
Meeting: Executive
Date: 19 August 2014
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 2015-16 through 2018-19.

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 to enable the Council to further its objectives for the community.

Financial:

1. The planning process takes place against the background of the June 2013 Spending Review (which covered the period to 2015-16 only) and whilst the national economy shows some positive signs, there is no indication of any relaxation of the Government's austerity measures.

The Spending Review announcement revealed further cuts to the Department for Communities and Local Government (DCLG) budgets of some 10%. It is not yet clear exactly how this will be apportioned to individual local authorities. Coupled with this is the forthcoming General Election, scheduled for 7 May 2015. This means that incoming resources (Formula Funding and other grants) for the last three years of the Medium Term Financial Plan (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 on its proposals. See also Equalities and Consultation sections below.

Risk Management:

3. The state of the UK and world economies 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), along with reasonable estimates where no firm data exists.

Staffing (including Trades Unions):

4. None arising directly from this report.

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 their 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 access to 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. None arising directly from this report.

Overview and Scrutiny:

10. This report will be considered by the Corporate Resources Overview and Scrutiny Committee at their meeting on 23 September 2014.

RECOMMENDATIONS:

The Executive is asked to:

- 1. recognise the risks and uncertainty including those arising from the 2015 General Election and the likelihood of further austerity measures in the years following;**
- 2. endorse the proposed framework for the updating of the Medium Term Financial Plan and the preparation of a Budget for 2015/16; 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 rate in February 2015. It sets a framework for the 2015-16 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 2015-16 Budget and the annual updating of the MTFP, so that it covers the period to 2018/19.
14. The process and timetable for setting the budget and updating the MTFP up to its approval by Council on 26 February 2015 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 2014/15, which was agreed by Council in February 2014, was set in an environment of tough economic conditions and the continuation of Government public spending reductions, factors which continue into the present budget setting round. The MTFP identified a budget 'gap' (that is, a requirement for further savings as yet unspecified) of some £5.8 million for 2015/16 and £7.3 million over the following 2 years to 2017/18.

The Spending Review announced in 2013 provided an indicative financial settlement for 2015/16 but not beyond, in recognition that a General Election will take place in May 2015. This means that there will be significant uncertainty for the last three years of the MTFP.

The MTFP will need to address this through making reasonable and prudent estimates in the absence of confirmed data. Since there is every indication that funding to local authorities will be further reduced, 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 it wants 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 2015-16, including the required level of general fund reserves;
 - (d) the Capital Programme for 2015-16 through to 2018-19; and
 - (e) the outcome of the budget consultation process .

MTFP as per 2014/15 Budget Report

18. The Council agreed an MTFP on 20 February 2014 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:

Medium Term Financial Plan	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Resources				
Formula Grant	36.9	28.4	27.4	27.4
Council Tax Freeze Grants	1.3	2.6	2.6	2.6
Retained Business Rates	28.1	29.4	30.2	32.3
Council Tax	119.6	119.9	120.7	121.4
Total Resources	185.9	180.3	180.9	183.7
Planned Revenue Budget				
Opening Base Revenue	370.7	367.7	362.1	362.7
Expenditure				
Net inflation	2.6	2.7	2.7	2.7
Pressures	11.8	4.9	5.3	5.1
Base Income	(181.8)	(181.8)	(181.8)	(181.8)
Total Planned Spend Before Savings	203.3	193.5	188.3	188.7
Efficiency Savings	(17.4)	(7.4)	(4.5)	(0.6)
Efficiency Savings to be allocated	-	(5.8)	(2.9)	(4.4)
Total Planned Spend After Savings	185.9	180.3	180.9	183.7

20. This Plan enables the Council to achieve and maintain a sustainable level of General Fund reserves over the life of the MTFP. The level of General Fund Reserves at 31 March 2014 was £15.1m (subject to audit), after a £0.9m contribution to reserves in 2013/14.

21. A minimum prudent level of reserves, based on assumptions contained in the agreed MTFP is a range between £11.5m and £25m. 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 33 and the minimum prudent level will be reviewed as part of the final budget setting process, to reflect changes such as the transfer of 7 Care Homes brought back into Council operations, implications of the Children & Families Act, Care Act, Better Care Fund and integration with the NHS.

Current Economic Outlook

22. The prospects for the UK economy are improving but the recovery is not yet fully established, with the country experiencing a period of relatively slow growth since the recession. In addition, the UK's credit rating was downgraded from AAA to AA+ by some credit scoring agencies (Standard & Poor's rating remains at AAA). 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 comparatively low mortgage approvals.

