

Revenue Budget 2010/11 – 2013/14**Cabinet****Date:** 21st July 2010**Author: Cabinet Member for Finance, and Director of Finance****Parish / Wards Affected:** All**Purpose**

This report presents the latest understanding of the impact on the Council's current and future year budgets of the reductions in Government spending announced before and during the national emergency budget to enable an appropriate response to be considered.

Recommendations

That Cabinet,

- Notes the out-turn position for the General Fund as at 31st March 2010, set out in Table 1, including the impact of in-year revenue grant reductions of £1.4m;
- Notes the Government's withdrawal of £1.29m of capital grants;
- Agrees to support the continuation of planned schemes funded from the Play Builder capital grant as detailed under paragraph 2.5, but requests that the specifications be reviewed to ensure value for money is being optimised;
- Agrees the virements set out in Appendix 2;
- Agrees the framework for in-year budget savings, illustrated in Table 2, with detailed proposals to be considered at special meetings of Cabinet and Council to be arranged in September / October;
- Notes the predicted medium-term financial prospects as set out in Table 3;
- Agrees target cash limits for 2011/12 as proposed in Table 4, recognising that the final allocation of resources will reflect the emerging One Swindon conversations with stakeholders over the coming months;
- Notes that the Cabinet Member for Finance has decided to streamline the advisory groups reporting to him on budget issues by replacing the Procurement Advisory Group and the Financial Planning Advisory Group with two new Budget Management Advisory Groups who will, together, oversee all service areas;
- Requests that the Chief Executive makes use of all available communications channels to ensure that the scale of the financial challenge and its likely impact on the Council's services is understood throughout the organisation, and by its partners and the community.

1 Reasons

- 1.1 To present to Cabinet the results of the May budget monitoring exercise, in the context of recently announced reductions in Government grant

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

funding. Through considering this, to set out an approach to manage the in-year budget position in 2010/11 that also makes a start towards addressing the expected budget gap in the years ahead.

- 1.2 The expected budget position in future years, where it is predicted that service areas will face a real terms reduction in funding of at least 10% year on year, requires a more focussed approach to budget planning and delivery than ever before and a recognition that the Council will be a much smaller organisation than it currently is.
- 1.3 Although the Council has identified and implemented savings of over £30m in the last 4 years, the scope for generating savings through efficiencies is now diminished while the need to reduce costs has increased.

2 Detail

2010/11 Budget Update

- 2.1 The 2010/11 budget was approved by Council in February, against a context of the grant settlement remaining unchanged from that previously announced by Government for the period 2008/09 – 2010/11. As in all years, it was recognised during the budget setting process that there were a number of risks inherent in the package proposed, in part due to the impact of the recession on income receivable and on demand for services and also in relation to the scale of efficiencies proposed. On this basis, a contingency of £1.6m was included to reflect the risks across all services and specifically for Adult Social Care in relation to the scale of savings to be delivered and the risk of only part-year savings being achieved.
- 2.2 Since then, the scale of the global economic crisis has become increasingly clear, with events in Greece in particular highlighting the very real tension faced by all Governments between continuing to support their national economies and taking measures to reduce the escalating levels of debt. While there is a common understanding that the level of national debt is not sustainable, the pace at which action should be taken to reduce debt to a more manageable level was the subject of key debates during the United Kingdom's elections in May.
- 2.3 In the event, the Coalition Government has determined to reduce public expenditure at a faster rate than was anticipated by most commentators, meaning that the assumption of an unchanged grant settlement for local authorities has proved overly optimistic. The headlines from the Government's announcement on grant reductions are
 - 2.3.1 Loss of £1.4m revenue grant in the current year. The Government's figures show this as a 0.7% reduction in revenue grant. Excluding the Dedicated Schools Grant, which is ringfenced, it represents a 1.7% reduction (2 ½ months into the year):

