Appendix 3

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 presents a full and detailed Medium Term Service and Resource Plan for the three-year period from 2013/2014 through to 2015/2016. This enables the Council to take a planned and structured approach to meet the significant financial challenge facing local government.

2013/214 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 24% 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 are not 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 over the next two years (2013/14 and 2014/15) were set out in the Provisional Local Government Financial Settlement announced on 19th December 2012. This showed that over the case CSR period, the Council will see a 40% reduction in government funding.

This overall position is further complicated by a range of significant changes impacting on local Government Finance as set out below.

- The needs based Formula Grant funding system (the Four Block Model) for local government is being replaced by a combination of localised Business Rates and a top up grant to be known as Revenue Support Grant.

- The new Localised Business Rates (National Non Domestic Rates) will provide for the Council to retain up to 49% of local business rates going forwards to incentivise growth. The Council will also share the financial impact of non-payment, business contraction/cessation and business rate appeals. There will be a safety net where business rates decrease by 7.5% or more. This system will be reset from time to time to allow an element of rebalancing – the first such reset being scheduled for no earlier than 2020.

- The new Revenue Support Grant uses a baseline needs assessment for 2013/2014 and has been set broadly at a level to cover the gap between baseline funding need and the initial 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 10% resulting in a shortfall of around £1.5M, which to be met from adjustments to the new scheme as approved by the Council in November 2012. 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 and factored into the MTSRP, but this falls far short of the anticipated levels that had been factored into the base budgets.

- 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 Education Services Grant. The resulting reductions in funding in excess of current levels of spending have been factored into the current MTSRP although 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 a significant element of the remaining funding for Early Years within LEA's has been held back by the DfE This reduction in funding is reflected in the MTSRP.

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 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.

Taking account of the known and anticipated reductions in government grant funding and the pressures outlined above, it is estimated that at least £30m of budget savings are required over the period 2013/2014 to 2015/2016.

2. The Budget approach for 2013/2014 to 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 covers the period from 2013/2014 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:

- Protecting frontline services;
- No increases in Council Tax;
- Investing in homes and jobs 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 and 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 has been made to protect essential frontline services for local people, this will inevitably lead to reductions in service areas which are considered a lower priority.

The proposals put forward in the MTSRP's provide for a balanced budget in 2013/2014 with 2014/2015 and 2015/2016 subject to government funding announcements and potential new spending pressures. These future years will also be dependent upon improvements to the global and national economy and whilst these MTSRP's proposals go some way to addressing the financial challenge in these years, 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. The Council Tax Support Grant for 2011/12 is now part of the baseline funding calculation for government grant, 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 years.

As part of the Provisional Local Government Finance Settlement on 19th December 2012, the Government confirmed the provision of grant funding to support to 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 £740K) and has been confirmed as forming part of the future baseline funding calculation for those councils that accept and meet the conditions of the grant.

This Settlement also confirmed that Council Tax increases over 2% would trigger the legislative requirements for a local referendum on the proposed Council Tax increase.

The Council Budget provides for the acceptance of the Government Council Tax Freeze Grant and provides for a zero increase in Council Tax for 2013/2014.

4. Government Grants

The Council received approximately £41m in formula grant from the Government in the last financial year which, was 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

This needs based formula has been 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 Government originally set out its plans for tackling the significant budget deficit, in the Comprehensive Spending Review on 20th October 2010. This deficit reduction programme indicated 24% cuts to local authority spending over the Spending Review period from 2011/2012 to 2014/2015 with a significant element front loaded to the first two years.

The provisional Local Government Finance Settlement announced in December 2012 showed the Council's funding baseline for 2013/2014 reducing by a further 9.7% and then by a further 8.7% in 2014/2015. This equates to a 40% reduction in funding for the Council, well in excess of the average set out in the CSR.

The funding baseline itself has been reset to take account of the start-up funding baseline for the new Localised Business Rate element. This Business Rate baseline position is fixed and only uprated in line with inflation for at least seven years.

The Government's Autumn Statement in December 2012 reflected the on-going market concerns surrounding the national debt position of the UK and a number of Eurozone countries. In particular the statement confirmed the need for public sector spending deficit reduction measures to continue beyond at least until 2018. The Statement also confirmed a ceiling on public sector pay of 1% per annum for the next two years.

