
Meeting: Executive

Date: 11 January 2011

Subject: Draft Budget (Medium Term Financial Plan 2011/12 to 2013/14)

Report of: Cllr Maurice Jones, Portfolio Holder for People, Finance and Governance

Summary: The report sets out the draft budget proposals for 2011/12 to 2013/14 based on the most up to date information on the Council's future resources, at this time.

Advising Officer: Richard Ellis, Director of Customer and Shared Service

Contact Officer: Matt Bowmer, Assistant Director Financial Services

Public/Exempt: Public

Wards Affected: All

Function of: Executive

Key Decision Yes

Reason for urgency/ exemption from call-in (if appropriate) Not applicable

CORPORATE IMPLICATIONS

Council Priorities:

The report sets out proposals designed to help the Council respond to the financial challenges facing the public sector as a whole but, at the same time, enable it to deliver to its priorities.

Financial:

Set out in the report.

Legal:

The Local Government Finance Act 1992 stipulates that the Council must set an amount of council tax payable for the financial year 2011/12 by 11 March 2011.

Before calculating the level of council tax payable, the Council must consult representatives of non-domestic ratepayers in its area.

The Council's Constitution requires the Executive to publish a timetable for making proposals to the Council in respect of the budget.

The proposals outlined in the report will result in some employees being made redundant. The Council is required to undertake consultation with appropriate representatives of the employees who are affected by the proposals. This consultation commenced in November with the issue of the formal S188 notice. If necessary a S188 may be required in response to any changes in employee terms and conditions.

Risk Management:

Proposed budget reductions of this kind present key risks to the Council:

- Demand: The wider impact of the current economic climate on local residents is placing further demands on the Council's services, at a time when the Council needs to reduce spending due to constraints on public expenditure.
- Reputation: If stakeholder engagement is not managed effectively, the need for the Council to take difficult decisions in response to the contraction of public expenditure will not be understood.
- Delivery: The delivery of the agreed savings proposals will need to be effectively managed to ensure they are realised in practice.
- Priorities & Outcomes: The Council needs to ensure that its spending decisions reflect its priorities and the outcomes it wishes to secure on behalf of its residents.

Staffing (including Trades Unions):

The staffing implications are set out in the report.

Equalities/Human Rights:

In developing the Draft Budget, the Council has ensured 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. Equality Impact Assessments have been undertaken for all savings proposals, where relevant, and the findings will be reported Budget Report to the Executive in February.

Community Safety:

Any potential changes or reductions in budgets may have an impact on the delivery of community safety priorities in the future.

Sustainability:

Key sustainability agenda, such as climate change, represent opportunities for the Council to make efficiency savings by decreasing energy use and the total spend on energy, for 2008/09 this was £3.4 million (including schools). Failure to take action leaves the Council vulnerable to the impact of increasing energy prices.

Summary of Overview and Scrutiny Comments:

- The Customer & Central Services Overview and Scrutiny Committee will consider the Draft Budget at their meeting on 17 January 2011. In the meantime, comments are being collated from the Overview and Scrutiny Committees which have considered published savings proposals and also the review of the base budget)

RECOMMENDATION(S):

that the Executive

- (a) agrees the draft budget proposals for 2011/12 as the basis for consultation with Overview and Scrutiny and other interested parties.**

Reason for Recommendation(s): To enable consultation to take place on the draft budget proposals for 2011/12.

Executive Summary

The report sets out the Draft Budget for Central Bedfordshire for 2011/12 taking into account the most up to date information on the resources likely to be available. This may change as the implications of the consultation version of the Local Government Finance Settlement are analysed in detail.

The key elements of the proposals are:

- Council Tax frozen for 2011/12 and harmonisation of rates across the Authority by 2013/14;
- Full allowance for pressures identified through the monitoring of the 2010/11 budget performance to create a solid foundation for management of the Council's resources going forward;
- Allowance for demographic pressures in Adult Social Care, increased safeguarding referrals and continued increases in land fill tax and
- A series of savings taking account of the Government's policy agenda, including its focus on reducing the national budget deficit.

The focus of attention has been on 2011/12 with the front loading of reductions in the Spending Review. Consequently, some of the savings proposals previously planned for 2012/13 and 2013/14 have had to be brought forward to the first year of the Medium Term Financial Plan.

