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**Meeting:** Executive  
**Date:** 23 August 2011  
**Subject:** Budget Strategy and Medium Term Financial Plan 2012/13 to 2015/16  
**Report of:** Cllr Maurice Jones, Executive Member for Corporate Resources  
**Summary:** The report proposes the medium term financial planning framework for 2012/13 through to 2015/16.

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**Advising Officer:** John Unsworth, Assistant Chief Executive - Resources  
**Contact Officers:** Charles Warboys, Assistant Director Financial Services and S151 Officer  
**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 paragraph 6 of the report.

### **Financial:**

The Government's spending reductions are now known for the next three years. Allocations are more certain for the first year of the Medium Term Financial Plan (MTFP) and less so for years two and three. Indicative figures only are possible for year four, as the timescale runs beyond Government announcements of funding.

### **Legal:**

None specifically arising from this report but the Council is required to set a balanced budget and to undertake consultation. See also Equalities section below.

### **Risk Management:**

The recovery of the UK economy and other global economic influences will continue to have an effect on growth and inflation and their full impact remains uncertain at this time.

**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:**

- A presentation on the approach to the 2012/13 Budget and MTFP was made to the Customer and Central Services Overview and Scrutiny Committee at its meeting on 25 July 2011 and this report will be considered by the Committee at a later meeting.

**RECOMMENDATIONS:**

**It is recommended that the Executive:-**

- 1. notes the overall financial outlook and the impact on this authority;**
- 2. endorses the proposed framework for preparation of the Medium Term Financial Plan; and**
- 3. endorses the timetable for the consultation process.**

<i>Reason for Recommendations:</i>	<i>To put in place a framework to meet the financial challenges faced by Central Bedfordshire Council over the medium term.</i>
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## **Executive Summary**

This report starts the public process that leads to the setting of a budget and Council Tax in February 2012. It sets a framework for the 2012/13 Budget and Medium Term Financial Plan (MTFP) with updated planning assumptions. It also considers the impact of further reductions in the Local Government finance settlement and considers ways these might be achieved.

The report also sets out proposals for budget consultation.

## **Introduction**

1. This report sets out the framework for preparing the Council's 2012/13 Budget and the annual update to the MTFP for 2011/12 to 2014/15 which was agreed by Council at its meeting on 25 February 2011.
2. The process and timetable for setting the Budget and MTFP, up to its approval at Council on 23rd February 2012, is also included in this report for consideration by the Executive.

## **Policy**

3. 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**

4. The Budget which was agreed in February 2011 was set against a background of tough economic conditions and the most severe financial settlement from Central Government for many years. The Budget and MTFP for 2012/13 will continue to incorporate these financial challenges and the Council will concentrate its efforts on finding savings through efficiencies in service provision and wherever possible avoid the need for service reductions.

## Issues

5. The financial planning process will address the following issues:
  - a. the priorities of the Council and more specifically the outcomes we want 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 economic, financial and demographic assumptions and facts);
  - c. continuing uncertainty in the public sector financial landscape including changes to formula grant and service based grants;
  - d. the Revenue budget for 2012/13 through to 2015/16, including the required level of General Fund reserves;
  - e. the Capital Programme for 2012/13 through to 2015/16;
  - f. the long term plan for the Housing Revenue Account; and
  - g. the consultation process and the incorporation into the budget of issues raised and accepted.

## Council Priorities and Outcomes

6. The Council works to the following outward facing priorities:
  - Supporting and caring for an aging population.
  - Educating, protecting and providing opportunities for children and young people.
  - Managing growth effectively.
  - Creating safer communities.
  - Promoting healthier lifestyles.
7. As a result of the reductions in Local Government Finance that commenced in 2010/11 the Council's priorities were further defined in February 2011 with the development of a strategic direction for each Directorate. These strategies that define broad objectives are translated into actions in order to concentrate on more specific outcomes and service priorities. In order to achieve this for the coming year, more focused medium term objectives are currently under development.

## MTFP as per 2011/12 Budget Report

8. The Council agreed an MTFP in February 2011 which took account of the front loading of reductions in support to local authorities contained in the Comprehensive Spending Review, whilst also setting out indicative resource and spending proposals for future years. The key figures from this current MTFP are shown in the table below:

Table 1: 2011/12 to 2014/15 MTFP

	2011/12	2012/13	2013/14	2014/15
	£M	£M	£M	£M
Funding	-181.269	-179.287	-182.132	-181.861
Spending	201.838	186.030	185.022	184.528
Savings identified, including corporate adjustments	-19.124	-3.389	-2.825	0.000
FYE of Prior Years	-1.445	-1.414	-0.040	0.000
Savings to be identified	0.000	-1.940	-0.025	-2.667
	0.000	0.000	0.000	0.000

This enables the Council to reach a sustainable level of General Fund reserves over the life of the Financial Plan. The current level, as at 31 March 2011, is £7.0m.

A sustainable level of reserves, based on assumptions contained in the agreed MTFP, is c £11m. This takes into account the Council's expenditure levels, increasing risk profile and investment plans and, the assumptions on how we achieve that are set out in paragraph 20.

