

MEDIUM TERM SERVICE & RESOURCE PLANS – 2013/14 to 2015/2016

FINANCIAL PLANNING ASSUMPTIONS

1. Context – The Financial Challenge

The Council's Budget for 2013/2014 will present a full and detailed Medium Term Service and Resource Plan for the three-year period from 2013/2014 through to 2015/2016. This will enable the Council to take a planned and structured approach to meet the significant financial challenge facing the Council.

2013/2014 represents the third year of financial planning prepared in the context of the Government's Comprehensive Spending Review (CSR) announced in October 2010. This CSR included a deficit reduction programme with 28% cuts to local authority spending spread over the four year period from 2011/2012 to 2014/2015.

However as we approach the next Comprehensive Spending Review in 2013 it is clear that the reductions set out in the previous CSR will not be sufficient to meet the Government targets to reduce the fiscal deficit as, the on-going impact of economic uncertainty both across Europe and indeed worldwide, means the UK economy continues to fall short of previous expectations.

The financial implications for the Council will not be clear until the Provisional Local Government Financial Settlement which is not expected until mid December 2012 and the overall position will be impacted by a range of significant changes affecting local Government Finance as set out below.

- The needs based Formula Grant funding system (the Four Block Model) for local government will come to an end and be replaced a combination of localised Business Rates and (where appropriate) a top up grant to be know as Revenue Support Grant.
- The new Localised Business Rates (National Non Domestic Rates) will provide for the Council to retain 50% of local business rates going forwards to further incentivise growth. The Council will also share in the cost of non-payment, business cessation and NNDR appeals. There will be a safety net where business rates decrease by 10% or more. This system will be reset from time to time to allow an element of rebalancing – the first such reset being scheduled for 2020 or later.
- The new Revenue Support Grant will use a baseline needs assessment for 2013/2014 and will be set broadly at a level to cover the gap between funding need and the initial 50% share of local business rates. The RSG will then be reduced to reflect Government savings requirements from 2013/2014 onwards.
- Responsibility for setting Council Tax Benefit passes to local authorities from 2013/2014 in the form of the new Local Council Tax Support Scheme. At the same time the funding from Government will be reduced by over 10% resulting in a shortfall of around £1.5M, which is proposed to be met from adjustments to the new scheme. The elderly and most vulnerable claimants will be protected.

- Anticipated reforms to the Planning System to provide for full cost recovery did not progress as expected. Some fee increases are being permitted but this falls far short of the levels that had already been factored into budgets for 2012/2013.
- Public health responsibility and related services will pass to the Council from April 2013, together with an appropriate budget transfer from the PCT. It is assumed the grant received will fully cover all related costs of this service.
- The full implementation of planned changes to Government Funding for LEA and Academies through the Local Authority Central Spend Equivalent Grant (LACSEG) will go ahead in 2013/14. Whilst some recognitions of local authority concerns has been made by the Dept. for Education, the Council will still face reductions in funding well in excess of current levels of spending. This will become increasingly challenging as more schools move to become Academies.
- Early years funding for 2 year olds will move from the LEA into the Dedicated Schools Grant which is primarily a technical change however the remaining funding for Early Years within LEA's will be reduced nationally. The exact local implications of this will not be clear until the Settlement is announced.

These issues are reflected within the Medium Term Service and Resource Planning process for 2013/2014 to 2015/2016 to the extent the impacts can be reasonably anticipated.

There are also a range of service specific cost pressures that need to be addressed including impacts of national policy changes. The most significant of these include:

- Rising elderly population placing significant demands on Adult Social Care and Health services.
- Increased demand for Children's care services.
- Contractual inflationary costs particularly for care placements and external service contracts.
- Local impacts of the economic downturn and increasing competition e.g. car parking income.

It should be particularly highlighted that the scale of changes impacting in 2013/2014 makes the financial implications for the Council extremely difficult to predict and the Provisional Local Government Finance Settlement may vary from the assumptions we have made. However taking account of the anticipated reductions in government grant funding and the pressures outlined above suggests that around £30m of budget savings will be required over the period 2013/2014 to 2015/2016.

2. Summary of Budget approach for 2013/2014 – 2015/2016

The sound financial management of the Council over the years means it is in a better position than many other councils to face the continuing financial challenges arising as a result of the national economic situation.

The Council Budget currently being developed will cover the period from 2013/14 to 2015/2016, recognising the very difficult financial challenge now facing the whole of the public sector and the increasing need to prioritise resources. The following principles have been used to support this:

- Investing in economic growth
- Keeping Council Tax bills as low as possible
- Making every effort to protect essential frontline services for local people.

There are no longer the available resources to deliver the full range of services that have been provided in the past. New legislation and demographic changes similarly demand clear prioritisation and new approaches. This increasingly means difficult choices.

