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**Meeting:** Executive  
**Date:** 17 August 2010  
**Subject:** Budget Strategy (Medium Term Financial Strategy 2011/12 to 2015/16)  
**Report of:** Cllr Maurice Jones, Portfolio Holder for People, Finance and Governance  
**Summary:** The report proposes the medium term financial planning framework to 2011/12 through to 2015/16.

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**Advising Officer:** Richard Ellis, Director of Customer & Shared Services  
**Contact Officers:** Matt Bowmer, Assistant Director Finance (Chief Finance Officer)/Ian Porter, Assistant Director Strategy & Performance  
**Public/Exempt:** Public  
**Wards Affected:** All  
**Function of:** Executive  
**Key Decision** No

## **CORPORATE IMPLICATIONS**

### **Council Priorities:**

These are a key element of the Budget Strategy and are covered in paragraphs 7 to 10 of the report.

### **Financial:**

The Coalition Government's emergency budget has a significant financial impact on the Council's existing Medium Term Financial Plan. The exact nature on Government departmental spending reductions will not be known until October and currently the headline average 25% reduction is spread evenly across the first four years of the Plan.

### **Legal:**

None

### **Risk Management:**

There is uncertainty in the level of funding from Central Government over the medium term, greater clarity is anticipated with the publication of the Spending Review in October 2010.

### **Staffing (including Trades Unions):**

None at this time.

### **Equalities/Human Rights:**

In developing the Budget Strategy the Council must ensure that decisions are made in such a way as to minimise unfairness, and that there is not a disproportionately negative effect on people from different ethnic groups, disabled people, and men and women.

The statutory equality duties must be exercised in substance, with rigour and an open mind. To ensure that they have complied with the equality duties, and to ensure that any decision made does not unfairly discriminate, public authorities should:

- carry out robust equality impact assessments and consult and involve relevant stakeholders as part of the decision-making process
- consider all relevant, available information in order to anticipate any likely negative impact and to seek to avoid that negative impact by taking alternative courses of action wherever possible.
- keep an adequate record showing that they had actually considered their equality duties and pondered relevant questions.
- be rigorous in both inquiring and reporting to members the outcome of the assessment and the legal duties. When decisions are made, decision makers must have the relevant data, including the results of equality impact assessment, and of consultation and involvement, to ensure they reach an informed decision.

### **Community Safety:**

None arising directly from this report.

### **Sustainability:**

None arising directly from this report.

### **Summary of Overview and Scrutiny Comments:**

- These proposals will be considered by Overview & Scrutiny at its next meeting.

### **RECOMMENDATION(S):**

**that the Executive**

- (a) notes the overall financial outlook and the impact on this authority;**
- (b) notes the update to the existing Medium Term Financial Plan; and**
- (c) endorses the outcomes for Central Bedfordshire Council under the adopted priorities.**

*Reason for Recommendation(s): To put in place the framework to meet the financial challenges faced by Central Bedfordshire over the medium term.*

## **Executive Summary**

The report initially provides an update on the current economic climate and the impact on Local Government finance. However, the focus of the report is the revision of the assumptions in the existing Medium Term Financial Plan and the proposed strategy to address the financial challenges faced by Central Bedfordshire.

## **Introduction**

1. This report sets the framework for preparing the Council's 2010/11 budget and the annual update to the Medium Term Financial Plan (MTFP) 2009/10 to 2013/14 agreed by Council at its meeting on 25 February 2010.
2. Included in the report is an update on the current economic position and first Coalition budget on 22 June 2010, which gives rise to an analysis of the specific impacts on local government funding at this time. This, along with the early budget monitoring information from Central Bedfordshire, will inform the strategy required to take the Council forward. This will of course be influenced by the priorities of the Council which need to be a key determinant in the allocation of what will be very scarce resources.
3. The process and timetable for setting the budget and MTFP, up to its approval at Council on 25th February 2010, was agreed at the Executive on 8 June 2010.

## **Policy**

4. The Council's constitution and related financial procedures set out the process for budget setting. In addition, the Council is required to undertake a public consultation exercise on its budget proposals.

