommendations of the external reviews of children's care services
- Strengthening preventative services including family support
- Ensuring every child at risk is allocated a social worker
- To implement the actions arising from the review of residential care homes and the Safeguarding Adults Board

### **Tackling the recession**

- Including continuing to promote employment initiatives particularly using the Economic Fighting Fund
- Narrowing the gap through targeted support to communities and individuals most in need
- Promoting tourism

### **Stronger communities**

- Including finding new and innovative uses for the Ridings site
- Developing the Halifax Masterplan, plans for Todmorden town centre, the Lower Valley, affordable housing and other corporate projects (Halifax Leisure and the Piece Hall)

### **Supporting Children & Young People**

- Including a review of secondary education
- Development of the Trinity Academy
- Investing in youth activity schemes

## **Supporting Adult Social Care**

- Including completing the implementation of Putting People First
- Reducing the waiting time for major adaptations to homes
- Integration of adult social care with the NHS

## **Climate change and environmental action**

- Including reviewing the recycling programme
- Developing the 10:10 action plan
- Affordable warmth schemes for hard to treat homes
- Developing integrated transport systems
- Developing the waste disposal partnership

## **Fair enforcement**

- Including enforcement of fly tipping
- Reviewing the Council's use of regulatory powers

## **Change and Value for Money**

- Planning the profile and nature of services within challenging budget constraints whilst keeping the council tax as low as possible
- Reviewing the Council's use of assets, facilities management and access to services
- Greater integration and partnership working with the NHS.

The MTFs and budget process will need to consider these priorities when resources are allocated.

## **Section 3 The Budget Process**

Given the expected reductions in Government grants that the public sector will experience over the life of this Parliament, comprehensive prioritisation of all the expenditure is required to be undertaken to ensure that the Council is directing its scarce resources to the areas where stakeholders most need them. Cabinet has agreed a number of guiding principles for the prioritisation of Council spending.

### **Guiding principles**

- Our starting point will be what matters for local people and businesses
- We will always seek to explain the positive or negative impact of the decisions that are taken
- Nothing will be ruled in or out at this stage
- We will aim to ensure that services are at least good enough but not necessarily 5 star
- We will take responsibility and be accountable

### **Prioritisation criteria**

The service prioritisation process will then be based on the following criteria:

- Services which must be provided
- Services which should be provided if at all possible
- Services that we won't provide or pay for in the future

### **Key questions**

In order to prioritise the following key questions will be considered:

- What level of service is good enough?
- How do we achieve the new/existing level of service?
- Who should provide this?
- How much should it cost?

### **Budget review groups**

As an example of all party working, Cabinet has agreed to the establishment of a series of budget review groups to support the development of the Council's budget proposals for 2011/12 to 2013/14. They consist of five Member led cross party review groups based on the directorates of Children & Young People, Adults Health & Social Care, Economy & Environment, Safer & Stronger Communities and a combined Chief Executive/Deputy Chief Executive service. The budget review groups will examine the prioritisation of services and examine budget proposals for 2011/12 and later years. In considering budget proposals it will also be necessary to identify the impact of decisions on the economy, environment and equality and fairness for people.

## Budget timetable

The key timelines for the budget process are set out below:-

| Date                              | Milestone  |
|-----------------------------------|--|
| August 2010                       | Budget review groups commence the prioritisation process and consideration of budget proposals                   |
| September 2010                    | Budget consultation process commences including ward forums  |
| 30 September 2010                 | Council considers the MTFS   |
| 20 October 2010                   | National Spending Review is announced outlining the public sector spending plans over the life of the Parliament |
| November 2010                     | Budget review groups report on their findings  |
| Late November/Early December 2010 | Local Government Finance Settlement is announced including detailed grant allocations for local authorities      |
| December 2010                     | Second stage of public consultation on budget proposals  |
| January 2011                      | Consultation budget agreed by Council  |
| February 2011                     | End of consultation period and political groups prepare their budget proposals                                   |
| 28 February 2011                  | Budget Council to agree budget and council tax for 2011/12 and indicative figures for the two subsequent years   |

## **Section 4 Budget Consultation**

The Council wants to make sure that the tough decisions it has to make on future budgets and service provision are made with a good understanding of what is important to local people by engaging with local communities. This is consistent with the objective of increased consultation as set out in the new coalition programme and the prioritisation guiding principles.

