

Appendix A

Meeting: Executive
Date: 13 August 2013
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 2014-15 through 2017-18

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 at a time when the Government has recently announced the outcome of a Spending Review (which covers 2015-16 only) and the economy continues to show little or no growth. The Spending Review announcement revealed further cuts to Local Government budgets of some 10%. Coupled with this is the forthcoming General Election, scheduled for 10 May 2015. This means that incoming resources (Formula Funding and other grants) for the last two years of the MTFP are highly uncertain.

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 Medium Term Financial Plan (MTFP).

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 jointly receive a high level presentation of the MTFP in the October round of Committee meetings and scrutiny of the draft budget will take place in December. The timetable allows for comments and recommendations from Scrutiny to be incorporated into the final Budget proposals.

RECOMMENDATION(S):

The Executive is asked to:

- 1. recognise the risks and uncertainty surrounding the 2015 General Election and the likelihood of further austerity measures the years following;**
- 2. endorse the proposed framework for updating of the Medium Term Financial Plan and the preparation of a budget for 2014/15; and**
- 3. endorse the timetable for the consultation process**

Reason for Recommendation(s): 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 2014. It sets a framework for the 2014-15 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 2014-15 Budget and the annual updating of the MTFP, so that it covers the period to 2017/18.
14. The process and timetable for setting the budget and updating the MTFP up to its approval by Council on 20 February 2014 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 2013/14, which was agreed in February 2013, 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 MTFP identified a budget 'gap' of some £4.4 million for 2014/15 and £11.6 million over the 3 years to 2016/17. The MTFP will need to address this as well as take account of the funding reductions announced in the Spending Review. Therefore the Council will be required to make further efforts to find savings through service efficiencies in order to avoid service reductions.

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) the Revenue budget for 2014-15 through to 2017-18, including the required level of general fund reserves.
 - (d) the Capital Programme for 2014-15 through to 2017-18;
 - (e) the outcome of the budget consultation process .

MTFP as per 2012/13 Budget Report

17. The Council agreed an MTFP on 21 February 2013 which took account of the economic conditions and continuing austerity measures by Government in allocating funding for Local Authorities.
18. The key figures from this current MTFP are shown in the table below:

Table 1 – 2014-15 to 2016-17 MTFP

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
Funding	188.9	183.8	178.2	178.0
Spending:				
Base income and expenditure	194.1	188.4	183.7	178.2
Inflation	2.7	2.8	2.7	2.6
Pressures	8.2	4.5	3.2	2.7
Efficiency savings	(16.1)	(8.0)	(7.3)	(2.4)
Additional contingency / (Efficiency savings to be identified)	-	(4.4)	(4.1)	(3.1)
Total planned spend after savings	188.9	183.3	178.2	178.0
Net spend (demonstrating balanced budget)	-	-	-	-

19. 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 2014 is £13.8m, after a £0.4m planned contribution from reserves to budget in 2013/14.
20. 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 and the minimum prudent level will be reviewed as part of the final budget setting process, to reflect changes such as the inclusion of Public Health funding.

Current economic outlook

21. The prospects for the UK economy continue to look uncertain, with the country experiencing a lengthy period of flat or slow growth since the recession. In addition, the UK's credit rating was downgraded from AAA to AA+. 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.
22. The worldwide picture is no more optimistic, with a significant sovereign debt crisis affecting Europe and the stability of the Euro.
23. Inflation has remained reasonably flat over the past year and stands at 2.7% (CPI) and 3.1% (RPI). Inflation remains above the Government target of 2% and is a strain on household finances at a time of static or falling wages.
24. 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, with most commentators expecting a much longer period without change.
25. Unemployment levels remain high, partly due to the shrinking of the public sector outstripping modest growth in the private sector, though the rate has started to fall in recent periods. Unemployment for the June quarter was 2.51 million, with a small fall compared to the prior quarter and a fall of 88,000 year-on-year. The overall unemployment rate for June was 7.8%.

Strategic and directorate plans

26. The Council's high level priorities are set out in its Medium Term Plan, which identifies specific service outcomes by 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

27. 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

28. 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.
29. A plan for consultation is being developed that will ensure the Council meets its legal requirements and will be reported to Executive on 5 November 2013.
30. Following approval of the draft budget report by Executive on 10 December 2013, the budget proposals will be extensively promoted to the local community, local businesses and stakeholders. The draft budget will also be reviewed by 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 2014.