The development of the Budget has moved away from setting targets and budget top slices based on historic spending, to an approach more focussed on prioritisation supported where appropriate by zero based budgeting. This approach has included: -

- Ensuring only essential cost pressures are taken into consideration, challenging all proposals for inflationary increases and additional spending.
- A continued focus on achieving efficiency savings within and across service areas.
- Maximising savings achieved through the continued development of the Change Programme with projects like Customer Services and Procure to Pay.
- Seeking to increase income from new and existing sources. Developing and investing in a diversified income base to help protect the Council from reductions in Government funding.
- Minimising costs of borrowing utilising Council cash flow balances where appropriate to provide funding for capital projects.
- Exploring opportunities to support Communities to enable them to be more resilient and self-sustaining.
- Making better use of Council Assets, particularly council land and property, to reduce running costs and provide capital receipts.
- *Where Government is cutting its grants to local authorities, or other external sources of funding are being reduced, these savings requirements may need to be passed on to the relevant service.*

The scale of the projected savings required over the next three years, is such that the Council will need to prioritise services and whilst every effort will be made to protect essential frontline services for local people, this will inevitably lead to proposed reductions in service areas which are considered a lower priority.

The proposals put forward in the Medium Term Service and Resource Plans provide for a balanced budget in 2013/2014 and 2014/2015 subject to government funding announcements. 2015/2016 will be significantly dependant upon improvements to

the global and national economy and whilst these MTSRP's proposals go some way to addressing the financial challenge in this year, it is likely that further savings will be required.

3. Council Tax

Council tax levels have now been frozen since 2010/2011, supported by Council Tax Support Grants from the Government. These grants are time limited and create a funding pressure when they are discontinued. The Council Tax Support Grant for 2011/12 is payable until 2014/2015, whereas the Council Tax Support Grant for 2012/2013 was a one off grant. Each of these grants was conditional on a Council Tax freeze in the respective financial year.

On 8th October 2012 the Government announced the provision of grant funding to support councils who freeze their Council Tax for next year (2013/2014) at the current level (i.e. a zero increase). The grant is equivalent to a 1% increase in Council Tax (approximately £700K) and has been confirmed as payable for two years at present i.e. for 2013/14 and 2014/15.

This announcement also indicated that Council Tax increases over 2% would trigger the legislative requirements for a local referendum on the proposed Council Tax increase. This is subject to confirmation in the Provisional Local Government Finance Settlement.

The Cabinet currently expect to be in a position to make recommendations on Council Tax levels to Council in February 2013 as part of the 2013/2014 budget setting process.

The figures in this plan assume no increase in Council Tax and the administration will take into account the Government's settlement (grants to local authorities to be announced in December), together with the results of consultation, in deciding the level of Council Tax to be recommended.

4. Government Grants

The Council currently receives approximately £41m in formula grant from the Government which is distributed using a complex needs based formula known as the Four Block Model. This formula includes significant weightings attached to deprivation based indicators across a range of specific service blocks

The Council has historically lost significant funding (around £2.5m per annum) from its formula grant settlement through the application of the damping system or, in layman's language, the protection by Government of other authorities who should be getting less on a needs basis than they currently are. For 2012/2013 the level of damping was £2.3M.

This needs based formula is being replaced from 2013/2014 as part of the Local Government Resource Review. This formula is currently being updated in order to arrive at a baseline funding level for local authorities. This will be used as the starting point for the new system – beyond this point funding needs will only be considered on a periodic basis to reset funding for local authorities. The first such reset will not be until 2020.

The main element of the new system will provide for 50% of Business Rates (National Non Domestic Rates) to be retained locally. This will provide an added incentive to local authorities to stimulate and encourage business growth in their area with 50% of this effectively being retained by the Council. However the Council will also share in the risk of non-payment, business rate appeals and most significantly business closure or failure. A national safety net will be put in place to provide some protection although this will only operate once business rates have reduced by over 10%.

In the case of most councils, including BANES, it will be necessary for the Government to top up the retained business rates to the initial baseline funding level. This will be done by way of a top-up grant to be known as Revenue Support Grant (RSG). As already indicated, once this RSG is set in line with the initial baseline it will not be reassessed every year for changes in need. It will however be reduced each year in line with the reductions the Government wishes to make to local authority funding. It is therefore likely that for many Councils, including BANES, RSG may disappear altogether within the next 10 years.

Given these changes it is therefore very difficult to predict with any degree of certainty the overall level of funding the Council will receive going forwards. Based on the Government's technical consultation on the proposed changes received over the summer period, it is possible to model the potential funding outcomes. Indeed this consultation identified up to a 13% reduction in 2013/2014 although some of this reduction reflected potential changes to the funding for New Homes Bonus. Taking this into account an overall reduction in funding of up to 6% has been assumed for 2013/14 and approximately 5% in each of the years 2014/2015 and 2015/16.