## **Background**

5. Central Bedfordshire set its second budget on 25 February 2010. The Council had endured significant financial challenges in its first year, having set a budget based on the activities and spending plans of three legacy authorities. There has been a more comprehensive approach to budget setting for 2010/11 which along with robust monitoring in 2009/10 has given the Council firmer financial foundations. However, challenges will remain in 2010/11 with the delivery of £12M of efficiencies.

## **Issues**

6. The budget process will need to address the following issues:
  - a. The priorities of the Council and more specifically the outcomes the council wants to achieve over the medium term under those priorities and the allocation of resources to deliver them;
  - b. Changes to the Medium Term Financial Plan (revised assumptions and facts);

- c. The Revenue budget for 2011/12, including reserves;
- d. The Capital Programme for 2011/12; and
- e. The consultation process and the incorporation into the budget of issues raised and accepted.

## **Council Priorities and Outcomes**

7. The Council published its Strategic Plan in September 2008. Members took account of Local Area Agreement targets and public priorities and agreed the following five priorities for the first two years of the Council:
  - Supporting and caring for an aging population;
  - Educating, protecting and providing opportunities for children and young people;
  - Managing growth effectively;
  - Creating safer communities; and
  - Promoting healthier lifestyles.
8. It is right that the Council has broad objectives which cover all elements of the community which it serves. However, as will be evidenced in the remainder of this report, the financial position for local government is much changed and after a decade of year on year growth, is now one marked by declining funds. The Council now needs to identify more specific outcomes under its priorities.
9. Proposals for a key set of outcomes have been developed and these are set out in Appendix A.
10. It is proposed that these outcomes are factored into the Council's medium term budget strategy and that they are used to develop and publish a new, more focussed Strategic Plan following the May 2011 local election. Decisions about savings and resource allocation should be set in the context of the outcomes.

## **Current Economic Outlook**

11. The United Kingdom has experienced its worst recession for a generation and after experiencing six quarters of economic decline the initial signs of recovery were evidenced by an increase in GDP of 0.4% for the fourth quarter of 2009. The recovery is still fragile though with quarter 2 growth only at 0.3%. There are still fears of a double dip recession and the new Government will have to strike a balance between addressing the spending deficit and encouraging growth. Currently, economic forecasters have revised forecasts of future growth downwards but are still predicting growth a little in excess of 1% for 2010 and rising above 2% for 2011 (source: authority's treasury advisers).
12. There has been a spike in inflation after the near deflationary position last autumn when CPI dipped at 1.1% and RPI was -1.4%. Since that time, both measures have steadily increased, peaking at 3.7% and 5.3% respectively in April. The expected turnaround has now taken place with CPI at 3.2% at the end of the second quarter of 2010. Government expectations, as set out in the Emergency Budget, are for both measures to be around 2.5% later in the year.

13. Interest rates remain at their historic low of 0.5% where they have been since the final quarter of 2008. They are expected to stay at this level until the middle of next year when they will have picked up marginally to 0.75%. They will continue to rise slowly and the longer term forecast has them at a plateau of 3% from June 2012 onwards (source: authority's treasury advisers).
14. The unemployment outlook remains uncertain with unemployment currently at a 16 year high. The Office for National Statistics figures for May were 2.47 million unemployed (7.8%) Pay freezes, shorter hours, and a migration to part time working will continue into 2010 initially keeping the headline unemployment number down but aggregate earnings too. There are of course the public sector and local government reductions to come. Central Bedfordshire has had lower unemployment compared to national and regional rates in the past but the recession to date has had a slightly greater impact. Prospects locally are not dissimilar to the expectations nationally.