The fundamental principle is to provide a wide range of opportunities for local people to give their views and to make it as easy as possible to contribute. The consultation methods being used include:

### **Ward forums**

- Discussions will take place in September at all 17 ward forums about service priorities
- A second phase of consultation will take place in December when more detailed budget options are available

### **Discussion workshops**

- Discussions on priorities will take place for communities of interest such as younger people, older people, disabled people and minority ethnic groups
- Other events will take place depending upon issues arising from the budget process

### **Town and parish councils**

- An annual conference will be held to consider issues for town and parish councils

### **Voluntary and community sector**

- The annual Compact event will be used to discuss budget priorities
- The Calderdale Community Forum will also be used

### **Local business and other Partners**

- Existing business links and forums will be used to consult with business and other partners

### **Staff**

- Staff forums and emails are being used to ensure that staff are consulted and kept up to date with budget proposals

### **The Council website**

- A questionnaire will be placed on the Council and other local websites giving the public the opportunity to comment on the Council's budget proposals
- The questionnaire will also be available at all customer access points

As in previous years the Cabinet will issue a Consultation budget in January 2011 which will form the starting point for discussions at Council on 28<sup>th</sup> February when the budget and council tax will be set for 2011/12.

## **Section 5 The Capital Budget Forecast**

### **Background**

Capital expenditure relates to spending on assets which are to be used by the Council over the long term. This includes the purchase of equipment and the purchase, construction or improvement of land and buildings.

The Council has an agreed Capital Strategy which demonstrates how the Capital Programme supports corporate priorities. It sets the framework for developing the capital investment programme to deliver these priorities and is intrinsically linked with the Medium Term Financial Strategy of the Council.

The purpose of the Capital Strategy is to maximise the use of resources, to provide a clear framework for decisions relating to capital expenditure and to establish a corporate approach to generating capital resources.

### **Forecast Expenditure**

It is currently expected that over the 4 year period to the end of 2013/14 the Council will be spending around £130m on progressing schemes. These include:

Major annual programmes of work funded by specific Government allocations, or where Members have chosen to “passport” resources for example

- Schools and children’s centres (£74m)
- Housing (£9m)
- Roads (£25m)

Other programmes of improvements and one-off schemes, including:-

Rolling Programmes to Council buildings, play areas etc (£3m)

- Regeneration initiatives (£7m)
- Swimming Pools (£6m)
- Libraries (£1m)
- Household Waste Sites (£1m)
- Other (£4m)

### **Capital Resources**

The majority of the Council’s capital spend is financed by Central Government and the current Capital Programme fully utilises all of its future anticipated government funding updated as appropriate. Additional sources of funding from asset disposals, partnership arrangements and grant funding are continually being sought to maximise resources available to provide Council services.

The main elements of capital financing are: -

- 1) Government-funded Borrowing and Grants
- 2) Capital Receipts
- 3) Unsupported (Prudential) Borrowing
- 4) Alternative sources of finance including reserves

Funding to service the loans element of government funding is provided by central Government through the Revenue Support Grant.

The Council's overall policy is to pool capital receipts and invest in priorities. Calderdale has a forward programme of capital receipts covering surplus property, planning release of accommodation and development opportunities. Through a combination of Service Asset Management Plans and consideration of incentives to encourage Services to release surplus assets (e.g. the Invest to Sell Scheme) the Council is working hard to make the best use of its resources. The disposals process is managed by the Land Disposal Working Team which is a cross service group including the Council's Planning, Legal, Engineering and Land and Property Services.

Additionally the Council now has the power to supplement this funding through prudential borrowing. As the Council has a prudent strategy of only borrowing when it is financially supported by Central Government (apart from when borrowing can be funded by other savings), increases in financing costs should be covered by increases in the capital element of Revenue Support Grant.

The Council also works in partnership to maximise value for money and return on capital, examples of this are working with Yorkshire Forward, Learning Skills Council (LSC), Business Link, Primary Care Trust (PCT), Government Office, West Yorkshire Local Transport Group (WYLTP), Housing, PH2K, DCFS, DEFRA and Home Office. Ongoing development with partners to provide a joined up service to the community is well established in Calderdale. Examples include sharing accommodation with the Police and PCT to streamline services and costs.