INTRODUCTION

1. This report sets out the Council's draft Budget for 2011/12 and updates the Medium Term Financial Plan (MTFP) 2010/11 to 2014/15 agreed by Council at its meeting on 9 February 2009.
2. Included in the report is an update on the current economic position and the specific impacts on local government funding at this time, especially as a consequence of the Spending Review announcement in October and the more detailed provisions of the Draft Local Government Finance Settlement in December. This, along with the budget monitoring information for 2010/11, will inform the actions required to take the Council forward. These actions will naturally be guided by the priorities of the Council.
3. The report also sets out the proposed processes and timetable for consideration of the budget and MTFP, leading up to their approval at Council on 24 February 2011.

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. There has been a significant change to the policy framework in which local government operates, following the formation of the Coalition Government in May 2010.
6. The key elements of the new policy agenda, including the prime objective of addressing the national deficit, were set out in the Corporate Budget Strategy considered by the Executive at its meeting on 2 November and subsequently updated at the December Executive meeting. These include:
 - radical reform, a stronger society, a smaller state and power and responsibility in the hands of every citizen;
 - the abolition of the Comprehensive Area Assessment and the Audit Commission;
 - the Localism Bill to promote the devolution of power and greater financial autonomy to local government and community groups;
 - the promotion of the Big Society to encourage social responsibility, volunteering and philanthropy;
 - the reform of education, to include enabling schools to become academies and the establishment of free schools; and
 - significant changes planned for the National Health Service, including the transfer of responsibility for Public Health to local authorities
7. The Spending Review on 20 October announced reductions to local government funding which were marginally greater than those trailed in the Emergency Budget in June 2010 but more crucially front loaded to the first two years of the review period. In this time of great change, there has been a need for greater clarity of the specific implications for each authority. This always follows in the shape of the Local Government Finance Settlement which typically has been received in late November in recent years. For 2011/12 to 2014/15 it was finally issued on 13 December and officers are currently assessing the full impact. It should be noted that the Settlement is subject to consultation and could yet change.

ISSUES

8. The policy approach, organisational values and financial management processes adopted by the Council during its first two years of operation will continue to drive the strategic response which will be characterised by rigour, responsibility and realism. The policies outlined in the 2 November Budget Strategy Report will be followed including:
 - Getting the Basics Right – Base Budget Review
 - Driving Efficiencies
 - Collaboration and Partnership
 - Empowering Individuals and Communities
 - Protecting the truly vulnerable

COUNCIL PRIORITIES

9. At this time of financial constraint, it more important than ever that the Council is clear about the outcomes it wants to achieve.

10. The following outcomes were endorsed by the Executive on 2 November:

Supporting and caring for an ageing population

1. Truly vulnerable adults are safeguarded
2. Residents are enabled to make appropriate choices to meet their own needs and the 'market' is stimulated to respond to those needs where appropriate.

Educating, protecting and providing opportunities for children and young people

3. Educational attainment is raised
4. Truly vulnerable children are protected

Managing growth effectively

5. Housing growth is complemented by growth of businesses and jobs
6. A suitable mix/quality of housing is available to meet the needs of current and future communities

Creating safer communities

7. The area remains a safe one
8. The area is kept clean (but with increased emphasis on self help)

Promoting healthier lifestyles

Residents are enabled to lead healthier lifestyles.

CURRENT ECONOMIC OUTLOOK

11. The economy has continued to grow after moving slowly out of recession in the final quarter of 2009/10. The recovery is still weak, however, and whilst there is generally a reduced expectation of a 'double dip' recession, forecasts of growth are still conservative. The latest Bank of England forecast which has input from a number of economic commentators is anticipating growth of the order of 2% in 2011/12.

Table 1

	%
Qtr 4 Dec 2009	0.4
Qtr 1 Mar 2010	0.4
Qtr 2 Jun 2010	1.2
Qtr 3 Sep 2010	0.8

12. The Bank of England has revised its forecast for CPI (Consumer Price Index), the official measure of inflation, in recent months. It is currently at 3.2% (October) having been consistently at 3.1% for a number of months. It will rise in January with the increase in VAT, with the forecast being a drop to 2% by the third quarter of 2011. The Retail Price Index (RPI) which arguably has a greater impact on Council spend is declining since peaking at 5% in June. The expectation is also for a further decline during 2011.

