

**Meeting:** Executive  
**Date:** 21 August 2012  
**Subject:** Budget Strategy and Medium Term Financial Plan  
**Report of:** Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources  
**Summary:** The report proposes the medium term financial planning framework for 2013/14 through to 2016/17.

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**Advising Officer:** Charles Warboys, Chief Finance Officer and s151 Officer  
**Contact Officer:** Charles Warboys, Chief Finance Officer and s151 Officer  
**Public/Exempt:** Public  
**Wards Affected:** All  
**Function of:** Executive  
**Key Decision** Yes  
**Reason for urgency/  
exemption from call-in  
(if appropriate)** N/A

## **CORPORATE IMPLICATIONS**

### **Council Priorities:**

The action supports all of the Council's priorities. A sound understanding of the financial climate, a robust plan for the medium term and proper awareness and mitigation of risks are key for the Council to be able to further its objectives for the community.

### **Financial:**

1. The planning process takes place in an environment of significant uncertainty in respect of Government financing of local government and the economic situation at large. There is an expectation of a new Spending Review within the next two years, which could significantly alter the Settlement for Local Authorities. Changes to Council Tax Support funding (formerly Council Tax Benefit) and National Non Domestic Rates (NNDR) financing will apply to the 2013/14 financial year but are not fully set out in detail by Department for Communities and Local Government (DCLG) and the economy remains at a very low or negative level of growth. These factors mean that indicative figures only are available for the later years of the Medium Term Financial Plan (MTFP) and even the year one (2013/14) figures will be subject to amendment as more information is received from Government.

Current indications are that confirmed funding figures from Government may not be available until December 2012.

**Legal:**

2. Nothing 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:**

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

Prudent estimates of known factors will be built into the MTFP. As noted above the major changes in the funding regime will introduce a higher degree of uncertainty and therefore risk.

**Staffing (including Trades Unions):**

4. None at this time.

**Equalities/Human Rights:**

5. To ensure that any decision does not unfairly discriminate, public authorities must be rigorous in reporting to Members the outcome of an equality impact assessment and the legal duties.

Public authorities must ensure that decisions are made in a way which minimises unfairness, and without a disproportionately negative effect on people from different ethnic groups, disabled people, women and men. It is important that Councillors are aware of this duty before they take a decision. 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.

**Public Health:**

6. None arising directly from this report.

**Community Safety:**

7. None arising directly from this report.

**Sustainability:**

8. None arising directly from this report.

**Procurement:**

9. Not applicable.

**Overview and Scrutiny:**

10. The four Overview and Scrutiny Committees are scheduled to review the detailed budgets in the December round of Committee meetings. The timetable allows for comments and recommendations from Scrutiny to be incorporated into the final Budget proposals.

## **RECOMMENDATIONS:**

**The Executive is asked to:**

- 1. recognise that there will be a significant impact on this Authority of proposed changes in funding arrangements but that these are not currently known in detail;**
- 2. endorse the proposed framework for updating of the Medium Term Financial Plan and the preparation of a budget for 2013/14; and**
- 3. endorse the timetable for the consultation process.**

*Reason for Recommendations: To put in place a framework to meet the financial challenges faced by Central Bedfordshire Council over the medium term.*

## **Executive Summary**

11. This report starts the formal process that leads to the setting of a budget and Council Tax in February 2013. It sets a framework for the 2013/14 Budget and MTFP with updated planning assumptions. It also considers the impact of changes in Local Government financing and how these may be addressed.
12. The report also sets out proposals for consultation.

## **Introduction**

13. This report sets out the framework for preparing the Council's 2013/14 Budget and the annual updating of the MTFP, so that it covers the period to 2016/17.
14. The process and timetable for setting the budget and updating the MTFP up to its approval by Council on 21 February 2013 is also included in this report for consideration.

## **Policy**

15. 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**

16. The Budget for 2012/13, which was agreed in February 2012 was set in an environment of tough economic conditions and the continued Government public spending reductions, factors which continue into the present budget setting round. The Budget for 2013/14 will also need to take account of significant changes to NNDR and Council Tax Support. Therefore the Council will be required to make further efforts to find savings through service efficiencies in order to avoid service reductions.

The Council agreed a new Medium Term Plan – “Delivering Your Priorities” - at its meeting on 14 June 2012 and this will be taken into consideration when setting the 2013/14 Budget and the annual updating of the MTFP.

## **Issues**

17. The financial plan 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 MTFP (revised economic, financial and demographic assumptions and facts);
  - (c) continuing uncertainty in the public sector financial landscape including changes to grant funding, NNDR and Council Tax Support;
  - (d) the Revenue budget for 2013/14 through to 2016/17, including the required level of general fund reserves;
  - (e) the Capital Programme for 2013/14 through to 2016/17;
  - (f) the Housing Revenue Account and the consequences of changes in its financing in 2012/13; and
  - (g) the outcome of the budget consultation process .