### **Prospects for the Public Sector and Local Government**

15. All three major political parties promised reductions in public sector spending in the run up to the General Election – both to address the budget deficit and reduce the level of Government debt. The majority of the debate had been about when and by how much.
16. The new Coalition Government has made its intention clear with an early announcement of a £6.2 billion package of cuts for the public sector, £1.166bn of this was specifically for Local Government and the details of this were released on 10 June. The main casualties were Area Based Grant for the Department for Education (DfE) and capital infrastructure grants for the Department for Transport (DfT).
17. The Emergency Budget announced on 22 June will have a number of further impacts on Local Government. The issue of greatest significance is the 25% average reduction in Government department spending over the next four years. Individual Government spending departments have been requested to come forward with proposals up to 40%. There has been a commitment to protect the NHS and Overseas aid budgets which makes the impact on Local Government more difficult to assess. There is some mitigation with the freeze on public sector pay along with the recently announced cancellation of the 1% increase in Employers' NI contributions and free social care at home.
18. The full details of the impact of the proposals will not be known until the Spending Review announcement scheduled for 20 October 2010.
19. There will also be indirect impacts on the Council contained in the Emergency Budget. The overall spending reductions will lead to greater unemployment and put pressure on the delivery of services.

## **Budget Objectives**

20. The clear message is that budget setting and medium term financial planning will be tough not just in the current year but in years to come and it is important that Members have a clear sense of the objectives that they wish to achieve. It is suggested that the following financial objectives may be of help in guiding budget discussions:
1. A sustainable medium term financial plan that facilitates the achievement of the Council's key objectives;
  2. Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
  3. General reserves are initially increased to and then maintained at all times at or above the agreed minimum level;
  4. Constraining annual Council Tax increases to the minimum level with a goal to be at 'average' levels for comparable authorities within 10 years;
  5. A commitment to maximising efficiency savings

## **Updated Medium Term Financial Plan Assumptions**

### Funding

21. The 2001/12 base revenue budget that was previously approved in the 2010/11 Medium Term Financial Plan, before pressures and inflation, was shown as £367m. This has been subsequently revised to £379m (as shown in Table 6 of the report). This revision is made up of a reduction in expenditure requirement of £1.5m due to the reduction of Area Based Grant income and an increase of £13m due to the transfer of PCT responsibilities to local authorities (circa £8m) and adjustments to Standards Fund Grants (circa £4m). These adjustments resulted in commensurate adjustments to income budgets that meant there is no overall impact to net revenue budget requirements.
22. There was an emerging sense of Government spending cuts when the Council set the budget on 25 February 2010. Until late on, an assumption of no year on year increase had been made but this was then revised to a year on year reduction of 3%.

23. The Coalition Government's Emergency Budget will have a significant impact in the next two sections of this update. There is a 25% average reduction in Department Expenditure Limits and it is reasonable to assume that this will come through as reduced grant. The profile of the reduction is not known so 6.25% per annum is assumed. **There is great risk here as more robust information will not be available until the completion of the spending review in October. The 25% could be as great as 40% due to the protection of some spending departments and the reductions could be required earlier rather than later over the four year programme. With £100M of Government support built into Central Bedfordshire's budget, each 1% movement has a £1M impact.**

#### *Formula Grant*

24. For Formula Grant, there is a £1.648M impact in 2011/12 against the expected £49M forecast and an additional reduction of a similar magnitude year on year for the three subsequent years. This represents the difference between the 3% reduction in the MTFP and the 6.25% now assumed. A review of Formula Grant was previously underway and the proposals of the Settlement Working Group are expected to be published in mid July followed by consultation. The new formula would be in place for 1 April 2011.

#### *Area Based Grant (ABG)*

25. An annual increase in grant of 2% in line with CPI was assumed for all income including grants. This included the £13M for ABG. This is the key target area for Government spending reductions and has already been reduced by 11% for 2010/11. This amounted to £1.505M; this reduction and the permanent actions taken in year to address it are incorporated in the updated MTFP.
26. Looking forward, there is a larger year one impact here to correct the 2% increase assumed in the MTFP. Hence, the adjustment is £2.492M in 2011/12 and in the order of £1M year on year for the following three years.