13. The Basic Interest Rate continues to hold at its historically low level of 0.5%. The mid line forecast is for it to hold at this level until the second quarter of 2011 when it will start to rise. The rise is anticipated to be gradual though up to 1.25% at the end of the first quarter of 2012. This naturally continues to impact on the returns earned by the Council on its investments.
14. Unemployment peaked at 2.51 million in March. Recovery though has been very sluggish alongside the overall growth in the economy and at the end of September, was still 2.48 million. Further, the majority of new jobs continue to be part time so the increased benefit caseload has not eased. The overall outlook is not good with the Government spending cuts expected to bite over the next six to twelve months.
15. Property Prices continue to be uncertain. There has been no consistent pick up in prices since the end of the recession and recently forecasts from major building societies are for a marginal decline over the forthcoming months. This of course has an impact on the council's Capital Programme and the potential to fund capital investment through capital receipts.

BUDGET OBJECTIVES

16. 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 there is a clear sense of the outcomes to be achieved. It is suggested that the following financial objectives may be of help in guiding budget discussions:
 1. A sustainable medium term financial plan that allows the achievement of the Council's key outcomes;
 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; and
 3. General reserves maintained at all times at or above the agreed minimum level.

UPDATED MEDIUM TERM FINANCIAL PLAN

17. Table 2 below sets out the funding and spending proposals for 2011/12, based on the most up to date information at this time. The savings proposals currently out for consultation would broadly cover the funding reductions and service pressures. A more detailed position is set out in Appendix A.

Table 2

Funding	Assumptions	Budget £M
Formula Grant	Frozen for 2011/12	-45.237
Council Tax		-131.375
New Homes Bonus		-1.250
		- 177.862
Spending		
Base Spend		
2010/11 Base Budget	Budget to reflect actual activity	175.521
Base Budget Build		7.293
Revised 2010/11 Base Budget		182.814
Inflation		
Pay and Prices	Nil for pay, 2% for prices other than a freeze on supplies and services	3.214
Income		-1.579
		1.635
Specific Grant reductions		8.586
Pressures		4.430
Saving Proposals		-19.401
Initial 2011/12 Net Expenditure Budget		178.064

FUNDING

Formula Grant

18. This is the key element of the 2011/12 Local Government Finance Settlement. For presentational purposes, a 10.7% reduction has been applied to the 2010/11 allocation
19. In practice the number of grant streams received by the Council through specific grants and Area Based Grant (ABG) will reduce to ten of which only two will be ring fenced. The remainder will be transferred into Formula Grant.
20. The position is further complicated by the need for Government to protect individual authorities from significant fluctuations. A series of floors and ceilings are in place on a transitional basis.

Council Tax

21. It is proposed that Council Tax is frozen for 2011/12, year one of the Medium Term Financial Plan. It was initially considered that this policy would have an adverse impact on resources but the Spending Review provided for a mechanism to compensate local authorities who do not increase Council Tax for the full review period.

22. The compensation arrangements do not address harmonisation of Council Tax rates in Central Bedfordshire. To harmonise rates alongside the Council Tax freeze would require a reduction in the Council Tax for residents in the south of the authority and a £1.6M loss of resource which is unrealistic in the context of service reductions.
23. There is, however, a commitment for Central Bedfordshire to harmonise Council Tax rates by 2013/14. The plan is to do this on a phased basis.
24. Whilst the proposals is to freeze Council Tax for next year, receipts will nevertheless increase as a consequence of the tax base rises due to new homes being built and the harmonisation of the Empty Homes Policy agreed by the Executive in November 2010.

New Homes Bonus

25. The Council does benefit from the introduction of a new funding stream which effectively replaces the former Housing & Planning Delivery Grant.
26. Further details are awaited about this grant but the current understanding is that Central Bedfordshire will receive the equivalent of the average Council Tax nationally for each additional new home. It is anticipated that this will be based on changes in the tax base.

