
Meeting: Executive
Date: 04 August 2015
Subject: Budget Strategy and Medium Term Financial Plan
Report of: Cllr Richard Wenham, Executive Member for Corporate Resources
Summary: The report proposes the Medium Term Financial Planning framework for 2016-17 through 2019-20

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:

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 8th July 2015 emergency budget, details for individual Local Authorities are not yet known (see paragraph 18) and will be identified in the Autumn Statement expected in December 2015.

The last Spending Review only covered the period to 2015-16 and whilst the national economy shows some positive signs, the Government has signed its commitment to reducing public sector expenditure to address the national deficit.

This means that incoming resources (Formula Funding and other grants) for the next Medium Term Financial Plan (MTFP) are highly uncertain at this stage and significant downward pressure can be anticipated.

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 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 OSC at their meeting on 25th August 2015.

RECOMMENDATION(S):

The Executive is asked to:

- 1. recognise the risks and uncertainty surrounding the MTFP including the likelihood of further austerity measures in future years;**
- 2. endorse the proposed framework for the updating of the Medium Term Financial Plan 2016/17 – 2019/20 and the preparation of a Budget for 2016/17; and**
- 3. Note the approach for the consultation process this year.**

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 rate in February 2016. It sets a framework for the 2016-17 Budget and 2016/17 – 2019/20 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 proposes the process for consultation.

Introduction

13. This report sets out the framework for preparing the Council's 2016-17 Budget and the annual updating of the MTFP, so that it covers the period to 2019/20.
14. The process and timetable for setting the budget and updating the MTFP up to its approval by Council on 25 February 2016 is also included in this report for consideration.

Policy

15. The Council's constitution and related financial procedures guide the approach to budget setting. In addition, the Council is required to undertake a public consultation exercise on its budget proposals.

Background

16. The Budget for 2015/16, which was agreed by Council in February 2015, was set in an environment of tough economic conditions and the continuation of Government's 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 £6.8 million for 2016/17 and £11.9 million over the following 2 years to 2018/19.
17. The Spending Review announced in 2013 provided an indicative financial settlement for 2015/16 but not beyond, in recognition that a General Election was due to take place in May 2015. This means that there will be significant uncertainty for the next iteration of the MTFP.
18. The emergency budget was delivered by the Chancellor on the 8th July 2015. However, it did not to provide detail at an individual local authority level which will be identified in the Autumn Statement expected in December 2015. The emergency budget did, however, announce £37 billion of further spending cuts by 2020, including £12 billion of welfare cuts, £5 billion from tax avoidance and a £20 billion reduction in departmental budgets. Given the protection announced for the NHS and setting Defence spend at 2% Gross Domestic Product is likely to mean further cuts for local authorities than originally planned.

The Chancellor also announced that:

- Public sector pay will rise by 1% per annum.
- Rents in the social housing sector will reduce by 1% a year for four years which will need to be factored into the Housing Revenue Account (HRA) plan.

Some of the measures that were announced will impact on residents of CBC examples include:

- 18-21-year-olds will not be entitled to claim housing benefit automatically, with a new "earn to learn" obligation.
 - The annual household benefit cap will be reduced to £23,000 in London and to £20,000 in the rest of Britain.
19. 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

20. 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 2016-17 , including the required level of general fund reserves.
- (d) the Capital Programme for 2016-17 through to 2019-20;

MTFP as per 2015/16 Budget Report

21. The Council agreed a MTFP on 26 February 2015 which took account of the economic conditions and continuing austerity measures by Government in allocating funding for local authorities.
22. The key figures from this current MTFP are shown in the table below:

Medium Term Financial Plan	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000
Funding				
Revenue Support Grant (RSG)	29,809	27,424	25,230	23,969
Council Tax Freeze Grant	1,312	1,312	1,312	1,312
Retained Business Rates	32,007	33,984	36,463	38,250
Council Tax	123,381	123,344	124,514	125,695
Total Funding	186,509	186,064	187,520	189,226
Planned Revenue Budget				
Base Revenue Budget Expenditure	379,098	379,632	379,187	380,643
Net Inflation	2,608	2,660	2,714	2,714
Pressures	11,644	9,618	7,009	6,419
Base Income	(193,123)	(193,123)	(193,123)	(193,123)
Total Planned Spending before savings	200,227	198,788	195,787	196,652
Efficiency Savings	(13,717)	(5,956)	(2,151)	(1,617)
Efficiency Savings yet to be allocated	-	(6,767)	(6,116)	(5,809)
Total Planned spending after savings	186,510	186,064	187,520	189,226

23. 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 2015 was £15.3m (subject to audit).