## **MTFP as per 2012/13 Budget Report**

18. The Council agreed an MTFP on 23 February 2012 which took account of the economic conditions and continuing austerity measures by Government in allocating funding for Local Authorities.

19. The key figures from this current MTFP are shown in the table below:

**Table 1 – 2012/13 to 2015/16 MTFP**

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Funding	179.2	176.0	173.5	169.7
Spending:				
Base income and expenditure	181.3	179.2	176.0	173.5
Inflation	1.6	2.6	2.6	2.6
Pressures	7.3	5.5	3.4	2.9
Efficiency savings	(11.3)	(10.6)	(9.4)	(6.8)
Additional contingency / (Efficiency savings to be identified)	0.3	(0.7)	0.9	(2.5)
Total planned spend after savings	179.2	176.0	173.5	169.7
Net spend (demonstrating balanced budget)	-	-	-	-

20. This Plan enables the Council to achieve and maintain a sustainable level of General Fund reserves over the life of the MTFP. The anticipated level of General Fund Reserves at 1 April 2013 is £11.8M.
21. A minimum prudent level of reserves, based on assumptions contained in the agreed MTFP is c. £11 million. This takes into account the Council's expenditure levels, increasing risk profile and investment plans. The strategy for maintaining reserves is set out in paragraph 32.

### **Current economic outlook**

22. The UK economy continues to look uncertain, with the country experiencing negative growth of 0.3% in the first quarter of 2012, following a lengthy period of flat or slow growth since the recession. With the continued reductions in public sector spending, growth rates are expected to remain low in the short to medium term. For households, therefore, the picture continues to look challenging, with low wage rises and a stagnant housing market with low mortgage approvals. However, according to the latest census, Bedfordshire is the fastest growing county in the UK which brings additional pressures on services and a consequent increase in the number of benefit claimants.
23. The worldwide picture is no more optimistic, with a significant sovereign debt crisis affecting Europe and the stability of the Euro. A number of UK and European banks have been downgraded by ratings agencies over the last few months.

24. Inflation has started to drop from the last quarter of 2012. Consumer Price Index in May 2012 stands at 2.8% down from a high of 5.2% in September 2011 and 3.0% in April 2012. Retail Price Index stands at 3.1% in May 2012 compared with a high of 5.6% in September 2011 and 3.5% in April 2012. Falling inflation is at least some good news for families struggling with monthly outgoings, except those dependent on income from investments.
25. Official interest rates remain at the all time low of 0.5% and are expected to remain so for at least the next 12 months.
26. Unemployment levels remain high, partly due to the shrinking of the public sector outstripping modest growth in the private sector. Unemployment for the June quarter was 2.61 million, a fall of 51,000 from the last quarter, but an increase year on year of 185,000.

### **Strategic and directorate plans**

27. The Council's high level priorities are set out in its Medium Term Plan, which identifies specific service outcomes for each directorate. These defined priorities will become the driver behind the financials within the MTFP. They will also determine where the efficiencies are to be found and identify cost pressures.

### **Areas of focus**

28. Whilst we are at an early stage of identifying further efficiencies, a number of areas have been identified, which build on the four year efficiencies programme outlined in the 2012/13 MTFP. These will be kept under review as the overall funding parameters become clearer.

### **Consultation**

29. 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 setting process, effective community engagement during the process will support Member decision making.
30. A plan for engagement is being developed that will ensure the Council meets its legal requirements and will be reported to Executive on 6 November 2012.
31. In preparation for the Medium Term Financial Strategy agreed by the Council in April 2012, comprehensive research was undertaken with the community to establish the priorities for service investment and savings. This feedback influenced the Council's strategy which was widely communicated to the public and stakeholders. This year we anticipate that, following approval of the draft budget report by Executive on 4 December 2012, the budget proposals will again be extensively promoted to the community including local businesses, 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 made by the Executive and presented to Council in February 2013.

