
Meeting: Executive

Date: 6 December 2011

Subject: Draft Budget 2012/13 and Medium Term Financial Plan 2012 to 2016

Report of: Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources

Summary: The report proposes the draft Budget for 2012/13 and updates the Medium Term Financial Plan as previously approved by Council in February 2011.

Advising Officer: John Unsworth, Assistant Chief Executive, Resources

Contact Officer: Charles Warboys, Chief Finance Officer

Public/Exempt: Public

Wards Affected: All

Function of: Executive

Key Decision: No

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

CORPORATE IMPLICATIONS

Council Priorities:

Decisions on the Budget and the Medium Term Financial Plan need to be taken in the context of the Council's priorities (set out in paragraph 8 below).

Financial:

The financial implications of the Budget and Medium Term Financial Plan are 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 2012/13 by 11 March 2012.

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 efficiency proposals outlined in Appendix D to the report may result in some employees being made redundant. In those circumstances, the Council is required to undertake consultation with appropriate representatives of the employees who are affected by the proposals.

Risk Management:

In considering the budget proposals, it is necessary to take account of the associated risks and in particular paragraph 23 below. The final Budget Report to Full Council in February will include a statutory section on the Section 151 Officer's assessment of the key risks to the Council.

Staffing (including Trades Unions):

Staffing implications are set out in the report and appendices.

Equalities/Human Rights:

Where appropriate, Equalities Impact Assessments will be carried out for proposals.

Community Safety:

Amendments to some budgets may have an impact on the delivery of community safety priorities in the future. Specific proposals will be subject to detailed review by officers.

Sustainability:

Key sustainability issues, such as climate change, represent opportunities for the Council to make efficiency savings by decreasing energy use and the total spend on energy. Failure to take action leaves the Council vulnerable to the impact of increasing energy prices.

Overview and Scrutiny:

Overview and Scrutiny Committees will consider the budget proposals in their December cycle of meetings.

RECOMMENDATION:**1. that the Executive:**

approves the draft budget proposals for 2012/13 as the basis for consultation with the Overview and Scrutiny Committees and other interested parties

Reason for Recommendation:	<i>To enable extensive consultation on the draft Budget 2012/13 and Medium Term Financial Plan 2012-2016 prior to recommendations by the Executive to Full Council in February 2012</i>
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Executive Summary

The Council approved the Medium Term Financial Plan (MTFP) for 2011/12 to 2014/15 in February 2011, following the Comprehensive Spending Review which announced substantial reductions in funding for local authorities. The MTFP has been updated and extended to 2015/16 and an initial draft budget for 2012/13 prepared reflecting further changes in funding and cost pressures and efficiencies, including those realised in 2011/12.

INTRODUCTION

1. The MTFP is intended to set out a sustainable and affordable financial plan that addresses the Council's priorities over the next four years. It should provide for realistic levels of spending, not dependent upon the use of one-off reserves. It should provide for a prudent level of reserves for contingencies.
2. The draft budget for 2012/13 sets out the Council's finances for 2012/13 and identifies the efficiencies required to produce a balanced budget in the light of the ongoing reduction in funding from Central Government and other pressures. £10.5M of efficiencies are identified for 2012/13 to produce a balanced budget. A further £29.1M of efficiencies are required over the subsequent three years to achieve the draft MTFP.
3. The Capital Programme is not included within this budget report as it is subject to a separate report to Executive on this agenda. However, the revenue implications of the draft capital programme as set out in that report are reflected here. A separate report in respect of the Housing Revenue Account is presented to this Executive at Agenda Item 10. Fees and Charges will be separately considered in forthcoming Overview and Scrutiny meetings. The report also sets out at paragraph 26, the proposed timetable for consideration of the budget and MTFP leading up to their approval at Council in February 2012.

BACKGROUND

4. The initial Comprehensive Spending Review announcement on 20 October 2010 was for a 28% reduction in Government funding support to councils over four years with substantial "front loading" of the reduction, which caused considerable problems in the previous financial year. The Local Government Finance Settlement closely followed the initial announcements, albeit with the position complicated by transfers between different grant streams.

5. There are significant social and economic drivers of change within Central Bedfordshire across the medium term and beyond, particularly:
 - Demographic growth by 2016, including an:
 - 8% increase in the population;
 - 30% increase in the over 75's population; and
 - 48% increase in the over 85's population
 - Child protection cases have increased by 65% over the period 2009 to 2011; mainly in the light of the Baby Peter case;
 - Schools moving to Academy status and out of local authority control;
 - The transfer of public health responsibilities to local government in 2013.