All of the above projections and in particular Revenue Support Grant and Retained Business Rates were based on assumptions that were current at that time and will need to be refreshed as part of this MTFP.

24. 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 44 and the minimum prudent level will be reviewed as part of the final budget setting process, to reflect changes such as the Children & Families Act, Care Act, Better Care Fund and integration with the NHS.

Current economic outlook

25. 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 and also Fitch'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.
26. The Bank of England has cut its 2015 growth forecast from 2.9% to 2.5%, and for next year from 2.9% to 2.6%, as governor Mark Carney unveiled his quarterly inflation report (May 2015).
27. In terms of the European economy, The European Central Bank (ECB) in its April 2015 Economic Bulletin reports that a number of factors are supporting the gradual recovery in Euro area economic activity and the labour market.
- Real Gross Domestic Product (measure of economic output) increased by 0.4%, quarter on quarter, in the first quarter of 2015, after growing by 0.3% in the fourth quarter of 2014. The data indicate that the economic recovery has broadened, which can be attributed to several factors. ECB monetary policy measures are contributing to a substantial easing of broad financial conditions and facilitating access to credit for Small & Medium Enterprises as well as for larger firms.
28. The progress made with fiscal consolidation and structural reforms has had a favourable effect on economic growth. Moreover, comparatively low oil prices are bolstering real disposable income and corporate profitability, supporting private consumption and investment, while the weakening of the Euro's exchange rate has helped exports.
29. In line with the broadening of the recovery, the Euro area labour market has continued to improve somewhat, as reflected in gradually declining unemployment. However, unemployment is still high in the Euro area as a whole as well as in many individual countries.

The Greek debt issue is also creating economic uncertainty.

30. Mr Carney also suggested that deflation could emerge during the year, but that inflation was expected to pick up notably towards the end of the year. Inflation was 0% in March for a second month, well below the Bank's 2% target.

The figure marks the lowest rate of Consumer Prices Index inflation since estimates of the measure began in 1988.

31. 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 2016 according to the Bank, at which point they might increase to 0.75%

Longer term, rates are then projected to rise to 1.25% by the end of 2017.

32. The UK jobs market continued to improve. Comparing February to April 2015 with the 3 months to January 2015, the number of people in employment increased by 114,000 (to reach 31.05 million), the number of unemployed people fell by 43,000 (to reach 1.81 million) and the number of people not in the labour force (economically inactive) aged from 16 to 64 fell by 10,000 (to reach 9.02 million). This brings the unemployment rate down to 5.5% (Office for National Statistics).

Strategic and Directorate plans

33. The Council's high level priorities have been reflected in its Medium Term Plan, which identifies specific service outcomes by each Directorate. These defined priorities which are themselves being reviewed as part of the development of a new 5 year Plan for the Council, 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

34. Although still at an early stage of the process, a number of areas for further efficiencies have been identified, which build on the four year efficiencies programme outlined in the 2015/16 MTFP. These include the moving from institutional investment to personal solutions and, the review of contract and tendering arrangements. These will be kept under review as the overall funding parameters become clearer.

Consultation and Communication

35. Last year the Council reprised its Budget 2012 campaign with a comprehensive budget consultation and communications exercise. This involved three phases of activity; market research, consultation and feedback to customers on the budget.
36. The market research included a survey to every household via News Central and a number of budget related questions being included in our bi-annual residents survey.
37. This methodology enabled Members to compare the feedback from the community as a whole with that of a representative sample on a range of issues including:
- Attitudes to Council Tax
 - Perceptions of options for efficiency (including fees and charges)
 - Perceptions of value for money.
38. This feedback was reported to Members to inform their thinking in setting the draft budget, on which the Council consulted and finally communicated.
39. It is not currently envisaged that the full market research exercise on the budget will be repeated again until 2018. However consultation on the draft budget in this financial year will be planned for January 2016 with follow up communications to residents in March 2016.
40. A plan for consultation with businesses will be drawn up.
41. It is not envisaged that there will be any material changes to the Council Tax Support Scheme so such consultation as required will be covered as part of the main budget consultation.
42. Consultation on any individual proposals that result from the MTFP will follow the appropriate route.

Budget Assumptions

43. The current MTFP as agreed at Council in February 2015 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 2019-20.
44. The MTFP included an assumption that reserves would exceed the minimum prudent level at 31 March 2015 and that there will be no further material transfers to General Fund Reserves. General Fund Reserves stood at £15.3m at 31 March 2015 (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.