In recent months there have been a number of announcements made by the Government in relation to capital grants that are used to fund the current capital programme. These announcements have identified a number of specific grants that have been, or are to be, cut as part of Government savings. Identified below are the schemes and the reduction in grants. These have been taken account of in the financial forecast that follows.

| Grant                      | £000's       |
|----------------------------|--------------|
| Transport Capital Grant    | 710          |
| Road Safety                | 68           |
| Burr Walls                 | 552          |
| Hopwood Lane Gateway       | 150          |
| Harnessing Technology      | 440          |
| Target Capital for Schools | 654          |
| <b>TOTAL</b>               | <b>2,574</b> |

## Other Assumptions Built into the Forecast

- Local Transport Plan (LTP) allocations will be 30% lower than anticipated

The Government's in year grant announcement and public spending forecasts suggest future funding cutbacks. Local Transport Plan (LTP) allocations, particularly integrated transport are expected to suffer significant reductions of 30% or more. An assumed reduction in funding and associated spending has been reflected in the forecast below.

- Only capital receipts physically received by the Council have been included

The timing and size of specific capital receipts is fairly uncertain and no estimate has been made of anticipated capital receipts. Capital receipts are included only in so far as they have been physically received. The Council has taken a prudent line in only committing itself to capital spending reliant on anticipated receipts where prudential borrowing resources have been properly identified to finance any temporary deficit until resources are secured.

- Prudential borrowing will be carried out only where it is self-financing either through increased income generation or budget savings
- Only supported capital allocations have been anticipated

Various three year funding packages were allocated in 2008/09. These run out in 2010/11. This report makes estimates of future Government supported capital allocations after this period where these can be reasonably anticipated, although there is very little which is not ring fenced towards specific schemes, or passported by the Council to specific work programmes. Virtually all this funding is therefore directed towards school, road and housing schemes.

- Changes to Government funding will be managed by slippage/not committing work

Programmes for supported capital and other work are determined once allocations are finalised. All other schemes rely principally on external support (e.g. securing grant funding), prudential borrowing, or the pool of capital receipts (funding raised by the sale of Council assets). Expenditure will adjusted to match the funding that will be available.

## Overall Capital Financial Forecast

|  | 2010/11<br>£m | 2011/12<br>£m | 2012/13<br>£m | 2013/14     | Total<br>£m  |
|--|---------------|---------------|---------------|-------------|--------------|
| Directorate Spend:-                    |               |               |               |             |              |
| Adults Health & Social Care            | 0.3           | 0             | 0             | 0           | 0.3          |
| Economy & Environment                  | 20.3          | 12.0          | 8.1           | 5.7         | 46.1         |
| Safer & Stronger                       | 8.7           | 0.4           | 0             | 0           | 9.1          |
| Children and Young People's            | 18.4          | 28.3          | 14.1          | 13.3        | 74.1         |
| Chief/Deputy Chief Executive's         | 0.3           | 0             | 0             | 0           | 0.3          |
| <b>Total Expenditure</b>               | <b>48.0</b>   | <b>40.7</b>   | <b>22.2</b>   | <b>19.0</b> | <b>129.9</b> |
| Financed by:-                          |               |               |               |             |              |
| Govt Supported Borrowing               | 7.1           | 5.6           | 5.8           | 5.5         | 24.0         |
| Revenue Funding & Reserves             | 3.0           | 0.5           | 0             | 0           | 3.5          |
| Grants and Contributions               | 29.1          | 25.7          | 16.4          | 13.5        | 84.7         |
| Use of Capital Receipts                | 9.4           | 0             | 0             | 0           | 9.4          |
| Ringfenced / Prudential Borrowing      | 5.6           | 0.0           | 0.0           | 0           | 5.6          |
| <b>Total Capital Finance Available</b> | <b>54.2</b>   | <b>31.8</b>   | <b>22.2</b>   | <b>19.0</b> | <b>127.2</b> |
|  |               |               |               |             |              |
| <b>Surplus (+) /Deficit (-)</b>        | <b>6.2</b>    | <b>-8.9</b>   | <b>0</b>      | <b>0</b>    | <b>-2.7</b>  |

This suggests that, based on current forecasts, additional capital receipts of £2.7m will be required in order to fund the existing Capital Programme.

Based on current expectations of further capital receipts which may be generated from the disposal programme over and above those included in the above forecast, there may potentially be a surplus of up to £1.5m to fund additional capital expenditure or to help manage the impact of Government funding cuts on the Capital Programme. These additional receipts are clearly dependent though upon the timing and sale price of assets which are particularly difficult to predict in the current economic background.