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

- The revenue grant loss predominantly represents reduced allocations of Area Based Grant for Children's services, with the reduction of £1.18m representing 22% of the original sum. The Childrens element of the Area Based Grant is a "catch all" comprising around 20 different individual grants. The Government's approach has been to reduce the overall sum rather than target specific elements.
 - Other revenue grant losses include Supporting People Admin (£130k), Road Safety (£100k) and minor Home Office grant (£20k).
- 2.3.2 Loss of £1.29m capital grant in the current year:
- £0.55m Integrated Transport grant is a proportion of the grant support for Transport schemes. The Government is quoting a figure of 25%, however as Swindon does not receive "supported borrowing", the impact is proportionately greater.
 - £0.66m reduction in the support for projects to adapt premises for 14-19 diploma provision.
 - £80k Road Safety grant.
- 2.4 These headline numbers mask potentially more significant losses in other grants which are being cut or reduced but where the allocations have not been determined or published in the statement:
- the abolition of Housing & Planning Delivery Grant and LABGI will disproportionately affect Swindon, as a development area. We have been benefitting from these to the tune of £1.5m - £2.5m per year, although they have not been budgeted for. The Government has indicated that this reduction will be part mitigated by a different incentivisation package to support new housing development, focussed around rewarding local authorities through supplementing Council Tax income by a sum equivalent to the new tax income generated from additional properties, although details are still emerging.
 - A reduction of 50% in Local Area Agreement reward grant (just under £1m.). This means we will need to revisit with partners its proposed allocation, which had been agreed between the LAA block leads to support shared initiatives.
- 2.5 The risk of in-year grant reductions was neither anticipated nor allowed for in the agreed budget. Although there will be some impact on what can be delivered, the nature of capital expenditure means that capital grant reductions can be managed by reducing the scale of proposed

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

capital expenditure to reflect the reduced funding. In order to provide some flexibility, the Coalition Government has removed ring-fences from a number of capital funding streams. Those relevant to Swindon Borough Council are set out below. Cabinet is requested to consider whether any uncommitted sums from these grants should be redirected to other areas or if the schemes identified should be continued.

- Playbuilder grant – an allocation of £595k has been received for 2010/11, supplemented by £100k Council funding. A sum of £322k remains uncommitted and could potentially be redirected. Consultation has been undertaken on the following schemes, which have been put on hold pending Cabinet's consideration of the grant funding:
 - Twist site, Penhill
 - Northview play area, Highworth (in conjunction with the Town Council)
 - Maunsell Way play area, Wroughton (in conjunction with the Parish Council)
 - Richard Jefferies Adventure Playground, Eldene (in conjunction with the Aiming High Team)
 - Mannington Recreation ground, Rodbourne

The former Richard Jefferies Adventure Play Site was closed in April with a commitment to provide an alternative facility. Should the funding be redirected, there may be an impact on Swindon Commercial Services Limited, whose staff are engaged to deliver the Playbuilder programme.

- Social Care IT Infrastructure – an allocation of £51k has been received in the current year, with £43k having been carried forward from last year. This grant has now, however, been fully spent.

2.6 In relation to the revenue grant reductions, it is necessary to address the impact of this on the revenue budget alongside pressures being reported by service areas at this relatively early stage in the year. Details of the predicted out-turn position currently being reported, **before further mitigating actions are identified and implemented**, is shown in Table 1 below with a more detailed analysis shown at Appendix 1. This table includes the impact of a number of proposed virements as set out in Appendix 2, which Cabinet is asked to confirm. In addition to the figures below, base pay protection costs will be incurred during 2010/11 following the implementation of the pay and grading review on 1 April. Latest indications are that these additional one-off costs are likely to be around £125k above the base budget provision of £1.7m, which can be covered by the earmarked reserve established for this purpose.

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

Table 1: General Fund Forecast

| | Budget 2010/11 | Forecast Outturn | Forecast Over/ (Under) spend | Grant Reductions | Overall Projected Variance |
|--|-------------------|---------------------|---------------------------------------|---------------------|----------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Children Services | 28,024 | 28,345 | 321 | 1,180 | 1,501 |
| Housing, Libraries & Leisure | 13,569 | 13,640 | 71 | 130 | 201 |
| Adult Social Care | 39,910 | 41,059 | 1,149 | 0 | 1,149 |
| Environment, Regeneration & Communities | 30,283 | 30,339 | 56 | 120 | 176 |
| Business Transformation | 17,763 | 17,978 | 215 | 0 | 215 |
| Sub Total of Groups Position | 129,549 | 131,361 | 1,812 | 1,430 | 3,242 |
| Chief Executive & Corporate | 570 | 520 | -50 | 0 | -50 |
| Sub Total | 130,119 | 131,881 | 1,762 | 1,430 | 3,192 |
| General Contingency Fund | 1,107 | -536 | -1,643 | 0 | -1,643 |
| Total | 131,226 | 131,345 | 119 | 1,430 | 1,549 |