Budget Assumptions

31. The current MTFP as agreed at February 2013 Council 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 2017-18.
32. The budget includes an assumption that reserves will exceed the minimum prudent level at 31 March 2014 and that there will therefore be no further transfers to General Funds. General Fund Reserve levels stood at £14.2 million at 31 March 2013 and will be kept under constant review to ensure that they adequately protect against adverse risks from economic, financial and other factors.
33. In December 2012 central Government set out a provisional settlement for 2014/15 alongside the 2013/14 settlement, which indicated a £6.3 million reduction in Revenue Support Grant. There is an expectation that the final settlement should align closely with the provisional amounts though nothing will be confirmed until the final settlement announcement (likely to be in December 2013). For future years the Formula Grant has been assumed to reduce by 5% each year, in addition to the loss of Council Tax Freeze Grants. The assumptions for 15/16 will be revised following the Spending Review announcement on June 26 – see the Spending Review section below.
34. Since the Spending Review only covered one year, and given the forthcoming General Election in May 2015, information for the remaining years is much less quantifiable.

35. The current MTFP assumes no growth in NNDR receipts except for the amount assumed in the provisional settlement for 2014/15. Modelling of projected NNDR receipts is currently underway and will inform the MTFP process.
36. Inflation levels for the current MTFP are set at the rates detailed in the table below:

Table 2 – Current MTFP inflation assumptions

	2014-15 and future years
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 ageing population, pensions strain and Capital financing. Other pressures will emerge as the budget process develops. This will in turn increase the level of savings required.
39. For 2013/14 the Council was in receipt of one Council Tax Freeze Grant of 2.5% of Council Tax income (worth £3.2m) and another of 1% of Council Tax income (worth £1.3m). The first of these is a four-year grant which was originally due to end in 2014/15. The second is a two-year grant also originally due to end in 2014/15. These grants have been extended as described in the Spending Review section below.
40. 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. 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.
41. The baseline for the budget will be the 2013/14 Budget. At this stage it is anticipated that the final outturn for the year will be close to Budget overall.

Spending Review 2013

42. Central Government carried out a Spending Review during 2013 and announced the results on 26 June 2013. This will have some significant impacts on our budget assumptions, not all of which can be fully determined until the final Settlement Announcement expected in December 2013. The key issues are described below.
43. The Spending Review unusually covers only one year – 2015/16, in recognition that a General Election will be held in May 2015. This means that there will be significant uncertainty for the last two years of the MTFP. A provisional Settlement had already been announced for 2014/15 and there have been no indications so far that there will be any major changes on final settlement.
44. The “Departmental Expenditure Limit” (DEL) for DCLG has been cut by 10% for 2015/16. This will therefore necessarily be passed down to Local Authorities in some form, though how this affects the formula funding model on a council by council basis is unknown at present.
45. There will be a change to the way the Council Tax movement year-on-year is calculated for the purposes of determining whether a referendum is required. Previously councils were able to eliminate the effects of levies (For CBC these relate to Drainage and Flood Defence) payable on their budgets for each year. This recognised that these payments were uncontrollable and a large increase from one year to the next could mean an unavoidable increase in Council Tax without affecting other budgets. This adjustment has now been removed for 2013/14 onwards. Although levies for CBC are at present too small to affect the 2% referendum cap, being around £500,000 in total, these amounts will have to be closely monitored.
46. Funding for the Education Services Grant will be cut by 20% from 2015/16. This grant replaced LACSEG in 2013/14, at the same time reducing income for CBC from £5.8m to £3.0m in that year. The grant is a per-pupil amount paid for maintained schools only, and reduces as schools convert to academies. Present forecasts suggest that these conversions will cost CBC around £300,000 in 2013/14. Assuming a similar rate in 2014/15 and factoring in the 20% cut could mean that just £1.9m will be received in 2015/16 – representing a cut of 67% in three years. The balance will continue to reduce if schools continue to convert to academies.
47. The announcement included a 1% cap on public sector pay rises. This is in line with present MTFP assumptions.
48. Central Government has announced that both of the existing Council Tax Freeze Grants will be extended through to 2015/16 for those Councils who have not raised Council Tax since 2011/12. These grants represented 2.5% of Council Tax income (worth £3.2m) and 1% of Council Tax income (worth £1.3m) respectively. A further two-year Council Tax Freeze Grant at 1% of Council Tax revenues will also be available for those Councils freezing Council Tax in 2014/15, and an additional 1% in 2016/16 for those freezing Council Tax in 2015/16. This will mean an extra £1.2m in 2014/15 and £6.9m additional income in 2015/16 compared to the current MTFP.

