

MEDIUM TERM SERVICE & RESOURCE PLANS – 2012/13 to 2015/2016

FINANCIAL PLANNING ASSUMPTIONS

1. Context – The Financial Challenge

The Council's Budget for 2012/2013 will represent the second 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 with a significant element front loaded to the first two years.

The financial implications for the Council were set out in the Local Government Finance Settlement in December 2010 which showed a 16% cash reduction in funding from Government in 2011/12 and, at least an 8% reduction in 2012/13. The Settlement did not go beyond two years as a result of the significant changes to the grant and business rates system from 2013/2014 although the direction of travel is clear from the CSR.

Since the approval of the Council Budget for 2011/2012, including the three-year Medium Term Financial plans, the Council continues to gain more information on emerging national and local issues which will add to the financial challenges over the medium term financial planning period – these include:

- In response to the health reforms, the establishment of a Social Enterprise in B&NES on 1st October 2011 to continue the delivery of integrated Community Health and Social Care Services.
- A potential significant increase in the funding to finance Academy schools which is 'top sliced' from the Council general revenue grant funding. The Council was already expecting this to rise to £750K in 2012/2013 but this may now increase to over £2.25M.
- A one-off grant will be provided by the Government in 2012/2013 to support those councils agreeing a freeze in council tax.
- Public health responsibility and related services will return to the Council from April 2013, together with an appropriate budget transfer from the PCT.
- National guidelines will be published for Council Tax increases as part of the Localism Initiative and if exceeded these could trigger a local referendum. The implementation date for this change is not yet announced.

- The funding for local government is being reviewed with the intention of returning at least an element of future business rate growth to local authorities. The impact either positive or negative on the Council will depend on the way the new system is implemented and it is possible this Council will be relatively worse off under the new system in the first few years, with later years depending on how much growth is delivered.
- Responsibility for setting Council Tax Benefit returning to local authorities from 2013/2014 with subsidy funding from Government reduced by 10% at the same time.
- Reform of the planning system – new simplified guidelines for planning with a community infrastructure levy to replace much of the role of S106 agreements.
- New proposals for the future of the Local Government Pension Scheme will be brought forward following the Hutton Review.

These issues are reflected within the Budget planning process for 2012/2013 and the supporting medium term financial plans to the extent the impacts can be reasonably anticipated. It should be particularly highlighted that the scale of changes impacting in 2013/2014 makes the financial implications for the Council beyond the next financial year extremely difficult to predict.

2. Summary of Budget approach for 2012/2013

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 for 2012/13 recognises the very difficult financial challenge now facing the whole of the public sector and the continuing need to prioritise resources. The Council will do this using the following principles:

- Protecting wherever possible priority front line services especially where these support the most vulnerable
- Maximising efficiency savings and using invest to save as a means to achieve this.

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 following objectives are being used to help prioritise and will be refined as part of the process of compiling a new corporate plan and sustainable community strategy.

- Promoting independence and positive lives for everyone
- Creating neighbourhoods where people are proud to live
- Building a stronger economy
- Developing resilient communities

The approach also needs to be kept under review and linked to the Government's localism agenda is the need to help communities be more resilient and self-sustaining.

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

- National increase to the funding 'top sliced' from local authorities to fund Academy schools.
- Rising elderly population placing significant demands on Adult Social Care and Health services.
- Increased demand from adults with learning difficulties.
- Increased demand for Childrens care services.
- Inflationary costs particularly for care placements and external service contracts.
- National increase in the rate of the landfill tax.
- Local impacts of the economic downturn and increasing competition.

Taking account of the reductions in government grant funding and the pressures outlined above suggests that around £12m of budget savings will be required in 2012/2013.

It is anticipated that the majority of these savings will be delivered from efficiencies through service review and the Council's change programme. However, the scale of the projected savings in 2012/2013 coming on top of those delivered in 2011/2012 is such that the Council will need to prioritise services and whilst every effort will be made to protect frontline services, this will inevitably lead to cuts in service areas which are considered lower priority.