2.7 When the budget was set in February, the level of contingency was set at £1.6m, a higher level than normal, to reflect the specific risks in Adult Social Care and across all services in relation to the scale of savings to be delivered and the risk of only part-year savings being achieved. Since then, ongoing risk assessments have been undertaken in all services to highlight progress against delivery of the savings proposals together with the ongoing impact of pressures and savings that arose in the latter part of 2009/10, after the budget papers were published. At this stage the overall position indicates that the potential overspend, before grant reductions and prior to the implementation of further mitigating actions, is broadly in line with the level of contingency agreed.

2.8 Explanations of the key issues reflected in the different service areas are provided below. All areas are actively working on mitigating actions to bring their budgets back into balance.

Children Services

2.8.1 The Group is currently forecasting an overspend of £321k which is entirely as a result of new pressures. The main cause of this is due to increased activity volumes (demand) for Children Looked After, principally Fostering.

Housing, Libraries and Leisure

2.8.2 The Housing and Leisure Directorate is projecting an overspend of £71k. The main cause of this projected overspend is due to

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

reduced income projections on Recreation golf income and passports sales.

Adult Social Care

2.8.3 The Directorate is on track to deliver £3.29m of the £3.96m savings included in the budget proposals, with other options being actively explored to cover the £671k shortfall. Close monitoring of the budget movements since February also reveals that savings have been achieved against the positions predicted in Mental Health, quality premiums, increased carers support grant and budgets for demographic growth (£1,163k) that offset most of the additional pressures that have arisen since then.

2.8.4 Areas where there is a shortfall against the savings proposals are:

- Provider Services performance management (£117k)
- Home Care productivity (£242k)
- Care closer to home (£258k).

2.8.5 Other pressures are largely as a result of growth in demand. The most significant areas affected are:

- Independent Living, Care Management – increased demand is being experienced from both new and existing clients with Learning Disabilities (£1,184k)
- Care Closer to Home – increasing demand is being experienced from new and existing Home Care clients (£345k)
- Planning and Commissioning, Mental Health – unavoidable pressure is being experienced on the AWP contract due to growth in demand (£104k).

Environment, Regeneration & Communities

2.8.6 Although the Group is reporting a relatively small overspend of £56k, this masks a number of large pressures and mitigating savings.

2.8.7 The most significant pressure relates to Cabinet's decision to reduce car parking charges, which is estimated to result in a fall of around £400k in car parking income. This is in addition to further expected reductions in income from car parks due to falling patronage (£100k) and decreased Penalty Charge Notice income (£100k). Building Control income, which has been affected by the economic downturn, is also forecast to be £170k below target.

2.8.8 In order to compensate for the above, staffing savings relating to vacant posts have been secured (£280k) and one-off savings in non-staffing budgets have been agreed (£225k). In addition, unexpected planning income of £184k has been received.

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

Business Transformation

2.8.9 The Group's current projected overspend, pending compensating savings being identified, is £215k. This consists of £150k from the increased volume of unrecovered Benefits overpayments, due to the rise in caseload last year, plus a £65k shortfall in budgeted savings from marketing income and postage arrangements.

Chief Executive and Corporate

2.8.10 A net underspend of £300k is predicted in the investments and debt charges budgets. Against this, it is not expected that the budgeted £250k Thamesdown Transport Ltd dividend will be received, despite the company's increased profitability, due to the scale of the pension deficit which outweighs distributable reserves.

Contingency

2.8.11 The position reported in Table 1 assumes that all of the £1.6m contingency is used to offset the pressures being reported.