#### *Specific Grants*

27. An annual increase in grant of 2% in line with CPI was also assumed for specific grants. This is a major source of income for Central Bedfordshire - £48M per annum excluding the schools' share of the Dedicated Schools Grant. There is a review of the formula for DSG currently underway but it now appears that the Department for Education (DfE) will shortly be launching another consultation on the future of school funding. The Minister for Children & Families, Sarah Teather has made positive comments on the issue of funding 'pockets of deprivation': such a review could be potentially advantageous for Central Bedfordshire.
28. This is a significant change to the MTFP; the adjustment is £3.982M in 2011/12 and circa £4M year on year for the following three years.

## Council Tax

29. Council policy had been for an average increase of 1.7% and harmonisation of levels of Council tax with effect from 1 April 2011 across the former district areas.
30. Government policy is for a freeze in Council Tax for 2011/12 and this will have a significant impact on the Council's resources. Once a nil % increase is in place for residents in the north of the authority, it will be necessary to go well beyond a freeze in the south and to ensure harmonisation a 2.7% reduction is necessary. This has a significant impact on the Medium Term Financial Plan reducing overall resources in 2011/12 by £3.8M; £1.6M of this as a consequence of the commitment to harmonisation.
31. Table 1 and 2 below detail the original assumptions with the revised position of a freeze combined with Council Tax harmonisation. The yield does go up at a faster rate than the annual Council Tax increase due to an increased Tax Base where this is a prudent year on year increase of 0.6%

Table 1 - Original MTFP Assumptions

	2011/12	2012/13	2013/14	2014/15	2015/16
<u>% Increase</u>					
North	3.00	1.00	1.00	1.00	
South	0.26	1.00	1.00	1.00	
	1.71	1.00	1.00	1.00	
<u>Rate £</u>	1,347.58	1,361.06	1,374.67	1,388.42	
Yield £M	129.118	131.243	133.404	135.600	

Table 2 – Revised Position

	2011/12	2012/13	2013/14	2014/15	2015/16
<u>% Increase</u>					
North	0.00	1.00	1.00	1.00	1.00
South	-2.67	1.00	1.00	1.00	1.00
	-1.26	1.00	1.00	1.00	1.00
<u>Rate £</u>	1,308.33	1,322.41	1,334.63	1,347.98	1,361.46
Yield £M	125.357	127.421	129.518	131.650	133.818



## Inflation

32. Table 3 below sets out the existing MTFP assumptions on inflation.

Table 3

Spend type	2011/12
	%
Employees	
Pay	1.0
Increments	0.5
National Insurance	1.0
Prices	2.0
Contracts	2.0
Income	2.0

33. A more accurate calculation of the impact of inflation in 2011/12 was possible when the detailed estimates were loaded authority's financial system. A further £0.870M over and above that modelled is required.
34. There was allowance made for a national pay award of 1% following the freeze in 2010/11 but the Labour Government's 1% increase in employers' NI contribution was not fully reflected nor allowance made for incremental progression. The position has changed on a number of fronts with the further two year pay freeze with only a £250 increase for those earning less than £21K and the cancellation of the Labour Government's policy to increase Employers' NI by 1%. The pay bill is £90M for Central Bedfordshire so this represents an easing of overall pressure by some £0.861M.
35. CPI has peaked and is expected to be in line with Government targets later in the year. There is no proposal to update inflation provision in the Plan at this stage. However, CPI is the product of a number of elements including oil. Not all of these move together and hence some Council contracts will be uplifted at different rates. These will need to be separately assessed.
36. Income will also be held at 2% at this stage. A review of income streams is underway and is covered below.

## Pressures

37. The existing plan allows for a number of ongoing pressures. In 2011/12 these amounted to £1.225M and are detailed in Table 4 below:

Table 4

	2011/12	2012/13	2013/14	2014/15
	£M	£M	£M	£M
Increased demand in Revs & Bens and registration services	0.033	0.046	0.040	0.046
Elections reserve	0.000	-0.073	0.000	0.000
Transitions from Children's to Adults	0.800	0.800	0.800	0.800
House Planning Delivery Grant	0.250	0.250	0.000	0.000
Landfill Tax	0.500	0.500	0.500	0.000
BEaR Project costs	0.000	-0.066	-0.358	0.000
One off contribution to Redundancy Reserve	-1.438	0.000	0.000	0.000
One off Council Tax Surplus	-0.170	0.000	0.000	0.000
Capital Financing	1.250	1.250	1.250	1.250
	<b>1.225</b>	<b>2.707</b>	<b>2.232</b>	<b>2.096</b>