23. The financial situation in Europe seems to be improving. Euro area financial system stress has remained moderate over the last half-year, according to the new Financial Stability Review of the European Central Bank (ECB) released at the end of May 2014. Investor concerns regarding the global financial crisis have continued to diminish, amid on-going action to address “legacy” risks of past crises for both banks and sovereign nations. Euro area banks have accelerated the clean-up and strengthening of their balance sheets since the third quarter of 2013, when discussions about the ECB’s comprehensive assessment intensified. Sovereign risk has improved with the implementation of fiscal consolidation and structural reforms, although progress has been uneven.
24. UK inflation has remained reasonably flat over the past year and stands at 1.9% (CPI) and 2.6% (RPI) – both July 2014 figures. Inflation is now below the Government target of 2% although a strain remains on household finances at a time of static or falling real wages.
25. The Bank of England has revised its interest forward guidance policy.
- Outlining the Bank's revised policy, the Governor of the Bank of England said the Bank would now be looking at a wider range of indicators, including wages, productivity and spare capacity within the economy.
- Official interest rates remain at the all time low of 0.5% and are expected to remain so until at least Spring 2015 according to the Bank.
- Longer term, rates are then projected to rise to 2% by early 2017. Beyond 2017, the message from the Bank is that 'even when the economy has returned to normal... the appropriate level of Bank rate is likely to be materially below the 5% level set on average by the [Bank] prior to the crisis'.
26. The UK jobs market continued to improve in the three months to April 2014, although the rate of wage increases slowed sharply. Official figures show that the number of people out of work fell by 161,000 to 2.16 million over the period, (Office for National Statistics).
- This brings the unemployment rate down to 6.6%.

Strategic and Directorate Plans

27. 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 financial assumptions within the MTFP. They will also determine where the efficiencies are to be found and identify cost pressures.

Areas of focus

28. Although still at an early stage of the process for identifying further efficiencies, a number of areas have been identified, which build on the four year efficiencies programme outlined in the 2014/15 MTFP. These include areas for efficiencies such as moving from institutional investment to personal solutions, and review of contract and tendering arrangements. These will be kept under review as the overall funding parameters become clearer.

Consultation and Communication

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.

A plan for communications and engagement has been developed which will include three phases of activity.

30. The first will seek feedback from the community on local priorities and the core principles of our medium term financial plan. This feedback will be gathered via a residents' survey which will be distributed to all households via the autumn edition of News Central. Simultaneously a representative group of residents will be invited to respond to the survey in order that Members can understand reactions from the public in general and a sample which reflects the broader community in terms of age, gender and other demographic characteristics.

This feedback will be presented to Members to inform the development of the draft budget.

31. Once the budget has been prepared (following the Chancellor's Autumn Statement which is expected in December), the draft budget report will be extensively promoted to the community including local business, the media, the equalities forum and other stakeholder groups in order to elicit further feedback on the proposals within it. Feedback from this phase of activity will feed into the Executive and Full Council consideration of the budget in February 2015.

The final phase of activity will be to feedback to the community and stakeholders, the decisions of the Council through a range of communication channels and activities including the conventional leaflet together with social media, our website and face to face opportunities.

Budget Assumptions

32. The current MTFP as agreed at Council in February 2014 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 2018-19.

33. The MTFP included an assumption that reserves would exceed the minimum prudent level at 31 March 2014 and that there will be no further material transfers to General Fund Reserves. General Fund Reserve stood at £15.1m at 31 March 2014 (subject to audit) and will be kept under constant review to ensure that there is adequate protection against adverse risks from economic, financial and other factors.
34. In December 2013 central Government set out an indicative provisional settlement for 2015/16 alongside the 2014/15 settlement, which indicated an £8.5m reduction in this Council's 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 late December 2014). For future years the Formula Grant has been assumed to reduce by a further 3.5% in 2016/17.
35. 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 predictable.
36. The current MTFP assumes some growth in business rates or NNDR receipts beyond the amount assumed in the provisional settlement for 2015/16. More detailed modelling of projected NNDR receipts is currently underway and will inform the MTFP process.
37. Inflation levels for the current MTFP are set at the rates detailed in the table below:

Table 2 – Current MTFP inflation assumptions

	2015-16 and future years
Employees:	
Pay	1.0%
Increments	0.0%
NI	0.0%
Prices	2.0%
Contracts	2.0%
Income	2.0%

38. These inflation factors will be subject to review, including taking account of new economic data and supplier contract terms.
39. 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.

40. 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 was to be a four-year grant which was originally due to end in 2014/15. The second was a two-year grant also originally due to end in 2014/15. These grants have now been extended as described in the Spending Review section below.
41. 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 £29 – £32m for each of the three years to 2017/18, fully offset by revenue and capital spending, and debt repayment costs.
42. The baseline for the 2015/16 Budget will be the 2014/15 Budget. At this stage it is anticipated that the final outturn for the year will be close to Budget overall.