## Budget Assumptions

32. The current MTFP as agreed at the February Council meeting includes a number of assumptions that will need to be reviewed and revised as appropriate for the new MTFP. The key factors are detailed in the paragraphs below. The Plan will also be extended a year to include projections for 2016/17.
33. The base budget includes an assumption that £1.4 million will be transferred to general fund reserves each year to 2013/14 in order to provide reserves at the minimum prudent level of £11.2 million. In 2011/12, additional amounts were transferred to reserves, accelerating the process such that reserves stood at £10.4 million on 31 March 2012. There is a budgeted transfer of £1.4 million in 2012/13 meaning that there will be flexibility over reserves transfers thereafter, subject to our assessment of future risks. Reserve levels will be kept under constant review to ensure that they adequately protect against adverse risks from economic, financial and other factors.
34. For 2013/14, there is an expectation that the formula grant reduction will not be as severe as in previous years, although information remains provisional at this stage. However, the Government is introducing changes in the structure of the Council Tax Benefit subsidy (to be known as Council Tax Support) which is likely to involve a cut in support to councils of more than 10% of the current subsidy, alongside changes to the NNDR system. For both of these items the full effect will not be known until the latter part of the year, with some timetables showing this as late as December.
35. For the following three years, information is much less quantifiable, with a likelihood of a new Government Spending Review sometime in 2013 or 2014, and further changes as the Government pursues its “Localism” agenda.
36. Inflation levels for the current MTFP are set at the rates detailed in the table below:

**Table 2 – Current MTFP inflation assumptions**

	<b>2013-14 and future years</b>
Employees:	
Pay	1.0%
Increments	0.0%
NI	0.0%
Prices	2.0%
Contracts	2.0%
Income	2.0%

37. These inflation factors will be subject to review, including taking account of new economic data and supplier contract terms.
38. A number of known service pressures have been included in the MTFP, such as those arising from increased demand for care services and an aging population, contract price uplifts and ICT staffing. Other pressures will emerge as the budget process develops. This will in turn increase the level of savings required.
39. The Government has announced that responsibility for setting the Council Tax Benefit regime will be devolved to local authorities from 2013/14. As part of this change there will also be a 10% cut in funding. Due to assumptions being made on the future level of benefit claims, in practice this cut is likely to be significantly more than 10% in reality. The Council is currently reviewing various scheme options for addressing this gap.
40. For 2012/13 the Council was in receipt of two Council Tax freeze grants of £3.2 million each. The first of these was a multi-year grant and is due to end in 2014/15. The second is a one-off grant and therefore is not expected to recur in the new MTFP period. Service grants additional to the Formula Grant are budgeted at approximately £42m in 2012/13. Though it is assumed at present that these will continue at similar levels over the MTFP period, these will be reviewed in detail over the planning period.
41. As of 1 April 2013, the Council will assume responsibility for Public Health from NHS Bedfordshire. The Council has been working with NHS Bedfordshire to understand the amount of budget needed for the Central Bedfordshire and to make arrangements for transition. The latest estimate of budget to transfer is approximately £8-9 million. Government has indicated that it will provide grant funding to cover the costs, though the level of funding including whether all administrative overheads will be covered has yet to be clarified. Full details of the impact will not be known until a final announcement from Government currently planned for December.
42. Following legislative changes taking effect on 1 April 2012, the Council now 'self finances' the Housing Revenue Account. Central Bedfordshire now retains all rental income from its housing stock, whilst in return, on 1 April 2012 the Council received an allocation of the national housing debt totalling £165m. The Current MTFP includes rental income of £27 – 29 million for each of the three years to 2015/16, fully offset by revenue and capital spending, and debt repayment costs.
43. The baseline for the 2013/14 budget will be the 2012/13 Budget. At this stage, the forecast outturn for the current year remains close to Budget overall.

### **Budget process**

44. The budget process will deliver closer alignment of the revenue and capital budgets, with a detailed review of the capital programme leading to a realistic budget over the planning timeframe.



45. Budgets will be built up early / mid-September prior to an update presentation on the MTFP to the Corporate Resources Overview and Scrutiny Committee on 23 October. Detailed draft budgets on a directorate basis will be the subject of formal review at Overview and Scrutiny meetings in the December round (10 December onwards), reflecting both pressures and efficiencies arising from the fact that not all services will actually be delivered in the same way as the previous year.
46. It is proposed that the process for setting fees and charges should follow that for 2012/13, with a separate stream of work being developed to run alongside the main budget reports.
47. The budget timetable below, which sets out the timescales for all the above activities, has a reserve date of 8 January for an additional Executive report, followed by scrutiny in January, by the Corporate Resources Overview and Scrutiny Committee only, of any late amendments that are required.

### **Timetable**

48. The key milestones for setting the 2013/14 budget are:
- 23 October 2012 – Corporate Services O&S update on MTFP;
  - 6 November 2012 – Executive Report on approach to Consultation;
  - 4 December 2012 – Executive Draft Budget Report;
  - 10-18 December 2012 – O&S review of draft budgets;
  - 8 January 2013 – Executive Final Budget Report [Provisional];
  - 22 January 2013 – Corporate Services O&S review of late amendments [Provisional];
  - 5 February 2013 – Executive Budget Recommendations; and
  - 21 February 2013 – Council approves Budget.

### **Appendices:**

None

### **Background Papers:**

None