The new arrangements for a localised 50% share of Business Rates provides the potential to produce some additional funding going forwards if new growth is achieved. However it should be recognised that the future planned closure of the MOD Sites will present an initial challenge as these business rates are lost. Based on modelling work a prudent assumption has been made for an initial ½% increase in Business rates income although this is reduced to a neutral position for 2015/2016 to reflect the aforementioned risk.

New Homes Bonus has been assumed to increase in line with experience to date – providing an additional £700K per annum. This income has been assumed to support the Revenue Budget to help minimise the impact of budget reductions on priority frontline services. This income will peak in 2016/2017 as New Homes Bonus is only payable for a 6 year period.

Whilst some small further reductions have been factored into specific service areas within the Medium Term Service and Resource Plans, the assumption for financial planning purposes will be for any further cuts in specific grants to be contained within the relevant service areas.

The Provisional Local Government Finance Settlement expected in mid December 2012 will provide further details of baseline funding allocations for 2013/2014. Future years funding will be dependant upon the outcome of the next Spending Review due in 2013 (CSR2013). The announcements will inevitable vary from the assumptions made above and may potentially require variations to be made to the proposals set out in these Medium Term Service and Resource Plans.

5. Medium Term Service and Resource Plans

The Medium Term Service and Resource Plans cover the financial planning period from 2013/2014 through to 2015/2016 and have been prepared by each service area to reflect the details of the specific proposed savings to ensure the Council is in a position to consider a balanced Budget proposal.

As set out in Section 2, the process was based on prioritisation of savings in order to meet the projected need to find £30M of spending reductions over the next three years.

All proposals are subject to on-going scrutiny and consultation with final proposals being put forward by the Cabinet to the Council in February 2013.

6. Reserves

The budget for the current financial year 2012/2013 provides for the Council's General Fund Balances to be maintained at their risk assessed minimum level of £10.5m. There are no assumptions to change this position going forwards and the risk assessed levels will be reviewed as part of the final Budget proposal in Feb 2013.

A range of Earmarked Reserves are maintained by the Council for specific purposes. The likely commitments against each of these reserves will be reviewed as part of the ongoing development of the Budget for 2013/2014.

The Council's reserves position remains relatively strong and will provide some flexibility to support the Budget over the Medium Term Service and Resource Planning period, particularly to facilitate timing and implementation of recurring savings.

Any proposed use of reserves will recognise that they can only be used once, and will take account of the overarching principle of not using reserves to provide support for recurring budget pressures.

7. Pensions

The most recent actuarial review as at 31 March 2010 concluded a number of positive factors which did not require any significant variation in the Council's employers contribution level overall. These factors included:-

- The Avon Pension Fund investments have performed relatively well albeit since that review investments generally have been volatile and affected by poor stock market performance.
- The Government has switched the rate for future pensions increases from the Retail Price Index (RPI) to the historically lower measure of the Consumer Price Index (CPI).
- A national review of public sector pensions schemes is being undertaken by the Government (the Hutton Review).

The outcome of the actuarial review has factored into the Budget plans and whilst no change was provided for in terms of the overall contribution level for the Council, the implications of a reducing workforce may require a further adjustment by the Council to maintain this neutral cash position going forwards.

Work is currently commencing to consider the potential impacts of the next actuarial review due as at 31 March 2013. The implications of this review may lead to changes in contribution rates from 2014/2015. This valuation will take into account the national changes to the Local Government Pension Scheme from 1 April 2014 reflecting changes to employee contribution rates and benefits including a move away from Final Salary to a Career Average scheme.

8. Pay Awards

Discussions are currently taking place nationally between the Employee and Employer representatives regarding the potential pay award offer for 2013.

Provision has been made within the MTSRP for a small increase (1%) in line with previous national government expectations for a public sector pay in 2013/2014. Similar provisions have been made for 2014/15 and 2015/16.

9. Other Assumptions

Some of the other key assumptions being used in the development of the medium term plans include:

- Contractual inflation of 2% has been provided for each year throughout the period where it is deemed essential, except in the case of Adult Social Care costs where the provision for inflation has been set at 1.75%. No further inflation has been provided for general supplies and services.
- Balanced budgets are delivered for 2012/2013 - there is no provision for overspending.
- Interest earnings on the Council's cash balances are based on a 1% return – this will be reviewed in line with the Council's Treasury Management Strategy.

10. The Local Government Finance Settlement 2013/2014

The Provisional Local Government Finance Settlement is now expected in mid-December 2012 following the Government's Autumn Budget Statement, which is scheduled for 5th December 2012.

This Settlement will provide the detailed position for the Council in terms of exactly what Government funding it will receive for the year ahead – 2013/2014. We expect this to include confirmation of the baseline position for the Localised Business Rates scheme, new homes bonus funding, and to also reflect the recently announced 2013/14 Council Tax Freeze Grant provisions

The Settlement should also confirm the limits on Council Tax increases above which a local Council Tax Referendum would be required.