SPENDING

Base Budget Build

27. A comprehensive review of the base budget has been undertaken for 2010/11 which provides greater assurance for the future. The review was based on budget monitoring at the half year, as well as a review of the alignment between the budget and activity.
28. This identified that £7.293M is required to predominantly address in year pressures in Adult Social Care and Children's safeguarding. The full details of the review were presented to the December cycle of Overview & Scrutiny Committees and a summary at Assistant Director level is included in Appendix B

Inflation

29. The Budget Strategy sets out the parameters for inflation on pay and prices for 2011/12.
30. The assumption is that there will be a pay freeze and consequently there is nil allowance for pay.
31. In general, there is a 2% allowance for uplift in prices. This is with the exception of supplies and services for which there is no allowance. With CPI currently at 3.1% and RPI at 4.6% this will put pressure on budgets. The Chief Executive has written to all of the Authority's main suppliers requesting restraint on the annual indexation of contracts.
32. There has been a fundamental review of fees and charges for 2011/12. In order to generate more income, there has been a general instruction to increase fees and charges by 5%. There are also specific proposals on some fees and charges which have been put forward as savings proposals and PwC have been working with the Council on Revenue Income Optimisation. These issues are all covered in greater detail in the Fees and Charges Report, also on this Executive agenda.

Grant Reductions

33. Reductions to Specific Grants and Area Based Grants have been assumed at 10.7%. A clear picture will not be possible until officers have finished analysing the details of the draft Local Government Finance Settlement announced on 13 December 2011.
34. The number of Specific Grants and ABG have been reduced significantly. There are now only ten and only two of these are ring fenced which gives greater flexibility in the use of the reduced resources.

Pressures

35. 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.
36. The long term increases in Landfill Tax are also recognised with the Tax increasing by £8 per tonne year on year.
37. Since the death of Baby Peter in Haringey, Children's Services nationally have noticed a continued upward trend of referrals of 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 in the base; the ongoing commitment will need to be reviewed but the expectation is that it drops out of the Plan in 2013/14.
38. The impact of demography on Adult Social Care was not incorporated into the 2010/11 budget but cannot continue to go unfunded. This adds £0.9M year on year and is over and above the £0.8M required to meet the cost of transitions from Children's to Adult Social Care.
39. There has been a drive to reduce future capital financing costs in the formulation of the 2011/12 Capital Programme. This is considered in greater detail below.
40. The savings proposals below will lead to a reduction in staff numbers. The redundancy costs arising will add to the Council's pressures. The Budget allows for £1m in 2011/12.

Savings Proposals

41. The Council is facing unprecedented funding reductions and has put forward £18.0M of savings for consultation over and above the £1.4m already included in the Medium Term Financial Plan. These have been reviewed by the Overview & Scrutiny Committees in their November and December cycle of meetings. The savings proposals fall into three broad categories:
- Cross Cutting Efficiencies – genuine efficiencies across all services which have no or only an negligible impact on Council Tax Payers and stakeholders;
 - Service efficiencies – genuine efficiencies put forward by services which have no or only an negligible impact on Council Tax Payers and stakeholders;
 - Service Reductions – changes in service provision including in response to national policy which may impact on service users.

Table 3 below gives a high level summary of the proposals.

Table 3

	Efficiencies	Service Reductions	Total
	£M	£M	£M
Cross Cutting	5,147	0	5,147
Social Care Health & Housing	2,125	1,700	3,825
Children's Services	1,545	2,285	3,830
Sustainable Communities	1,085	2,187	3,272
Customer & Shared Services	895	348	1,243
Office of the Chief Executive	530	151	681
Total	11,327	6,671	17,998

Cross cutting efficiencies

42. Council Policy has been to protect the front line and deliver efficiencies in the Authority's overhead costs in the first instance. Appendix B summarises the £5.147M of Cross Cutting Efficiencies. The full detail of each of these proposals was set out in the Corporate Budget Strategy and Corporate Budget Strategy Update to the Executive in November and December respectively.

43. The proposals here are focussed on the following eight themes:

- Revenue Income Optimisation (RIO);
- Procurement;
- Passenger Transport Review;
- Customer Management (including Web Strategy);
- Energy Efficiency;
- Total Place initially access to benefits); and
- Employee Terms and Conditions of Pay.
- Medium Term Accommodation Plan

Service efficiencies and reductions

44. Appendix C summarises the £6.180M of Service Efficiencies and £6.671M of Service Reductions. The full detail of each of these proposals was set out in the Corporate Budget Strategy and Corporate Budget Strategy Update to the Executive in November and December respectively. These savings proposals represent Authority's strategic response to Government policy and is detailed in the following paragraphs for each of the directorates