The grant funding baseline has also been updated to remove the funding for LEA services which will now be paid directly to the LEA and Academies as the Education Services Grant (ESG) on a per pupil basis. We had anticipated this adjustment although the rate of schools transferring to Academies (particularly secondary schools) does present a funding challenge for the Council.

The New Homes Bonus Scheme which provides funding for new homes brought into use and included in the Council Tax Base, was confirmed at a total of £1.977m for 2013/2014. This is the third year for funding for New Homes Bonus and includes an additional £0.759m for 2013/2014. The New Homes Bonus scheme runs for 6 years from the year of initial allocation. This funding is un-ring-fenced and available for allocation as part of the overall revenue budget.

The Final Local Government Finance Settlement is expected at the end of January 2013 and any significant changes to the previous announcement will be highlighted.

5. Business Rates

From 2013/2014 the new arrangements for funding of local government will provide for up to a maximum of 49% to be retained locally.

The actual amount to be retained is dependent upon a number of factors including a start-up baseline assessment, a top-up or tariff payment subject to the level of the baseline and a levy on future growth to support a national safety net.

The setting of the baseline is key and for the Council and original budget planning reflected the Government proposal to use a historic 5 year average for this purpose. A late change in this baseline calculation by the Government to move to a 2 year average, effectively increases the Council's annual tariff payment to the Government by over £1M.

Based upon this the Council will retain 49% of the Business Rates less a tariff payment of £9.468m to the government using the initial baseline. Going forwards 49% of all future growth in business rates will be retained by the Council less a levy payment of 31p in the £ to provide for a national safety net.

Under this system the Council benefits from new growth but also bears 49% of the cost of reductions in business rates from for example, appeals, business closures or relocations, charitable reliefs etc. A national safety net will be provided where business rates reduce by over 7.5%, equivalent to approximately £2M for the Council.

No specific provision for growth has been made for 2013/2014 reflecting that fact that for this Council the initial years of this new system will be very challenging as some large business closures will impact on the Business Rates collected, particularly MOD sites and Somerdale.

As part of the proposed Budget, reasonable assumptions have been made for likely future Business Rates although given these new arrangements have not been tested and current economic conditions continue to be challenging, there remain a significant risk associated with future receipts.

The Council has been seeking further changes to some elements of the new system, including the baseline calculation and the treatment of historic appeals, which may provide some flexibility in the overall Business Rates Collection Fund going forwards. It is anticipated that the outcome of this will be made clear in the Final Settlement announcement.

6. 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 for 2013/2014 and as close to balance as possible at this stage for the entire 3 year period.

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.

At this stage, that there is insufficient information available to fully identify future funding pressures including new government requirements, future demand changes and emerging issues. It is therefore expected that the requirements for savings in future years may increase.

Given the scale of efficiency savings already achieved and those already planned within the MTSRP's, it is likely that any further savings will require additional changes or reductions to Council services. A rigorous process will therefore continue to be applied to the budget and medium term financial planning process to enable resources to be prioritised between service areas.

7. Reserves

The Budget provides for the Council's General Fund Balances to be maintained at a 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 regularly reviewed as part of the on-going monitoring and development of the Budget across the medium term service and resource planning period.

The Council's reserves position remains relatively strong and continues to provide some flexibility to support the Budget over the medium term, 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.

8. 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 this actuarial review has been 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 has required a further adjustment by the Council Budget in 2013/2014 to maintain this neutral cash position going forwards.

Work is currently underway on the next Actuarial Valuation due as at 31 March 2013. This valuation will take into account the national changes to the Local Government Pension Scheme from 1 April 2014 reflecting changes to the benefits structure of the scheme (from final salary to career average) and employee contribution rates which are expected to help reduce the cost of the scheme.

The actual implications of this review is likely to lead to changes in employer contribution rates from 2014/2015 but in recognition of the points above, a small 0.5% increase has been factored in from this point.

9. Pay

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 national government expectations for a public sector pay in 2013/2014. Similar provisions have been made for 2014/15 and 2015/16.

10. Other Assumptions

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

- A contractual inflation target 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 0.75% return – this will be reviewed in line with the Council's Treasury Management Strategy.