## **Section 6 The Revenue Budget Forecast**

Revenue expenditure is the day to day spending of the Council which is necessary to provide its services to the public. These running costs include employee salaries, premises costs such as utilities & rates, supplies and services etc. These costs are financed from a number of sources the key ones being:-

- 1) Government Grant/Formula Funding
- 2) Council Tax
- 3) Ring fenced Grants
- 4) Fees and Charges
- 5) Partnership Funding
- 6) Efficiencies

As can be seen later in this document, some of these funding sources are outside of the direct control of the Council and some are inside its control. A number of assumptions have therefore been made which will be reviewed in future versions of the MTFS as and when more information is available.

### **Spending Review – Autumn 2010**

The outcome of the Government's spending review will be published on Wednesday 20 October 2010 and will set out spending plans for the years 2011-12 to 2014-15. In 'The Spending Review Framework', the Government published details of the process and principles that will underpin the Spending Review:-

- start a period of external engagement between the Government and all parts of society
- establish a new Star Chamber chaired by the Chancellor and Chief Secretary
- require departments to submit their initial plans to deliver the priorities of their main programmes against the following criteria:-
  - Is the activity essential to meet Government priorities?
  - Does the Government need to fund this activity?
  - Does the activity provide substantial economic value?
  - Can the activity be targeted to those most in need?
  - How can the activity be provided at lower cost?
  - How can the activity be provided more effectively?
  - Can the activity be provided by a non-state provider or by citizens, wholly, or in partnership?
  - Can non-state providers be paid to carry out the activity according to the results they achieve?
  - Can local bodies, as opposed to central Government, provide the activity?

- comprehensively examine areas such as: social security, tax credits and pensions

Last year, Public Sector Net Borrowing was the largest in Britain's peacetime history. The March Budget forecast the UK deficit to be 11 percent of GDP this year. According to the IMF, the UK has the highest deficit in the G7 and G20. The Government has therefore said that reducing the deficit is the most urgent issue facing Britain today and is committed to a significant acceleration in the reduction of the deficit over the course of this Parliament.

On 24th May 2010 the Chancellor set out how the Government wanted to reduce spending this year by £6¼ billion. Going forwards, the Government has made clear that the bulk of the reductions in the structural deficit will be achieved through reductions in Government spending, rather than tax increases (health spending and overseas aid being protected). The Government has also signaled its intent to save other frontline areas such as schools from the worst of the cuts.

The announcement of in-year funding reductions was followed on 22<sup>nd</sup> June by the Chancellor's Budget which did not have details of public sector spending forecasts but stated that there would be an average reduction in public spending over the four year period of the current Parliament of around 25%. Given that it has been stated that Education would be offered some degree of protection within the Spending review it is possible that local government may face reductions in funding of over 25% and up to 40% in the same period.

It is currently assumed that this year follows the pattern of previous years in that the Government will publish its Local Government Finance Settlement around late November/December. This should include detailed proposals for individual Local Authorities formula grant (which is made up of revenue support grant and non-domestic rates) and other grant funding.

The announcement of in-year reductions in Area Based Grants and the removal of ringfencing around specific grants suggest that these grants may also be reduced in future years. A revised financial forecast has therefore been produced based on the Council's gross budgets including expenditure funded by Area Based grant and specific grant.

The key assumptions on income and expenditure built in to the MTFS forecast are as follows:-

| Assumption                                    | 2011/12 | 2012/13 | 2013/14 |
|---|---------|---------|---------|
| <u>Income Assumptions</u>                     |         |         |         |
| Formula Grant                                 | -6.25%  | -6.25%  | -6.25%  |
| Area Based Grant                              | -70%    | 0%      | 0%      |
| Specific Grants (excl. Direct Schools Grants) | -10%    | -15%    | -15%    |
| Council Tax                                   | 0%      | +2%     | +2%     |
| Fees and Charges                              | +2%     | +2%     | +2%     |
| <u>Expenditure Assumptions</u>                |         |         |         |
| Budgeted Pay Rise (n.b. <£21k £250 increase)  | 0%      | 0%      | +2%     |
| Budgeted Price Increases                      | +1%     | +1%     | +2%     |

These assumptions form the basis of the three year forecast of savings that the Council will have to make in order to deliver a balanced budget.