Social Care Health & Housing

45. The care sector will change and better outcomes will result from personal choices over how a person's individual needs are best met. The modernisation of services is predicated on moving "spend" from institutional care to more local solutions, and to personal budgets. Resources will be used more efficiently, to explicitly achieve what people themselves want. In this way, the Council is able to Transform People's Lives.
46. Whole system change is envisaged for adult social care, which will necessitate significant change to the social care workforce. The change is contingent upon improvement in professional practice being sustained and reflected in better Safeguarding practice. The focus is to complete the Recovery Programme for Adult Social Care, in order to strengthen the Council's capacity to manage the scale of change that is envisaged through modernisation and market shaping.
47. To achieve comprehensive change, the Council and Health partners will need to: invest in prevention; maximise the far reaching potential of people making a voluntary contribution and of services across a broad ranging activity such as Housing, Leisure and Transport; to yield added benefits as a result of re-alignment; and by thinking differently and having a different approach.
48. For the Housing Service, the main drivers are homelessness prevention and harmonisation of the Housing Needs service currently provided by Aragon and directly by the Council in different parts of the area. For the Landlord role, it is also necessary to examine the Government's detailed proposals for Self Financing to determine a future for the stock that accords with the Council's strategic objectives.

Children's Services

49. The Council will reshape its Children's Services in the light of the emergent national agenda which is focused on schools becoming increasingly independent. This work will transform our relationship with schools and make that relationship fit for purpose in the future. The direction the Council has set out will align with the Government White Paper, soon to become the Education Bill. Schools may choose to buy back support services from the Council. The services offered will be charged on at full cost recovery basis, except where statutory functions mitigate against this. The relationship with schools will change and the role of the Council will be to focus on raising standards in schools which are performing less well.
50. In its role as the champion of the parent and the child, the Council will support fair access to schools across the area. Along with school governors, the Council will lead a response to the "Big Society" through strategic commissioning and an enhanced community focus.
51. Specialist services for schools and children from the Council will focus increasingly on responding to situations that are the most complex. This will include support to schools who are judged to be performing poorly and support to young people and their parents where their needs are assessed to be such that additional support needs to be provided for them. The thresholds for accessing support will be kept under constant review.
52. There will be a continued focus on protecting children. The Council will continue to provide services to those needing social care. Through the allocation of the early intervention grant, support will be offered where there is an opportunity to intervene early to avoid subsequent problems arising later on. The Council will meet its duty to deliver a Child Poverty Strategy by 1st April 2011.

Sustainable Communities

53. Sustainable Communities is a very diverse directorate comprising a wide range of public facing, mainly statutory services. For 2011/12, the savings proposals are underpinned by a focus on further efficiencies through rationalisation, reducing discretionary services and reducing spend in high performing statutory services.

Customer & Shared Services

54. The primary purpose of the Directorate of Customer and Shared Services is to enable and support the frontline services to deliver their objectives. 'Frontline' services are dependent upon effective support services to achieve their efficiency and transformation objectives. In addition, many of the council-wide efficiencies as set out above will be led by this Directorate.
55. However, this is a relatively new Directorate, which has undergone a number of senior managerial changes, and is still wrestling with many of the issues relating to the transition to the new unitary council. There are also a number of areas where support services are not meeting the requirements or expectations of internal customers, and where performance is inconsistent and unsatisfactory. In order to address this deficit, a Recovery Programme is currently under way which is focussing on critical priority areas for improvement, and is expected to deliver significant improvement in the next 12 months.

56. Whilst the immediate focus is on recovery of the key support service areas, all services will undergo a further review to assess the potential service delivery models that could be adopted in the future. This will consider current levels of competence, the needs of internal customers, potential alternative delivery options and the financial implications of the various alternatives. As part of this process, there may be opportunities to share services with others.