Additionally, technological change is having a profound impact on the delivery and public access to services; this is reflected in use of the internet and social media.

6. The Medium Term Financial Plan (MTFP) has been updated against a background of significant challenges. The Comprehensive Spending Review 2010 (CSR10) reduced LA funding by 28% over four years and the resultant Formula Grant was only defined with any clarity for 2011/12 and 2012/13. Estimates of funding for future years have been made but should be considered as indicative only at this stage. There remains uncertainty around some major grants such as Dedicated Schools Grant (DSG) and Local Authority Central Spend Equivalent Grant (LACSEG), which has again required estimates to be made.
7. The national and European economies remain in a parlous state, with major concerns around the future of the euro currency and other European economies. There is a continuing high level of UK inflation (RPI 5.4 %; CPI 5.0% for October 2011) but interest rates remain very low, with base rate fixed at 0.5. Economic growth has been low and some commentators are warning of a further recession. Against this unsettled background it is important that the Council establishes a level of reserves which allows it to withstand unanticipated financial impacts of future developments at a local and national level.

Council priorities

8. The Council approved revised priorities and outcomes in February 2010 and a vision for Central Bedfordshire was developed in consultation with key partners and a Sustainable Community Strategy was approved by Council in June 2010. The priorities and respective outcomes endorsed are:

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

9. Residents are enabled to lead healthier lifestyles.
- 9 Whilst the current vision and priorities remain valid and are driving the allocation of resources, a process of review is planned by the new political leadership of the Council. It is expected that this review will involve stakeholders and partners and will be largely influenced by the views of local residents.

To inform the review, the Council conducted a residents' survey in the autumn of 2011 to establish public priorities on Council expenditure. Residents were also invited to provide feedback on the overall performance of the Council and their perceptions of services.

Headline results on Council performance are included in Appendix A. The results illustrate that the Council is improving its performance in key areas such as overall customer satisfaction (up by 11% from 2009), customer information (up by 14% from 2009) and quality of services (up by 10% from 2009).

The results also show that concerns about job prospects have increased and, although there has been a slight increase in public perceptions of the Council's delivery of value for money, a significant proportion remain neutral on this topic.

Opinions on specific services have generally improved since 2009, with the exception of Leisure Services where satisfaction has dropped by 6%. Although baseline data was not available in 2009, service satisfaction with Roads and Pavements is relatively low at 23%.

The performance results from the surveys, together with public feedback on budget issues can be used to inform and influence the Council's budget objectives. This applies to both the Capital and Revenue Programme.

Economic Outlook

10 (a) Inflation

As explained already, the national and European economies remain in a parlous state, with major concerns around the future of the euro currency and other European economies.

There is a continuing high level of UK inflation (RPI 5.4 %; CPI 5.0% for October 2011) but interest rates remain very low, with base rate fixed at 0.5% for the last 31 months since March 2009.

(b) Quantitative Easing

The Bank of England announced a £75 billion extension to quantitative easing (QE) in October. This is to be kept under review and will be re-considered in the Bank of England's Monetary Policy Committee meetings in December and January.

(c) Economic Growth and Unemployment

The Bank's Quarterly Inflation Report has painted a bleak picture as economic growth was downgraded to around 1% in 2011 and 2012. November's employment figures saw unemployment rise by 129,000 in the three months to September resulting in 2.62 million unemployed. Youth unemployment broke through the 1 million barrier increasing the pressure on the Coalition Government to deliver fresh policy initiatives that should be announced in the Chancellor's forthcoming Statement to Parliament.

Budget Objectives

11 The principal objectives of the 2012/13 Budget have been:

- to produce a sustainable plan which allows Council priorities to be delivered;
- realistic spending year on year not dependent on reserves;
- reserves increased to and then maintained at, or above, an agreed level which reflects the risks faced by the Council;
- zero Council Tax increases over the MTFP period;
- cuts to front line services to be avoided; and
- commitment to efficiency as a means of delivering savings.

Medium Term Financial Plan

12. Formula Grant funding within the revised MTFP over the three years 2012/13 – 2014/15 remains as presented in the MTFP to Council in February 2011 and is shown below at Table 1 which is extended to include 2015/16.