Although the position will not become clearer until after the Chancellor's Spending Review and the Local Government Finance Settlement, the best estimate based on the above assumptions is that the Council needs to reduce its spending by £22.3m in 2011/12, £33.3m by 2012/13 and £50.2m by 2013/14. These figures are cumulative which means that the £22.3m in 2011/12 is part of the £33.3m deficit in 2012/13 which in turn is included in the ultimate target of £50.2m in 2013/14, but also assumes that the savings are sustainable rather than one-off in nature.

N.B. At Budget Council in February 2010, savings of £4.7m, £9m and £13.9m for 2010/11, 2011/12 and 2012/13 respectively were approved (mainly from savings as a result of lower pay awards than anticipated and the transformation of services that is occurring throughout the Council). The savings requirements highlighted above and detailed in the table below are **over and above any such budget decisions already agreed by the Council**.

In a similar manner at Budget Council, additional budget of around £2.7m was provided to Directorates each year mainly to improve children's care services and support income generating areas.

| <b>3 YEAR BUDGET FORECAST 2011/12 TO 2013/14</b>          |              |              |              |
|---|--------------|--------------|--------------|
|   | 2011/12      | 2012/13      | 2013/14      |
|   | £m           | £m           | £m           |
| <b>Funding Forecast</b>                                   |              |              |              |
| RSG/NNDR - Formula Grant                                  | 76.5         | 71.5         | 66.5         |
| CT Income Per Budget Council                              | 80.1         | 81.7         | 83.3         |
| Area Based Grant (Initial Allocation)                     | 5.7          | 5.7          | 5.7          |
| Collection Fund Surplus                                   | 0.2          | 0.2          | 0.2          |
| Specific Grants   | 33.3         | 27.5         | 21.5         |
| Fees and Charges  | 35.7         | 37.1         | 37.5         |
| <b>Forecast Income</b>                                    | <b>231.5</b> | <b>223.7</b> | <b>214.7</b> |
| <b>Expenditure Forecast</b>                               |              |              |              |
| <u>Budget</u>   |              |              |              |
| Estimated Gross Service Controlled                        | 253.8        | 257.0        | 259.0        |
| <u>Major Inflation/Growth/Other Pressures</u>             |              |              |              |
| General Provision for Pay and Prices                      |              |              | 4.0          |
| Superannuation Actuarial Review/Supported Borrowing Costs |              |              | 1.0          |
| Increase in landfill tax £8 per tonne                     |              |              | 0.4          |
| Social Services Demographics                              |              |              | 0.5          |
| <b>Forecast Expenditure</b>                               | <b>253.8</b> | <b>257.0</b> | <b>264.9</b> |
| <b>Summary</b>  |              |              |              |
| Forecast of Funding Available                             | 231.5        | 223.7        | 214.7        |
| Forecast Expenditure                                      | 253.8        | 257.0        | 264.9        |
| <b>Forecast Surplus(-) / Deficit(+)</b>                   | <b>22.3</b>  | <b>33.3</b>  | <b>50.2</b>  |

## Balances Forecast

General balances are kept to help the Council manage cost, income and other fluctuations by providing short term funding to support budgets.

The following table shows the level of balances that will be available at each year end over the period of the MTFs. The contributions to and from balances included in the table have already been approved by Members.

|  | £m   |
|--|------|
| Estimated Available General Fund Revenue Balances as at 31/03/11 | 8.1  |
| Assumed Contribution to Balances in 2011/12                      | 0.5  |
| Estimated Available General Fund Revenue Balances as at 31/03/12 | 8.6  |
| Assumed Contribution from Balances in 2012/13                    | -0.7 |
| Estimated Available General Fund Revenue Balances as at 31/03/13 | 7.9  |
| Assumed Contribution to/from Balances in 2013/14                 | 0.0  |
| Estimated Available General Fund Revenue Balances as at 31/03/14 | 7.9  |

As can be seen, balances would remain above the minimum requirement of £5m throughout the 3 years of this MTFs. If, however, balances were used to support the Council's budget this would have a direct impact on the above estimate. It should be noted balances are one-off reserves and use of them for anything other than for short term issues would not be sustainable. Given the extent of the savings/expenditure reductions which are required over the planning period, the additional balances could be used on a one-off basis to support transformation of services.