2.9 In addition to the figures shown in Table 1, there are a number of key risks, assumptions and opportunities that need to be taken into account in assessing the scale of the challenge faced by the Council in bringing the 2010/11 budget in on balance. The most significant of these are:

- Increasing demand for services, particularly social care, that may accelerate further if vulnerability increases as a result of the national budget;
- Further reduced grant funding, particularly from Government agencies;
- The financial impact of reviews of care packages, where savings are assumed but cannot be guaranteed;
- Further reduced income from fees and charges in areas most vulnerable to the recession, e.g. leisure facilities, building control, car parks;
- The continuing support being provided to determine whether a viable future can be secured for Highworth Recreation centre;
- There is an option to review the funding arrangements for some activities within the base budget. Funding of £1.1m can be released by funding the Transformation team solely from earmarked reserves and by absorbing the debt charges element of the New Ways of Working project within the debt charges budget, where there is sufficient headroom.

2.10 The Chief Executive and Corporate Board has considered the scale and likelihood of these risks and the wider context of the future financial challenges that will be faced. In this context, the Chief Executive and Corporate Board recommends to Cabinet that in addition to the £1.5m pressure being reported in Table 1, there should be an overall target to deliver a **further** £4m of savings in the current year. This is in order to

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

both cover the risks in the current year and also start to address the challenges that will be faced in 2011/12 and beyond, by delivering an underspend in the current year to make available one-off resources to support delivery of the medium-term challenge and to deliver some savings that will be needed in 2011/12 a few months earlier. **This implies a need to achieve a further £4.4m of savings, compared with the May monitoring position set out in Table 1** (projected overspend of £1.5m plus a further £4m of targeted savings less £1.1m of savings already identified).

- 2.11 In order to focus activity towards achieving this level of savings in-year, it is necessary to apportion the savings required across service areas. As a starting point, it should be assumed that all services will cover any reported overspends as at the end of May. For those services which have experienced reductions in grant, the Chief Executive and Corporate Board proposes that the areas affected should be required to identify savings equal to 50% of the grant loss in the current year, which would equate to the full year's grant loss in 2011/12 if implemented in October 2010.
- 2.12 The approach in paragraph 2.11 would achieve savings of £2.5m, leaving £1.8m to be apportioned across services. A number of options for doing so have been considered by the Chief Executive and Corporate Board, recognising the need to find a balance between aligning budgets with Council priorities, sharing the burden equitably across Group Directorates and recognising where capacity may be an issue in responding quickly. In this respect, the following issues were recognised:
- Adult Social Care senior capacity is shared with NHS Swindon and is focussed on delivering an unprecedented level of savings through a Transformation programme;
 - Environment, Regeneration and Communities is absorbing the £0.4m expected financial impact of Cabinet's decision to reduce car parking charges, partly through additional planning fees income and partly through a recruitment freeze;
 - In addition to seeking general fund savings, Children Services are also committed to identifying savings of £1m for 2011/12 in services funded by the retained element of the Dedicated Schools Grant and £550k in integrated services funded by NHS Swindon in the current year.
- 2.13 Although recognising the challenges it will place on individual Group Directorates, the collective view of the Chief Executive and Corporate Board is that Children Services and Adult Social Care should not be asked to find further savings in 2010/11 (without prejudicing 2011/12 discussions). Adopting this approach would imply the following savings to be identified:
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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

Table 2: In-Year Savings Required

| | <i>May-10 O/Spend £'000</i> | 50% of Grant Reduction £'000 | Extra £'000 | Total (£000) |
|---|-------------------------------------|---------------------------------------|----------------|-----------------|
| Children Services | 321 | 590 | 0 | 911 |
| Environment, Regeneration & Communities | 56 | 60 | 884 | 1,000 |
| Adult Social Care | 1,149 | 0 | 0 | 1,149 |
| Housing, Leisure & Libraries | 71 | 65 | 414 | 550 |
| Business Transformation | 215 | 0 | 535 | 750 |
| | 1,812 | 715 | 1,833 | 4,360 |