Table 1

£M	2011/12	2012/13	2013/14	2014/15	2015/16
Formula Grant	50.9	44.8	44.4	41.9	40.5

However, it should be noted that Government has defined formula grant up to 2012/13 with only indicative figures for the later years.

13. The key elements of the draft MTFP for 2012/13 to 2015/16 are shown at Appendix B. Table 2 below shows a summary of the plan with Table 3 providing the funding assumptions within the plan.

Table 2

£M	2012/13	2013/14	2014/15	2015/16
Funding	-179.2	-176.0	-173.5	-169.7
Spending	189.7	187.3	182.0	178.9
Savings	-10.5	-10.5	-10.4	-6.9
Savings to be identified	0.0	-0.8	1.9	-2.3
Net Balance	0.0	0.0	0.0	0.0

14. Funding assumptions include the Council Tax Freeze Grant announced in November 2010 which lasts for the period of the CSR10 (i.e. to 2014/15) but current plans see this being removed in 2015/16. In addition, there is a one-off grant for 2012/13 announced in October 2011. There is no assumed increase in the Council tax rate during the MTFP period but the tax base is assumed to grow by 0.7% each year. This is covered in more detail in paragraph 16 below.

Table 3

£M	2012/13	2013/14	2014/15	2015/16
Formula Grant	44.8	44.4	41.9	40.5
Council Tax	131.2	131.6	131.6	129.2
Council Tax Freeze Grant	3.2	0.0	0.0	0.0
Total funding	179.2	176.0	173.5	169.7

15. There are a number of significant changes that are likely to have an impact upon the Council's finances in the medium term that are unquantifiable and therefore excluded from the MTFP at this stage:

a) Localisation of NNDR

Current arrangements involve local councils receiving funding through the formula grant that is determined using a number of factors to establish local resourcing needs. One of the main components of the formula grant is National Non-Domestic Rates, commonly known as business rates. Business rates are currently collected locally and redistributed through the formula grant.

Government proposals have been announced to change the current system by enabling councils to keep a share of growth in business rates within their area. Therefore our authority would still bill and collect business rates, as now. However, instead of contributing all business rates to the central pool and receiving formula grant, under the new proposals, some of the business rates would be retained locally.

A baseline level of funding will be set up at the start of the system that is equivalent to current funding levels. From that point onwards the authority's funding would grow if the business rates base in the area grows but could fall if the business rate base declines.

The changes are due for implementation from 2013 but clarification of the full details are still awaited.

b) Welfare Reform

The Welfare Reform Bill was introduced in Parliament in February 2011. The Bill means significant changes to the welfare system. It provides for the introduction of a 'Universal Credit' to replace an existing range of means-tested benefits and tax credits for people of working age, starting from 2013. These may include Housing Benefit and Council Tax Benefit which are administered by councils. The Bill follows the November 2010 White Paper, 'Universal Credit: Welfare That Works' that set out the government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

In addition to introducing Universal Credit and related measures, the Bill makes other significant changes to the benefits system. These include:

- Restriction of Housing Benefit entitlement for social housing tenants whose accommodation is larger than they need;
- Up-rating of Local Housing Allowance rates by the Consumer Price Index; and
- Capping of the total amount of benefit that can be paid.

The government has yet to confirm the detailed timescale for the full move from the existing benefit systems to the Universal Credit. However, it is clear that this will have significant operational and resource implications for the Council.

More recently the government released a consultation paper on local support for council tax. This stated that council tax support would not form part of Universal Credit and would remain a local authority responsibility. The paper also set out the need for a 10 per cent cut in the existing level of support.

c) Localism Act

The Act provides for the Housing Revenue Account self-financing proposals to proceed. This is the subject of a separate report on the agenda. However, there are other implications including:

- Granting of a 'general power of competence' to provide councils with the legal power to do anything which is not specifically prohibited;
- New rights and powers for communities including 'community right of challenge' and 'community right to buy.'
- Planning system reforms including changes to the community infrastructure levy with a proportion going to neighbourhoods affected by the developments.

The full implementation of the provisions of the Act may have significant service implications and hence budgetary implications for the Council.