## **Section 7 Joint Council/Main Partner MTFS**

The Council works with a number of partners including NHS Calderdale, Pennine Housing, Police, the voluntary sector etc in providing and commissioning services. Clearly NHS Calderdale has a significant role in a range of services across the Council.

Calderdale Council engaged with NHS Calderdale in 2009 to undertake a major review of the future direction of adult social care and NHS community services in the context of the Department of Health publication 'Transforming Community Services'. The intention of this review was to develop the opportunity to integrate both commissioning and service provision wherever possible between the organisations. Whilst there has been some discussion on the integration of service provision, the main emphasis of the review was the commissioning of community services. The new coalition Government released its own plans for the NHS in the White Paper 'Liberating the NHS' in July 2010. The main proposals of the White Paper were:

- Putting patients first through greater choice, involvement and control and a more important role for clinicians in deciding on health priorities and greater focus on improved health outcomes to replace process-led targets.
- Greater accountability, local autonomy and democratic legitimacy through the development of GP commissioning consortia, working in partnership at local level with local authorities.
- Maintain NHS spending in real terms, though there will be efficiencies in the region of 45 per cent of total NHS management costs to offset rising demographic demands. There will be "no bail-outs for organisations which overspend public budgets".
- Creation of an independent NHS Commissioning Board to oversee commissioning and to champion improvement and patient involvement in health services. The development of GP commissioning consortia and the creation of the NHS Commissioning Board will pave the way for the abolition of Strategic Health Authorities (SHAs) in 2012/13 and Primary Care Trusts (PCTs) 2013. Abolition of the health oversight and scrutiny role for Councils.
- New roles and resources for local councils in public health, and a new statutory Health and Wellbeing Board to ensure coordination, integration and partnership working on social care, public health and health improvement.
- Creation of a national Health Watch for England to be the national voice of patients and the public. Local involvement networks will become local Health Watch branches. Local authorities will retain their statutory duty to support patient and public involvement activity.

- New joint roles for both Monitor and the Care Quality Commission (CQC), with Monitor becoming the economic regulator for all health and social care providers and CQC becoming the quality inspectorate.

There are a number of implications within this for local authorities' roles and resources, as follows:-

- PCT public health improvement functions will be transferred to local councils after the abolition of PCTs in 2013.
- Local Directors of Public Health will be jointly appointed by local authorities and the national Public Health Service. Further clarity is required around the arrangements for the employment of public health teams and the accountability of the Local Director of Public Health
- A ring-fenced public health budget will be allocated to local authorities to support their public health and health improvement functions.
- Councils will be required to establish "health and wellbeing boards" to join up the commissioning of local NHS services, social care and health improvement. This will allow local authorities to take a strategic approach on promoting integration across health and adult social care, children's services (including safeguarding) and the wider local authority agenda.
- An extension and simplification of powers to enable joint working between the NHS and local authorities. Health Overview and Scrutiny Committees (HOSCs) will be replaced by the above functions.

The financial strategy for the PCT prior to this announcement showed that it would also need to make significant savings over the next three years as shown below:

|                           | 2011/12<br>£m | 2012/13<br>£m | 2013/14<br>£m |
|---------------------------|---------------|---------------|---------------|
| <b>Calderdale Council</b> |               |               |               |
| Expenditure               | 253.8         | 257.0         | 264.9         |
| Savings required          | 22.3          | 33.3          | 50.2          |
| <b>NHS Calderdale</b>     |               |               |               |
| Expenditure               | 343.6         | 343.7         | 348.9         |
| Savings required          | 5.7           | 10.8          | 15.8          |
|                           |               |               |               |
| Total Expenditure         | 597.4         | 600.7         | 613.8         |
| Total savings required    | 28.0          | 44.1          | 66.0          |

The White Paper proposals will clearly affect these forecasts with, for example, the allocation of a ring fenced budget to local authorities for public health improvement functions. At this stage it is not clear what the scale of these additional resources might be and the overall financial implications. A revised MTFS will need to incorporate these changes.

## **Section 8 Risk and Sensitivity Analysis**

### **Risk Assessment**

The council has a very strong risk management framework in place. The core of this framework is set out in the corporate risk management strategy and corporate risk register.

In addition to the corporate register, each directorate has its own operational risk register which integrates with the relevant directorate performance management strategy, improvement plans and budgets.

The integration of risk, performance and budgets ensures that the council can respond positively to mitigate the potential impact of perceived risks.

The key financial risks, together with the main processes to mitigate and contain any financial implications is summarised below.