- 2.14 It is imperative that the Council takes clear, decisive action in order to both agree the framework above and then to progress activity at pace to address this level of in-year budget reductions. Given the scale of the actions that will be required, it is considered best practice to undertake a formal mid-year review of the 2010/11 Budget that will need to be ratified by Council. Special Cabinet and Council meetings would need to be arranged in September or early October to facilitate this. It is inevitable in an organisation that employs a significant number of staff that redundancies will be needed to reduce costs. Although it is not possible at this stage to state how many posts will need to be lost in what timescale, it is not unrealistic to assume that the scale could be as great as 1,000 over the next few years.
- 2.15 In preparation for the scale of changes that will be required and the speed of action that will be necessary, it is recommended that all efforts be made to communicate to all staff at an early stage the scale of the financial challenges the Council is facing and the reality that many of these savings will need to come from staffing costs, given that these constitute around two-thirds of our costs. Communications will involve all staff briefing sessions by the Chief Executive and Leader of the Council that have been arranged for 29th July. This will form part of a wider communications strategy, including the Council's partners and the wider community.
- 2.16 In terms of member engagement, the Cabinet Member for Finance has decided to establish Budget Management Advisory Groups to assist him in understanding at a detailed level the issues Group Directorates are facing and to offer support in ensuring that Value for Money is being achieved. One of the Groups will focus on Children Services and Adult Social Care while the other will oversee all other services. These groups will replace all existing financial advisory groups.

Budgets 2011/12 – 13/14

- 2.17 Looking ahead to 2011/12 and beyond, a report to Cabinet in June 2010 highlighted an expected revenue budget gap equivalent to at least 30% of

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

the current net revenue budget, equivalent to around £40m, over the next 3 years. Latest indications are that future grant levels may be worse than those currently anticipated, with the Local Government Minister indicating cuts for local government of up to 40% over the medium term, meaning that the medium-term position could worsen still.

2.18 Current estimates for future years are shown in the table below. These assume zero Council Tax increases during the period, although the Government has indicated that additional grant may be awarded to councils who are able to achieve this position. Details of these arrangements are not yet clear. Against this, it is reasonable to expect that reduced pressure on pay awards coupled with the increasing realisation that spending will need to decline in the years ahead will result in a lower level of spending pressures than has been experienced in recent years. For planning purposes, additional spending of £10m per year has been assumed, compared with figures between £13m - £14m in the past two years. Further work will be undertaken over the coming months to determine whether this assumption is realistic.

Table 3: Predicted Medium-Term Position

| Total Changes | 2011/12 | 2012/13 | 2013/14 |
|--|----------------|----------------|----------------|
| | £m | £m | £m |
| Base Net Budget | 131.2 | 126.2 | 121.2 |
| Base Income (Fees, Charges, Grants excl DSG) | 238.0 | 238.0 | 238.0 |
| Base Gross Budget | 369.2 | 364.2 | 359.2 |
| Change In General Govt Grant (10% Reduction) | -5.0 | -5.0 | -5.0 |
| Change in Area Based Grant (10% Reduction) | -1.5 | -1.5 | -1.5 |
| Change in Council Tax Income | 0.8 | 0.8 | 0.8 |
| Government Match Funding of Council Tax Income | 0.8 | 0.8 | 0.8 |
| Change in Expenditure | 10.0 | 10.0 | 10.0 |
| One-Off Savings from previous years | -4.0 | | |
| Savings required = Gap | -11.0 | -15.0 | -15.0 |
| Gap as % of net budget | 8% | 12% | 12% |

2.19 It can be seen from the above that the Council is facing cumulative budget gaps of around £15m per annum in the years ahead. This is around 50% higher than previous forecasts at this time of the year and is against a backdrop of efficiency savings totalling around £30m having been delivered in the past few years, meaning that the most “bankable” measures have already been actioned. A range of one-off savings against the base budget resulting from proposed measures to be taken in

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

his year, notably the pay and grading review implementation, the refinancing of some expenditure items highlighted above and expected energy savings in a more favourable market, will help partly offset this in 2011/12.

- 2.20 As indicated above, in the context of the predicted future situation, it is sensible to have regard to future year budgets when determining proposals to be adopted during 2010/11, to ensure that momentum can be gathered and maintained to respond to the bigger challenges ahead.