Draft 2012/13 Budget

16. Following the base budget build exercise undertaken for the 2011/12 budget cycle, a similar approach has been adopted for 2012/13. The build has been based upon the forecast outturn position for 2011/12 taking account of the budget management information as at 30 September 2011.
17. This base budget position was presented to Overview and Scrutiny Committees during their October cycle of meetings. As at the end of October, the forecast outturn for 2011/12 is a very small overspend of £0.1M. Officers are identifying ways of bringing the outturn in on budget and the draft proposals for 2012/13 assume that this will be achieved.

The adoption of the proposed Capital Programme will place additional pressure on the revenue budget due to additional borrowing and Minimum Revenue Provision charges that are statutorily required. The assumption set out in the Table below is a 90% delivery rate against the Capital Programme from 2011/12 across the entire medium term to 2015/16. The table shows the year on year increase in capital financing costs associated with the proposed capital programme.

	Interest Charges	MRP	Total
2012/13	0.5	0.0	0.5
2013/14	0.9	0.5	1.4
2014/15	0.4	0.3	0.7
2015/16	(0.5)	(0.1)	(0.6)

18. Assumptions

The budget is based upon and includes, the following key assumptions:

Economic

- For 2012/13, inflation of 0% on pay, 2% on supplies and services and 2% on income.
- Inflation of 1% on pay, 2% on supplies and services, 2% on income for the years 2013/14 onwards.
- Interest rates remain constant throughout the plan period.

Financial

- Reserves increasing by £1.4m per annum, rising to the minimum prudent level of £11.2m in 2014/15 (3% gross operating costs);
- Zero increase in council tax over plan period;
- Phased harmonisation of council tax to assimilate Band D equivalent to the lower rate in the former Mid Bedfordshire District area over two financial years;
- Continuation of the original council tax freeze grant from 11/12, ceasing in 2015/16; and
- New one off Government freeze grant in 2012/13 only.

Operational

- Demographic changes (see Economic drivers for change, paragraph 5 above);
- Collaboration with third parties e.g. ICT, Facilities Management;
- Implementation of the Medium Term Accommodation strategy to optimise the use of administrative and operational buildings; and
- Procurement savings through tendering and contract management in highways, care services, cross cutting services.
- A move to a Council focussed on outcomes

External

- Impact of introduction of Universal Credit (see paragraph 15 for detail) is excluded from the model;
- Impact of localisation of council tax benefit is excluded (see paragraph 15 for detail);
- Impact of localisation of NNDR is excluded (see paragraph 15 for detail);
- Comprehensive Spending Review funding relatively clear for 2012/13 but subject to variation thereafter; and
- Impact of withdrawal from any schools traded services is excluded as this is still under review.

19. **Council Tax**

There is no increase in Council Tax over the plan period with the differing rates between North and South to be harmonised at the lower North rate over a two year period. Table 4 below shows the Council Tax rates planned for each year.

Table 4

Band D Rate £	2011/12	2012/13	2013/14	2014/15	2015/16
North	1308.33	1308.33	1308.33	1308.33	1308.33
South	1344.15	1326.64	1308.33	1308.33	1308.33

20. Table 5 below summarises the latest position for the Council's finances in 2012/13 based upon the draft budget as per Appendix B.

Table 5

	£M
Net Base Expenditure Budget 2011/12	181.2
Net Inflation	2.6
Unavoidable Cost Pressures	5.9
Efficiencies	(10.5)
Net Expenditure 2012/13	179.2
Funding	179.2
Budget Requirement	0.0

21. Cost pressures are identified at Appendix C with the major items relating to:
- Increased demand for care services from an ageing population £1.4M;
 - Increased demand for adult disability services £1.7M;
 - Waste contract price uplifts £0.9M;
 - ICT staffing pressures £0.9M; and
 - Debt financing costs £0.6M.

Base budget pressures have been considered by Overview and Scrutiny and have been consolidated within the attached schedules as set out at Appendix C to the report.

22. All of the £10.5M efficiencies have been identified and are shown at Appendix D. A summary of these is shown below at Table 6.

Table 6

Efficiencies	2012/13 Savings £M
Directorates:	
Social Care Health & Housing	3.6
Children's Services	2.4
Sustainable Communities	3.9
Corporate Services	1.2
Contingency	(1.6)
Cross Cutting	1.0
Total	10.5

Table 7 sets out the Medium Term Financial Plan across all financial years to 2015/16 that incorporates all the funding and spend assumptions included in this report.