The risks categories remain broadly the same as in 2009. The main change relates to RSG grants uncertainty where the lack of three year government settlements has made the forward planning into 2011/12 and 2012/13 less robust. The potential exposure of the Council on this issue has therefore increased to a high risk.

- Grants. The lack of a three year government settlement now makes medium term financial planning less robust.
- Pay and price inflation. This risk is perhaps higher with major uncertainty about fluctuating fuel prices and possible impact on the economy; the previous 3 year pay award has now expired and pay is currently being re-negotiated on an annual cycle. Government has signalled a robust approach in relation to public sector pay restraint with pay freezes for staff earning over £21k in 2011/12 and 2012/13 being recommended by Government.
- EU Landfill Directive / Landfill Allowance Trading. This remains a major uncertainty and will impact within the plan period. The new waste collection contract and proposed partnership arrangements for disposal should reduce this risk significantly. The validity of the estimates will be reviewed regularly throughout the plan period. The increasing number and extent of environmental directives may have other impacts upon the Council, for example, in the form of land remediation.

- Insurance and Other Claims. This remains a major issue facing all public bodies. The previously agreed strategy of utilising one off budget gains to set aside earmarked resources provides the Council with a more robust base capable of dealing with known risks and claims however there remains significant uncertainty around such issues not least backdated claims relating to some years where the Council's external underwriter is in liquidation.
- The medium term forecast includes a range of significant risks / uncertainties. Specific mitigating actions/provision can be made for these. It is however concluded that there will inevitably remain significant financial risks, in particular those associated with litigation (including backdated claims against the Council for years where the Council insurer is in liquidation), demand led cost pressures plus the inbuilt uncertainty about Central Government Funding.
- In addition, there is significant uncertainty at the moment about the local economy. This uncertainty may continue to impact on the Council through a reduction in income streams, increased demand etc. Against this background it is considered that the Council must retain its strategy and maintain unallocated balances of at least £5m to ensure that it can deal with such risks in a managed way if they arise. The potential impact of changes in the risks is considered in the sensitivity analysis of the baseline projections within the MTFS.

### Sensitivity Analysis

The Council's current forecast contains a number of assumptions which impact on the level of its income and expenditure. Changes in these assumptions can have a fundamental effect on the bottom line savings the Council may need to make over the next 3 years.

It is more difficult to predict the next 3 years budgets in the year of a spending review than any other as government funding is as yet unknown (although some broad indication has been given). It is therefore vital that different scenarios or sensitivities are modelled so that the Council is able to adapt its finances should the central forecast be incorrect.

The table below shows how a 1% increase or decrease in the main assumptions would affect the Council's bottom line.

| Assumption                                    | Effect of 1% Increase or Decrease |
|---|-----------------------------------|
| <u>Income Assumptions</u>                     |                                   |
| Formula Grant                                 | £0.8m                             |
| Area Based Grant                              | £0.2m                             |
| Specific Grants (excl. Direct Schools Grants) | £0.3m                             |
| Council Tax                                   | £0.8m                             |
| Fees and Charges                              | £0.3m                             |
| <u>Expenditure Assumptions</u>                |                                   |
| Budgeted Pay Rise (n.b. <£21k £250 increase)  | £1.0m                             |
| Budgeted Price Increases                      | £0.4m                             |
| <b>Total Effect of a 1% change</b>            | <b>£3.8m</b>                      |

If, for example, each of the Council's assumptions above were negatively out by 1% (i.e. income sources 1% lower and expenditure items 1% higher) then there would be a £3.8m increase in the deficits forecast in this strategy for each year this happened. Conversely, if there was an improvement of 1% then the Council would be £3.8m a year better off compared to this forecast equivalent to around half of balances.

Given the uncertainties highlighted in this strategy it is felt that a reasonable range of scenarios should be developed to map the possible outcomes the Council may face. Therefore, in addition to the Council's central scenario detailed above, best and worst case assumptions have also been modelled so that the upside and downside risks to the Council's strategy can be seen.

These assumptions are consistent with what is known at this present time as the most likely course of events taking accounts of the understanding of professional organisations (e.g. CIPFA), political commentators and other public sector bodies.