Budget Framework

- 2.21 A report separately on this agenda sets out a proposed “One Swindon” framework, establishing priority outcomes that the Council will be seeking to pursue over the medium term. It is recognised that in order to pursue this agenda within a much tighter financial envelope, the Council will need to construct a new and very different relationship with the people we serve and all the agencies that support them, recognising that we will need to jointly focus our efforts and human resources to achieve the outcomes we seek.
- 2.22 Measures that will need to be taken to address the in-year budget challenge must achieve a balance between taking urgent short-term steps to address the immediate financial challenge and moving towards a new type of organisation within the framework of One Swindon, which will become the driver for our medium term resourcing plan.
- 2.23 Within this strategic context, it is necessary at this time to agree a focus for service areas to commence budget preparation work for 2011/12 and beyond, recognising that this will undoubtedly be changed prior to the final budget proposals being considered in February 2011, in light of feedback from stakeholders.
- 2.24 The Chief Executive and Corporate Board have considered whether, in terms of setting cash limit targets for planning purposes, Group Directorates should be set a similar target and have concluded that it would be inappropriate to take any alternative approach at this time. In arriving at this conclusion, it was recognised that work needs to be undertaken in all areas in order that Members can be presented with real choices as they determine the final shape of the budget between December 2010 and February 2011.
- 2.25 In order to facilitate this, the Chief Executive and Corporate Board proposes that overall target savings for 2011/12 against current cash limits be sought totalling £6m, £1.5m greater than is expected to be needed to deliver a balanced budget. (The £11m gap set out in Table 3 above assumes cash limit reductions of £4.5m plus Group cost pressures of £6.5m). Members will then have a choice whether to redirect some or all of this surplus to priority areas or to put it “in the bank” towards future years. This approach implies the following target cash limit changes, against a working assumption that “corporate” pressures from pensions

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

and debt charges increases will amount to £3.5m of the total expected £10m.

Table 4: Target Cash Limits 2011/12

| | Current 2010/11 Cash Limits | 2010/11 Grant Reductions | Revised 2010/11 Cash Limits | Pro Rata Reductions | Target 2011/12 Cash Limit |
|---|--------------------------------------|--------------------------------|--------------------------------------|------------------------|------------------------------------|
| | £m | £m | £m | £m | £m |
| Children Services | 28.0 | 1.2 | 26.8 | 1.3 | 25.5 |
| Housing, Libraries & Leisure | 13.6 | 0.2 | 13.4 | 0.6 | 12.8 |
| Adult Social Care | 39.9 | 0.1 | 39.8 | 1.9 | 37.9 |
| Environment, Regeneration & Communities | 30.3 | 0.0 | 30.3 | 1.4 | 28.9 |
| Business Transformation | 17.8 | 0.0 | 17.8 | 0.8 | 17.0 |
| | 129.5 | 1.5 | 128.0 | 6.0 | 122.0 |

2.26 The table above illustrates the extent of the challenge, which is that Group Directorates will need to prepare for a 6% reduction in cash limits compared with the position at the start of the current year. In all previous years it has been possible to afford a small increase in budgets. In addition, expected cost pressures of around £6.5m will need to be absorbed, implying an 11% reduction in funding in real terms. This is entirely unprecedented and provides an overwhelming impetus to embrace the central premise of One Swindon that involves shifting the balance of power, responsibility and resources away from public sector bodies to local people, recognising that the Council will no longer be in a position to do everything.

Alternative Options

- Cabinet could decide not to agree to undertake a mid-year formal review of the in-year budget and to request the Chief Executive and Corporate Board to work as in previous years to take appropriate management actions to achieve a balanced budget by the year-end within current budgets. This approach would not be proportionate to the scale of the financial challenges the Council is facing in the current and future years.

Risk Management

Financial and Procurement Implications

These have been reflected in the body of the report.

Legal / Human Rights Implications

The content of this report will not have any direct or disproportionate implications for human rights.

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Revenue Budget 2010/11 – 2013/14

Cabinet

Date: 21st July 2010

Links to Corporate Plans and Policies (in particular to Swindon 2010 Promises)
Sound financial management is an integral part of achieving Swindon 2010.

Consultees

- The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

Background Papers and Appendices

Appendix 1 - Out-turn by Directorate

Appendix 2 - Revenue Virements

Key Decision / Decision in Forward Plan

This is a key decision and is included in the Cabinet Forward Plan for July 2010.

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