38. As part of the closure of the 2009/10 accounts a new Earmarked Reserves policy was adopted. Consequently, there are some activities which may need to be more accurately funded through base budget provision. The main area of concern is the development of Statutory Plans in Sustainable Communities for which a one off adjustment of £0.200M is required.
39. Housing and Planning Delivery Grant (HPDG) was cut as part of the new Government's spending reductions in 2010/11. The phased correction of the base budget is no longer an option and a further £0.250M needs to be brought forward to 2011/12.
40. Since the death of Baby Peter in Haringey, Children's Services nationally have noticed a continued upward trend on referrals for children with a view to assessment of their social care needs. In Central Bedfordshire, during 2010/11 this translates to a 30% increase in referrals to the Assessment Teams with a consequent minimum knock on effect for all social care and associated support services. This relates to an additional pressure of at least 10% in all responses to assessments, e.g. Looked After Children, Children in Need, etc. The current assessment of additional need in these categories is a rise of 10% minimum, in 2010/11 and possibly ongoing in future years. An additional £1M is included to the base, the ongoing commitment will need to be reviewed but the expectation is that it drops out of the Plan in 2013/14.
41. There is some uncertainty surrounding the impact of outstanding schools being given a fast track to gaining Academy status. Such schools will be entitled to take a share of local authority budgets, not just those currently funded through DSG.

42. Adult Social Care demography was not incorporated into the 2010/11 budget but cannot continue to go unfunded. This adds £0.9M year on year.
43. The financial challenges faced by Central Bedfordshire are inevitably going to lead to a reduced workforce in the future. This does not come without a price and it will be necessary to set aside resource to fund potential redundancies. A sum of £1.0M will be required to be added to the base for the medium term,
44. The Pension Fund is currently undergoing its three yearly revaluation. Despite the performance of the stock market and the increasing life expectancy of the population there is an expectation that there will not be an increase in the rate of employers' superannuation in the short term. The Government decision to restrict pension rises to CPI will reduce the future liabilities on the Fund.

#### On going Efficiencies

45. The agreed MTFP identified both ongoing efficiencies, which are in the main the full year effect of actions taken in 2010/11 and an unfunded gap.
46. Actions to address the in year reduction of ABG in 2010/11 are built into the base budget for 2011/12.
47. The unfunded gap was £2.740M. However, the one off contribution to the Voluntary Redundancy Reserve was not taken out in 2011/12. Additionally there is a full year effect from the Senior Management Review with only ten months of salary savings assumed in 2010/11. This amounts to £1.726M and does help ease the overall pressure. This gap is, therefore, reduced to £1.014M for 2011/12. The unfunded gap in future years ranges between £1.9M and £2.6M.

#### Summary

48. Table 5 summarises the various impacts set out above.

Table 5

	2011/12	2012/13	2013/14	2014/15	2015/16
	£M	£M	£M	£M	£M
<u>Funding</u>					
Formula Grant	1.648	1.496	1.354	1.223	
ABG 2010/11	1.505				
ABG	0.987	0.987	0.987	0.987	
Specific Grants	3.982	3.982	3.982	3.982	
Council Tax	3.761	0.062	0.063	0.064	0.065
	11.883	6.527	6.386	6.256	0.065
<u>Spend</u>					
Inflation adj	0.870	-0.073	-0.101	-0.125	-0.163
Employees	-0.961				
	-0.091	-0.073	-0.101	-0.125	-0.163
<u>Pressures</u>					
Statutory Plans	0.200				
HPDG	0.250				
Intervention	1.000		-1.000		
Aging population	0.900	0.900	0.900	0.900	1.700
Redundancy	1.000				
	3.350	0.900	-0.100	0.900	1.700
<u>Efficiencies</u>					
Initial Gap	1.014	4.367	3.916	3.703	1.589
2010/11 ABG	-1.505				
	-0.491	4.367	3.916	3.703	1.589
	<b>14.651</b>	<b>11.271</b>	<b>10.101</b>	<b>10.734</b>	<b>3.191</b>

49. Central Bedfordshire faces a £36M gap over the next three years with continuing pressures thereafter.
50. It is appropriate to plan on this basis at this time but greater assurance cannot be given until after the Spending Review announcement in October. The updated MTFP is set out in Table 6.