In the medium term the need to strike an appropriate balance between the diminishing resources available to the Council and the demands placed on all its services will require an even greater prioritisation of services.

3. Council Tax

On 3rd October 2011 the Government announced the provision of one-off funding to support councils who freeze their Council Tax for next year at the current level (i.e. a zero increase). The Cabinet currently expect to be in a position to make recommendations for a zero increase in Council Tax for 2012/13 to Council in February 2012 as part of the 2012/2013 budget setting process.

4. Government Grants

The Council currently receives approximately £43.5m in formula grant from the Government which is distributed using a complex 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 is expected to be £2.3M.

Whilst a reduction in formula grant of at least 8% is anticipated for 2012/2013, following a recent consultation by the Government in respect of the funding for Academy Schools, we are anticipating a further significant adjustment to this grant when announced towards the end of 2012. Our modelling indicates that a potential significant increase in the funding which is 'top sliced' from this grant funding. The Council was already expecting this to rise to £750K in 2012/2013 but this may now increase to over £2.25M.

As set out in Section 1 above, this funding distribution method for local government finance is being reviewed with the intention of returning at least an element of future business rate growth to local authorities. The impact either positive or negative on the Council will depend on the way the new system is implemented and it is possible this Council will be relatively worse off under the new system in the first few years, with later years depending on how much growth is delivered.

In addition the Council receives a range of specific and area based grants directly supporting activity in each service area. These grants were simplified but subject to significant reductions during 2010/2011 and 2011/2012. The ring fence around many of the grants was also removed therefore offering more local choice albeit within tougher financial constraints.

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 and area based grants will be contained within the relevant service areas. High levels of further cuts in specific grant are not anticipated.

5. Medium Term Service and Resource Plans

The Medium Term Service and Resource Plans prepared by each service area provide for the anticipated level of savings required to ensure the Council is in a position to consider a balanced Budget proposal for 2012/2013. Savings in excess of £12M are estimated for 2012/2013 at this stage equating to over 5% of gross expenditure (excluding schools).

Due to the changes in the government grant funding system for local authorities from 2013/2014 and the significant range of additional changes impacting from this year, it is extremely difficult to forecast future savings requirements. The implications for local authorities set out in the Comprehensive Spending Review together with the potential impacts of these changes do indicate the potential for significant financial pressures in future years.

The comprehensive spending review indicated a further 1% cut in funding for local Government in 2012/13 and a 5.6% cut in 2014/15.

6. Reserves

The budget for the current financial year 2011/2012 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.

A range of Earmarked Reserves are maintained by the Council for specific purposes and commitments. The likely commitments against each of these reserves will be reviewed as part of the ongoing development of the Budget for 2012/2013.

The Council's reserves position remains relatively strong but can only be used once, with 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 was factored into the Budget for 2011/2012 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 from 2012/2013 or subsequent financial years.

8. Pay Awards

In accordance with national government expectations for a public sector pay freeze continuing into 2012, no provision for pay increases will be provided for financial planning purposes in developing the 2012/2013 Budget.

9. Other Assumptions

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

- No further provision has been made for retrospective or additional cuts to the Government funding levels announced in the 2011/2012 financial settlement.

- Balanced budgets are delivered for 2011/2012 - there is no provision for overspending.
- No general provision for inflation has been made although services have provided for known specific costs pressures.
- Interest earnings are based on a 1% return – the average Council investment return has fallen in recent years to just over 1%. No increase is now expected going forwards into 2012/2013.

10. The Local Government Finance Settlement 2012/2013

The Local Government Finance Settlement is expected in early December 2011 and this will provide the detailed position for the Council in terms of exactly what Government funding it will receive for the year ahead. We expect this to include confirmation of any further reduction in grant funding to finance Academy schools as set out in Section 1.