### **Current Economic Outlook**

9. The UK economy is only just coming out of the recession. It showed a slight growth in the first quarter of 2011, although over a six month period to March 2011 growth had been flat. Latest information for the second quarter also shows a growth of only 0.2%, although this was adversely influenced by special circumstances such as the additional bank holiday linked to the royal wedding and the effects of the Japanese tsunami. It is likely the current Eurozone weakness will continue to hamper export led growth for the foreseeable months. For households and the consumer the outlook continues to look gloomy, as any rise in wages has been more than outstripped by inflation. Mortgage approvals also remain low and consequently so do house prices.
10. Consumer Price Index (CPI) unexpectedly dropped to 4.2% in June from 4.5% in May, although it will rise again as energy/utility prices are raised in the autumn, and expected levels are around 5%. Current predictions are that this will fall through 2012 and 2013. Retail Price Index (RPI) currently stands at 5%.
11. Official Interest rates remain low at 0.5% and these are likely to remain so over the next couple of years.
12. Unemployment is close to 2.5 million and will continue to increase as the public sector shrinks; whilst other private sector employment is growing, it is doing so at only a modest pace.

## **Strategic and Directorate Plans**

13. The Council's high level priorities are set out in paragraph 6. It is important that these high level priorities are now developed into specific service led outcomes. Work is currently being done by each of the directorates to develop their own directorate specific plans.
14. These defined priorities become the driver behind the financials within the MTFP. They will determine where pressures and efficiencies are to be found.

## **Areas of Focus**

15. Whilst we are currently at an early stage of identifying where savings and efficiencies may be delivered, a number of areas are being examined already. These include procurement, rationalisation of office accommodation, customer contact / channel switch, efficiencies within support services and more effective spending on roads and transport.

## **Consultation**

16. There is a legal requirement on the Council to consult with council tax payers and non domestic rate payers on its Revenue Budget and Council Tax options. As well as being a statutory part of our budget process, effective community engagement during the budget setting process will support Member decision making. A plan for engagement is being developed and this will include two key phases of activity.
17. The first will seek feedback from the community on priorities for service investment and savings. This feedback which will be gathered from comprehensive communication and research exercises including surveys, focus groups and public meetings will be included in a report to the Executive in November 2011.
18. Following approval of the draft Budget report by Executive in December 2011 the budget proposals will be extensively promoted to the community including local business, the Schools Forum, the Local Strategic Partnership, and the Equality & Diversity Forum as well as the Council's Overview and Scrutiny committees. This will enable their views to feed into the budget proposals to the Executive and Council in February 2012.

## **Budget Assumptions**

19. The current MTFP as agreed at February Council includes a number of assumptions that will need to be reviewed and revised as necessary for the new MTFP. The key factors are detailed in the paragraphs below. The plan will also need to be extended a year to include projections for 2015/16 in order to include a detailed budget year for 2012/13 plus an outline plan for three additional years.

20. The base budget includes a transfer to general fund reserves of £1.4m each year. The outturn position for 2010/11 was £7.0m, subject to audit verification. The expected closing position for the following years will then be: March 2012 £8.4m, March 2013 £9.8m, March 2014 £11.2m. The estimated required level for future years is £11m being approximately 3% of gross spend, thus potentially giving us some flexibility around transfer levels in 2014/15 and 2015/16. However, the level of reserves should be kept under constant review and will also reflect the economic, financial and other risks faced by the Council during the MTFP period.
21. The front loading of Formula Grant reductions continues into 2012/13, being approximately 11.5%. The figures for 2013/14 and 2014/15, with reductions of 1% and 6% are indicative and subject to change, but, at this point it appears that the reductions may not be as severe as they were in the first two years. Figures for the final year of the MTFP, 2015/16, can only be speculative at this stage.

22. Inflation levels are set at the rates detailed in the table below:

Table 2: Current MTFP Inflation Assumptions

Spend Type	2012/13 and future years
Employer's Pay	1%
Prices	2%
Contracts	2%
Income	2%

These inflation factors will be subject to review based on new economic data and our approach to staff reward and supplier contract terms.

23. A number of known service pressures have been included in the MTFP, such as demographic pressures in Adult Social Care, Closure of the Home Farm Trust, and Employer's Pension commitments. Other pressures will emerge as the budget process develops; this will in turn increase the level of savings required.
24. Different options around Council Tax were considered in the previous MTFP and will be reviewed during this budget round.
25. Each of the four years of the spending review would see CBC benefitting from Council Tax Freeze Grant of around £3.2m, this is due to the freezing of rates as part of the 2011/12 budget. This grant is due to end in 2014/15. Service grants, additional to the Formula grant, are budgeted at c £42m in 2011-12. It is assumed that these will continue at similar levels, although with continued pressure on public sector finance they will be reviewed in detail over the planning period, especially with a significant reduction in education funding in 2015-16.

26. There are proposals to reform Housing Finance at a national level with effect from 1 April 2012. This will involve the local retention of all rental income from the housing stock, whilst in return the Council will receive an allocation of the national housing debt. The budget proposals for 2012/13 will include the development of a robust 30 year business plan for the housing stock and a treasury management strategy to finance and repay the additional debt. The ring fencing of all associated costs to the Housing Revenue Account (HRA) will be continued.
27. This year the base line for the Budget will be the June forecast outturn. At this stage this remains close to the budget in overall terms but various realignments have been made to address some issues at a detailed level. Base budgeting will be extended to include such areas as staffing numbers and assets.
28. The budget process will deliver closer alignment of the revenue (treasury funding) and capital budgets, with a detailed review of the capital programme leading to a realistic budget over the planning timeframe.

### **Timetable**

29. Options and priorities will be developed over the summer and the details of these will feed into the detailed budget build, which will begin early autumn. The key milestones for setting the 2012/13 budget are:
- 15 November Executive Report on Consultation policy;
  - 6 December Executive Draft Budget Report;
  - 14 December Executive Budget Recommendations;
  - 23 February Council approves Budget.

### **Appendices**

None.

### **Background Papers**

Medium Term Financial Plan 2011/12 to 2014/15 – Council February 2011  
Budget 2011/12 – Executive February 2011

### **Location**

Priory House