Table 6

	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M	2015/16 £M
<u>Funding</u>					
Formula					
Grant	47.544	44.573	41.787	39.175	37.828
Council Tax	125.357	127.420	129.518	131.650	133.818
<b>Total Resources</b>	<b>172.901</b>	<b>171.993</b>	<b>171.305</b>	<b>170.825</b>	<b>171.646</b>
<u>Spending</u>					
Base					
Revenue					
Budget	378.975	377.684	380.871	384.362	388.143
Cost					
Inflation	3.714	6.472	6.529	6.591	6.658
Pressures	11.049	8.576	7.101	7.965	1.700
Base					
Income	-203.454	-204.783	-208.879	-213.056	-217.317
Income					
Inflation	-1.329	-4.096	-4.178	-4.261	-4.346
<b>Total Planned Spending before savings</b>	<b>188.955</b>	<b>183.853</b>	<b>181.444</b>	<b>181.601</b>	<b>174.838</b>
Efficiency					
Savings	-1.403	-140	-40	-40	0
Savings still					
to be					
allocated	-14.651	-11.721	-10.100	-10.735	-3.192
<b>Total Planned Spending after savings</b>	<b>172.901</b>	<b>171.993</b>	<b>171.305</b>	<b>170.825</b>	<b>171.646</b>

### Addressing the Budget Gap

51. Initial modelling of a budget gap was included in the Budget Process report to the Executive on 8 June 2010.
52. There are seven efficiency streams which will make a significant impact on the gap.

- Review and optimisation of Income Streams;
- Invest to Save (short term investment initiatives to generate longer term benefits)
- Procurement/contract review;
- Initiatives arising through DECATS work;
- Energy efficiencies;
- Continuing migration of services to the Contact Centre; and
- Total Place (opportunities to collaborate across the public sector)

53. It is clear that a gap of the magnitude shown above cannot be addressed through efficiency alone. It will be necessary to meet some of the gap through service redesign and stopping services.

### **Reserves**

54. The Council Reserves were £4.715M at 31 March 2010. This is below the minimum risk assessed level. Whilst less than planned the current level does reflect a change in approach following the review of earmarked reserves. There is consequently a greater risk that there will be call on General Fund Balances during the course of the next financial year.

55. The Medium Term Financial Plan allows for £1.9M per annum to reinstate reserves beyond this point and to an optimum level of £9M. Given the new financial climate this is more essential than ever.

### **Capital Programme**

56. The review of the Council's Capital Programme is also considered on the agenda of the Executive meeting in September.

57. The review will look to ensure that the Council stays within its commitment of new borrowing not exceeding £11M in 2010/11.

58. For 2011/12 and beyond, the Council's ability to add additional schemes to the existing programme is dependent on its ability to release resources through the disposal of surplus assets.

### **Consultation**

59. There are to be two phases of consultation for 2011/12.

60. In early September there will be a Citizens' Workshops to gauge public reaction to the Council's priorities and outcomes. These views will be fed into the Draft Budget Report.

61. Following approval of the Draft Budget Report by the Executive in November, there will be budget presentations to a number of stakeholder groups to enable their views to feed into the Budget proposals to the Executive and Council in February 2011. These groups will include local business, the Schools Forum, the Local Strategic Partnership, and the Equality & Diversity Forum as well as the Council's Overview & Scrutiny Committees.

**Appendices:**

Appendix A – Priorities and Outcomes

**Background Papers:** (open to public inspection)

Medium Term Financial Plan 2010/11 to 2014/15 - Council 26 February 2010

Budget Process 2011/12 to 2015/16 – Executive, 18 June 2010

**Location of papers:** Priory House, Chicksands