Spending Review 2013

43. Central Government carried out a Spending Review last year 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 autumn statement and its impact on Departmental spending expected in December 2014 are made clear. The key issues are described below.
44. 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 three years of the MTFP. A provisional Settlement had already been announced for 2015/16 and there have been no indications so far that there will be any major changes on final settlement.
45. 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.
46. Funding for the Education Services Grant is likely to 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. The rate of conversions in 2013/14 resulted in a reduction of funding for CBC of around £0.3m. 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, though nationally, the public sector unions are challenging this which has already resulted in industrial action.

48. 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 2016/17 for those freezing Council Tax in 2015/16.

Subsequent to the Spending Review announcement, Government confirmed that both of the original Freeze Grants and any new Grants in 2014/15 and 2015/16 will be 'baselined' into the Formula Grant and will therefore constitute continuing funding.

49. April 2013 saw the beginning of a number of welfare reforms (e.g. benefit cap, under occupancy subsidy). The full impact of these has yet to be seen but the Council has responded well to the increased workload whilst maintaining service levels to claimants. The number of claimants for Council Tax Support has reduced from 17,000 to 15,600 between April 2013 and July 2014.

Funding for the Local Welfare provision is likely to be removed from 2015/16 onwards. The Council has been able to create an earmarked reserve to continue to fund this service in 2015/16, but thereafter there will be an additional budget pressure.

50. There were also various other announcements covering health and social care pooled budgets, the transfer of the Independent Living Fund to local authorities, investment in the roads network, extension of the Troubled Families programme and introduction of a new Schools Formula from 2015/16. The impact of these will be assessed as far as possible within this MTFP.

51. A major change for the Council is the impact of the Care Act 2014 which came onto the statute books on 14 May 2014. It sets out a new framework of local authority duties in relation to the arrangement and funding of social care, along with a number of changes to the regulation of social care providers. It will have a very significant impact on local authorities and the market for social care. These impacts will need to be reflected in the MTFP.

Budget Process - Revenue

52. The budget process will deliver alignment of the revenue and capital budgets, with a detailed review of the capital programme leading to a realistic budget over the planning timeframe.
53. Budgets will be built up during August / mid-September. This will include a full assessment of pressures and efficiencies which will then be the subject of formal review at Overview and Scrutiny meetings during January 2015. Following this process there will be further adjustments as required, leading to the preparation of a Final Budget Report with a balanced budget.

The four Overview and Scrutiny Committees are scheduled to jointly receive a high level presentation on the MTFP at the 21 October 2014 Corporate Resources O&S Committee meeting and scrutiny of the draft budget will take place at each O&S Committee separately in January 2015. The timetable allows for comments and recommendations from Scrutiny to be incorporated into the final Budget proposals.

The attached budget timetable (Appendix 1), sets out the timescales for all the above activities.

Budget Process – Fees & Charges

54. For the 2015/16 budget process, Council approval to Fee & Charges price increases will be accelerated to November 2014 Council rather than February 2015.
55. In addition, it is proposed to introduce price increases from 1 January 2015 rather than 1 April where possible.

Timetable

57. The key milestones for setting the 2014/15 budget are:
 - September – All O&S Committees to review proposed Fees & Charges increases.
 - 14 October – Executive Fees & Charges Report.
 - 21 October – Corporate Resources Overview & Scrutiny, with all O&S Committees to review high level MTFP.
 - 27 November – Council approves Fees & Charges price increases.
 - 13 January 2014 – Executive Draft Budget Report.
 - January 2015 – Overview & Scrutiny of draft budget.
 - 10 February 2015 – Executive Budget Recommendations.
 - 26 February 2015 – Council approves Budget.

Appendices:

Appendix 1 – Budget timetable

Background Papers:

None

Appendix 1 – Revenue Budget timetable

	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Communicate High Level process and Engage with Heads of Service (HoS)		↔									
Building HoS review materials		↔									
HoS Template completion		↔									
HoS Review meetings					↔						
Budget Framework Exec Report				● 19-Aug							
Residents Market Research					↔						
High level Budget Presentation to Joint OSC committees						● 21-Oct					
Draft Budget Executive Report									● 13-Jan		
OSC Scrutiny of Draft Budget									↔		
Business/Residents Draft Budget Consultation									↔		
Executive Budget Recommendations										● 10-Feb	
Council Approves Budget											● 26-Feb

Appendix 2 – Fees & Charges timetable

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Fees & Charges (F&C) Review Commissioned	● 08-Apr												
F&C Review Data gathering		↔											
F&C Task Force Meeting				● 04-Jul									
Residents Market Research						↔							
OSC Scrutiny of Draft F&C Budget						↔							
Executive F&C Budget Recommendations							● 14-Oct						
Council Approves F&C Budget								● 27-Nov					
Implements 01/01/15 Charges (where applicable)										● 01-Jan			
Implements 01/04/15 Charges (where applicable)													● 01-Apr