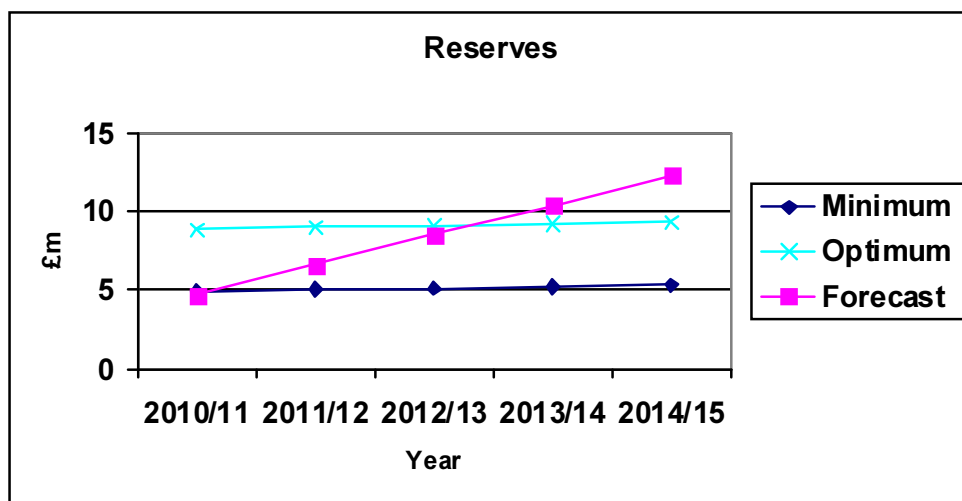
Office of Chief Executive

57. The purpose of the Office of the Chief Executive is to support the Council to develop and implement corporate strategy. The savings proposals are focussed on maintaining this role but at a lower cost. At the same time, the Office is providing support to a review of the scope for greater collaboration across the public sector as a whole in Bedfordshire and Luton.

RESERVES

58. The Council undertook a review of the appropriate level of reserves to hold when it agreed its first budget in February 2009. There were naturally risks associated with the formation of a new Council. Central Bedfordshire is still a relatively new Council and whilst activities such as the Base Budget Build review have given greater assurance on the finances the Council, along with all local authorities in England, Central Bedfordshire now moving into a period of great financial constraint. The need to deliver in the order of £19.4M of savings does create a need to have more in reserve and the level of General Fund Balances will need strengthening above the previously agreed minimum and optimum levels.
59. The report to the Executive in February will provide a re-evaluation of the appropriate level of reserves to be held at this time. The Graph below sets out the current assumptions on the minimum and optimum levels alongside the forecast level.

Graph 1



MEDIUM TERM POSITION

60. The focus of attention has been on 2011/12, given the scale of funding reductions. Nevertheless an assessment has been made of future spending pressures and some provisional savings proposals for 2012/13 and 2013.

61. There remains a sizeable funding gap in 2012/13 and 2013/14. This is in part due to the original proposals for the future years needing to be considered in 2011/12 as a consequence of the front loading of the Government's reductions. Work will need to continue immediately in the new financial year to develop savings proposals to address this gap.

Table 3

	2011/12	2012/13	2013/14	2014/15
	£M	£M	£M	£M
Resources	-177.862	-177.030	-178.747	-178.529
Spend	197.466	188.900	186.568	189.168
Identified Efficiencies	-19.401	-5.196	-2.825	0.000
Gap	0.202	6.676	4.997	10.640

CAPITAL

62. The Capital Programme Report for 2011/12 to 2013/14 is also considered on this Executive agenda. The capital investment decisions have a significant impact on capital financing costs of the authority.
63. The proposed Programme reduces the commitment to increase borrowing year on year which reduces the previously forecast revenue costs. The impact is not yet included in the above proposals.

CONSULTATION

64. There has already been extensive consultation on the proposals contained in this report, primarily through detailed review by the Overview and Scrutiny Committees. The responses, including those from petitions and e-petitions will be considered in the Budget report to the Executive in February.
65. In line with the Big Society, the Council is exploring with other organisations, including Town and Parish Council and the voluntary sector, possible future options for services that are proposed to be reduced or stopped. An engagement plan is being developed to ensure that all possible options are considered.
66. Customer & Central Services Overview & Scrutiny Committee will consider the full funding and spending position at its meeting on 17 January 2011.

TIMETABLE

67. Table 4 below sets out the remaining key dates ahead of Council approval of the Budget in February.

Table 4

11 January 2011	Draft Revenue Budget agreed for consultation
11 January 2011	Treasury Management Strategy reviewed
17 January 2011	Scrutiny of Draft Budget
8 February 2011	Executive recommends budget
24 February 2011	Council agrees budget

Appendices:

Appendix A1 – Medium Term Financial Plan Summary 2011/12 to 2014/15

Appendix A2 - Medium Term Financial Plan Summary 2011/12

Appendix B – Base Budget Build

Appendix C – Cross Cutting Efficiencies

Appendix D – Service Efficiencies and Reductions

Background Papers: (open to public inspection)

None