45. Since the last Spending Review only covered one year (2015/16), and given the recent General Election in May 2015, information for the remaining years is much less predictable. The Government emergency budget on the 8th July didn't provide details by Local Authorities, but did indicate that LAs will face even steeper cuts in 2016/17 and beyond than might have been previously envisaged.
46. CBC assumed a further 8% cut in Revenue Support Grant in 2016/17 and 2017/18 and 5% cut in 2018/19.
47. Detailed modelling of projected NNDR receipts is currently underway and will inform the MTFP process.
48. 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	1.0%
Contracts	1.0%
Income	1.0%

49. These inflation factors will be subject to review, including taking account of new economic data and supplier contract terms.
50. 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.
51. Subsequent to the last Spending Review announcement, Government confirmed that both of the original Freeze Grants and any new Grants in 2014/15 and 2015/16 would be 'baselined' into the Formula Grant and will therefore constitute continuing funding.

At this stage it is not known if 'new' Council tax Freeze Grants will be provided for 2016/17 and beyond.

Housing Revenue Account (HRA)

52. 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 £30 – £33m for each of the three years to 2018/19, fully offset by revenue and capital spending, and debt repayment costs.
53. The impact of the Housing Bill 2015 will need to be closely monitored. Housing association tenants will have their right to buy discounts extended to come in line with those offered to Council tenants. In order to fund this, Councils will need to sell 5% of their most valuable housing once it becomes vacant and build more affordable housing with the proceeds in order to increase the national housing supply.

Spending Review 2013

54. The last Spending Review unusually covered only one year – 2015/16, in recognition that a General Election would be held in May 2015. This means that there will be significant uncertainty for next iteration of the MTFP.
55. April 2013 saw the beginning of a number of welfare reforms (e.g. benefit cap, under occupancy subsidy). Funding for the Local Welfare provision is likely to be removed from 2016/17 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 if this service is to continue.
56. 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.
57. A major change for the Council is the impact of the Care Act 2014 the first phase of 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 once Phase 2 of the Care Act is implemented from April 2016. These impacts continue to be tracked and will be reflected in the MTFP.

Budget process – Revenue & Capital

58. 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.
59. Budgets will be built up during July to beginning of 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 2016. Following this process there will be further adjustments as required, leading to the preparation of a Final Budget Report with a balanced budget. The timetable allows for comments and recommendations from Scrutiny to be incorporated into the final Budget proposals.

60. Directorate will review their strategies for the next 4 years as part of the MTFP.
61. Directorates will undertake a rigorous review of existing MTFP pressures & efficiencies across all 4 years. If existing pressures increase or efficiencies can no longer be delivered, compensatory efficiencies need to be found. New pressures and efficiencies should be reviewed.
62. Directorate strategies will include a rigorous review of the current Capital Programme and it should be updated to include 2019/20.
63. In summary, the recommended process is:
- 1. Review existing pressures and efficiencies.
 - 2. Review new emerging pressures and efficiencies and key themes.
 - 3. Directorate strategy reviews (mid to late September)
 - 4. Consolidation (October)
64. The baseline for the 2016/17 Budget will be the 2015/16 Budget. At this stage it is anticipated that the final outturn for the year will be close to Budget overall.

Budget process – Fees & Charges

65. For the 2016/17 budget process, Council approval to Fee & Charges price increases will be accelerated to November 2015 Council rather than February 2016.
66. In addition, it is proposed to introduce price increases from 1st January 2016 rather than 1st April 2016 where possible.

Timetable

67. The key milestones for setting the 2016/17 budget are:
- 6 October 2015 – Executive Fees & Charges Report
 - 20 – 27 October 2015 – All O&S Committees to review proposed Fees & Charges increases
 - 19 November 2015 – Council approves Fees & Charges price increases.
 - 12 January 2016 – Executive Draft Budget Report;
 - January 2016 – Overview & Scrutiny of draft budget;
 - 9 February 2016 – Executive Budget Recommendations;
 - 25 February 2016 – Council approves Budget.

Appendix A – Timeline:

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Directorates Planning	←			→				
Budget Framework Executive Report		04-Aug						
Budget Framework Corporate Resources OSC Report		25-Aug						
Consolidated budget planning & development of proposals				←				
Draft Budget Executive Report							12-Jan	
OSC Scrutiny of Draft Budget							←	
Business/Others Budget Consultation							←	
Executive Budget Recommendations								09-Feb
Council Approves Budget								25-Feb

Background Papers:

None