49. The New Homes Bonus ("NHB") will continue, however some £400m of the National total will be required to be pooled with other funds to form a £2bn "Single Local Growth Fund" in 2015/16. £400m will be approximately 30% of total NHB funding in 2015/16. Current forecasts suggest that the NHB will be worth £9.1m to CBC in 2015/16, which would mean £2.73m allocated to the pooled funds at 30%. The spending of the Single Local Growth Fund will be determined by the Local Enterprise Partnership (LEP).
50. The Spending Round document stated that: "The Government will introduce a £3.8 billion pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people". Some of this balance represents funds already announced and some represents capital. However, there are additional funds for pressures including demography, to accelerate transformation and for further integration. Further detail on what this means for individual councils is awaited.
51. Other social care matters include:
- Total funding across England of £335m in 2015/16 to support implementation of social care costs cap from April 2016; and
 - Local government will be 'fully funded' for the transfer of Independent Living Fund to the local authority social care system.
52. Investment in local roads maintenance will increase by around £300 million per year, although it is some way short of the £800 million annual road maintenance shortfall.
53. The Troubled Families Programme will be extended to more families from 2015/16, with £200m in funding, led by DCLG and drawn from several government departments. In addition, The DfE and DCLG will 'examine the scope to improve outcomes, reduce burdens and drive efficiency in children's services', reporting on progress in autumn 2013.
54. It is stated Government policy that frontline public services will be informed of indicative funding allocations over a year in advance 'so that they can plan together with more confidence'. It is not yet clear exactly what level of detail for 2015/16 will be available in the December 2013 Settlement announcement.
55. Schools funding and the Pupil Premium will be protected in real terms and the new schools funding formula will be introduced from 2015/16.

Budget process

56. The budget process will deliver close alignment of the revenue and capital budgets, with a detailed review of the capital programme leading to a realistic budget over the planning timeframe.
57. Budgets will be built up during August / mid-September as part of the Head of Service Review process. These will include a full assessment of pressures and efficiencies which will then be the subject of formal review at Overview and Scrutiny meetings during December. Following this process there will be further adjustments as a review by senior management leading to the preparation of a Draft Budget Report with a balanced budget.
58. It is proposed that the process for setting fees and charges should follow that for 2013/14, but with closer integration with the main budget reports.
59. The attached budget timetable (Appendix 1), which sets out the timescales for all the above activities and, has a reserve date of 7 January for an additional Executive report, followed by scrutiny in January by the Corporate Resources O&SC only of any late amendments that are required.

Timetable

60. The key milestones for setting the 2013/14 budget are:
 - 22 October 2013 – Corporate Resources Overview & Scrutiny, with all O&S Committees to review high level MTFP;
 - 5 November 2013 – Executive Report on approach to Consultation;
 - 10 December 2013 – Executive Draft Budget Report;
 - 12 – 17 December 2013 – Overview & Scrutiny of draft budget;
 - 7 January 2014 – Executive Draft Budget Report [Provisional, if required];
 - 4 February 2014 – Executive Budget Recommendations;
 - 20 February 2014 – Council approves Budget.

Appendices:

Appendix 1 – Budget timetable

Background Papers:

None

Appendix 1 – Budget timetable

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Communicate High Level process and Engage with HoS Budget Framework Executive Report											
HOS Engagement (building the review materials)											
Detailed HOS Budget Reviews											
Outcomes from HOS reviews & first draft budget / MTFP											
Budget reviews and updates											
Budget Presentation to OSC committee											
Consultation Policy Executive Report											
Draft Budget Executive Report											
OSC Scrutiny of Draft Budget											
Business/Others Budget Consultation											
Reserve for Updates to Formula Grant											
Executive Budget Recommendations											
Council Approves Budget											