Medium Term Financial Plan	2012/13	2013/14	2014/15	2015/16
	£M	£M	£M	£M
Formula Grant and Council Tax				
Formula Grant	44.78	44.38	41.89	40.45
Council Tax	131.26	131.57	131.59	129.21
Additional Council Tax Freeze Grant	3.20	0.00	0.00	0.00
Total Resources	179.24	175.95	173.48	169.66
Planned Revenue Budget				
Opening Base Revenue Expenditure	360.55	359.86	357.94	356.86
Cost Inflation	3.92	3.98	3.93	3.95
Pressures	5.87	5.41	3.46	2.93
Base Income	-179.28	-180.62	-181.99	-183.38
Income Inflation	-1.34	-1.37	-1.39	-1.42
Total Planned Spend Before Savings	189.72	187.26	181.95	178.94
Efficiency Savings	-10.48	-10.46	-10.35	-6.93
Efficiency Savings to be allocated	0.00	-0.85	1.88	-2.35
Total Planned Spend After Savings	179.24	175.95	173.48	169.66

Reserves

23. One of the key objectives of the Budget 2012/13 is to increase General Fund reserves to a risk assessed prudent minimum level. This draft budget enables this objective to be achieved by March 2014, although it is desirable to achieve this level sooner if circumstances permit. The draft budget also includes a contingency element of £1.6M. This is to reflect the fact that the council tax freeze grant recently announced is a one-off measure for 2012/13 and cannot be relied upon to fund future spending. There is also the recognition of significant risks within the budget, against which current level of reserves is assessed as too low to be prudent. Should the contingency not be required then at the year end there will be an additional contribution to General Fund reserves, which will provide added financial resilience to help protect the Council against future pressures.
24. The assessment of the appropriate level of reserves will be kept under review. Significant changes at a national level will impact on this, such as the transfer of public health responsibilities; localisation of council tax benefit; localisation of business rates and the introduction of Universal Credit. Table 8 below shows the reserves by year.

Table 8

£M	2011/12	2012/13	2013/14	2014/15	2015/16
Opening Balance	7.0	8.4	9.8	11.2	11.2
Planned Contribution	1.4	1.4	1.4	0.0	0.0
Closing Reserves	8.4	9.8	11.2	11.2	11.2

The General Fund balances shown in the above table set out the planned General Fund levels at the end of each financial year. The 2011/12 General Fund opening balance was £7.0M with subsequent planned annual contributions of £1.4M per annum until the desired minimum level is reached.

25. Risk Management

All budget proposals incorporate a degree of risk. Whilst the Council has a good track record of delivering the required budget savings to date, the following are highlighted as key risks within the proposals:

- 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. Some require major organisational change programmes.
- 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.
- Increases in children and older people in care
- Ability to achieve almost £11m savings in 2012/13 and £40m over plan period
- Ability to deliver cross cutting savings, including procurement
- Reductions in Dedicated Schools Grant (DSG) and Local Authority Central Spend Equivalent Grant (LACSEG)
- Next Comprehensive Spending Review expected to be very challenging and current funding assumptions may be optimistic
- Major national changes e.g. Localisation of NNDR, Council tax benefit, universal credit
- Inflationary pressures greater than assumed
- Failure to agree transfer of services to town / parish councils and other third parties.

Consultation

26. The Council has a legal requirement to consult with council tax payers and non domestic rate payers on its revenue budget and council tax. It has further statutory responsibilities to conduct Equality Impact Assessments on any budget proposals that will impact service users.

Beyond these statutory responsibilities the Executive agreed a Budget and Council Tax Consultation Policy at its meeting on 15th November 2011. This policy defined a comprehensive communication and engagement plan with our residents and stakeholders for both this draft budget and the capital programme.

This plan includes consultation with residents, businesses and stakeholders through a range of conventional and new media between 6th December 2011 and 27th January 2012.

TIMETABLE

27. The key milestones in the timetable for Council to agree its budget in February are set out in Table 9 below,

Table 9

Date	Body	Outcome
December	Overview & Scrutiny	Consideration of efficiencies and savings and draft budget proposals
January	Public	Public Consultation
14 February 2011	Executive	Recommends Final Budget
23 February 2011	Council	Approves Budget

Appendices:

- Appendix A – Council Performance Reports
- Appendix B – Summary of Medium Term Financial Plan
- Appendix C– Schedule of Cost Pressures
- Appendix D – Schedule of Efficiencies

Background Papers: (open to public inspection)

None