### Base/Current Assumptions

| Assumption                                    | 2011/12 | 2012/13 | 2013/14 |
|---|---------|---------|---------|
| <u>Income Assumptions</u>                     |         |         |         |
| Formula Grant                                 | -6.25%  | -6.25%  | -6.25%  |
| Area Based Grant                              | -70%    | 0%      | 0%      |
| Specific Grants (excl. Direct Schools Grants) | -10%    | -15%    | -15%    |
| Council Tax                                   | 0%      | +2%     | +2%     |
| Fees and Charges                              | +2%     | +2%     | +2%     |
| <u>Expenditure Assumptions</u>                |         |         |         |
| Budgeted Pay Rise (n.b. <£21k £250 increase)  | 0%      | 0%      | +2%     |
| Budgeted Price Increases                      | +1%     | +1%     | +2%     |

### Best Case Assumptions

| Assumption                                     | 2011/12 | 2012/13 | 2013/14 |
|--|---------|---------|---------|
| <u>Income Assumptions</u>                      |         |         |         |
| Formula Grant*                                 | -6.25%  | -6.25%  | -6.25%  |
| Area Based Grant*                              | -6.25%  | -6.25%  | -6.25%  |
| Specific Grants (excl. Direct Schools Grants)* | -6.25%  | -6.25%  | -6.25%  |
| Council Tax                                    | 2%**    | +2%     | +2%     |
| Fees and Charges                               | +2%     | +2%     | +2%     |
| <u>Expenditure Assumptions</u>                 |         |         |         |
| Budgeted Pay Rise (n.b. <£21k £250 increase)   | 0%      | 0%      | 0%      |
| Budgeted Price Increases                       | +1%     | +1%     | +2%     |

\*Equivalent to 25% over 4 years

\*\*i.e. 2011/12 Council Tax freeze will be Government funded

N.B. Pay freeze extended a further year

### Worst Case Assumptions

| Assumption                                      | 2011/12 | 2012/13 | 2013/14 |
|---|---------|---------|---------|
| <u>Income Assumptions</u>                       |         |         |         |
| Formula Grant*                                  | -10%    | -10%    | -10%    |
| Area Based Grant                                | -70%    | -5%     | -5%     |
| Specific Grants (excl. Direct Schools Grants)** | -20%    | -10%    | -10%    |
| Council Tax                                     | 0%      | +2%     | +2%     |
| Fees and Charges***                             | -10%    | 0%      | 0%      |
| <u>Expenditure Assumptions</u>                  |         |         |         |
| Budgeted Pay Rise (n.b. <£21k £250 increase)    | 2%      | 2%      | +2%     |
| Budgeted Price Increases                        | +2%     | +2%     | +2%     |

\*Equivalent to 40% reduction over 4 years

\*\* 10% reduction taken from base. 40% reduction over 4 years on top

\*\*\*The Council's current reduced income levels becomes permanent

Translating the above assumptions into a best and worst case scenario for overall savings requirements to balance the Council's budget over the next 3 years, the range of potential situations is as follows:-

Projected Deficits/Savings Requirements

| Scenario              | 2011/12 | 2012/13 | 2013/14 |
|-----------------------|---------|---------|---------|
| Best Case             | £6.9m   | £15.4m  | £27.8m  |
| Base/Current Forecast | £22.3m  | £33.3m  | £50.2m  |
| Worst Case            | £33.0m  | £48.5m  | £67.4m  |

The sensitivity analysis suggests that the savings highlighted within the MTFs may be closer to the worst case scenario than the best case suggesting the Council may be being prudent in its approach. There is however a great deal of uncertainty about many of the key assumptions on which the forecasts are based.

**Section 9 Conclusions**

It is clear that the Council will have to work harder in the future to maximise resources through greater efficiencies, using other internally generated funding (e.g. prudential borrowing) and further integrate its service provision with its partners.

Even after identifying efficiency improvements and transforming services however, it is unlikely that the scale of savings suggested within this MTFs can be achieved without impacting upon service provision. The budget prioritisation process outlined will allow the Council to consider which services may be reduced or removed altogether in order to deliver a balanced budget. The normal budget process is geared towards finalising the Council's budget in February but as a significant proportion of savings may have to start being made from as early as April a revised approach may have to be taken this year.

The financial position of the Council will become clearer once the national spending review and Local Government Finance Settlement have been announced. The MTFs is, hopefully, based on a relatively prudent view of the outcome of these but this cannot be guaranteed. It is recommended, therefore, that the Council continues to use the assumptions within the MTFs and plan accordingly.