Appendix 2

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 future 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 is likely to increase further in the future.

- 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 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.

- Proposals for the future of the Local Government Pension Scheme will be considered by the Government for potential implementation in 2014.

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 Council's to face the continuing financial challenges arising as a result of the national economic situation.

The proposed Budget for 2012/2013 recognises the very difficult financial challenge now facing the whole of the public sector and the continuing need to prioritise resources. Against this backdrop the proposed Budget has taken into account a number of key principles, particularly

- Fiscal restraint including a frozen council tax level, reduced planned borrowing and no increases to car parking and park and ride fees.
- Protecting 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.
- Passporting additional Government funding for Schools, Early Intervention (including additional funding for child care for qualifying 2 year olds) and Community Health and Social Care.

There will be increasingly limited resources available 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 has and will mean difficult choices both for the next financial year 2012/2013, and beyond.

The developing new visions and values of the Council will help to prioritise resources going forwards

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

Full details of the proposed Vision and Values are set out in a separate report to the Cabinet on 8th February 2012 and will support the development of the Corporate Plan for future consideration by the Council.

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.

There are service specific growth 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 from adults with learning difficulties.
- Increased demand for Children's care services.
- Inflationary costs particularly for care placements and external service contracts.
- Increases in national charges or taxes, for example the rate of the landfill tax.
- Local impacts of the economic downturn and increasing competition.
- Priority improvements including support for capital projects.

Taking account of the reductions in government grant funding and the pressures outlined above, requires the identification £12m of budget savings in 2012/2013.

The majority of these savings are being 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.

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). This one-off funding was confirmed as part of the Local Government Finance Settlement and the proposed budget includes a recommendation for a zero increase in Council Tax for 2012/13.

For 2013/2014 and 2014/2015 no specific proposals have been considered for Council Tax given the scale of changes impacting from 1 April 2013. For purely financial planning purposes the national government assumption in relation to target inflation of 2.5% per annum has been used.

4. Government Grants

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 28% 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. In addition, funding for infrastructure such as school buildings, roads and transport was reduced by 45% on average.

The subsequent Local Government Finance Settlement announced in December 2010 showed the Council's Formula Grant reducing by 13.5% in 2011/2012 and then by a further 8.3% in 2012/2013.

The Government's Autumn Statement on 29th November 2011 reflected the on-going market concerns surrounding the national debt positions of a number of Eurozone countries. In particular the statement confirmed the need for public sector spending austerity measures to continue beyond the period of the current CSR into 2015/2016 and 2016/2017. The Statement also confirmed a ceiling on public sector pay of 1% per annum in the two years following the current pay freeze period.

The provisional Local Government Financial Settlement for 2012/2013 was announced on 8th December 2011and confirmed the previously signalled 8.3 % reduction in the Council's formula grant funding from Government for 2012/2013.

As part of the settlement, the Government continues to provide protection to Councils they deem more dependent upon government grant notwithstanding that B&NES Council is one of the lowest funded unitary authorities. B&NES grant remains significantly 'damped' to the value of £2.3m for 2012/2013. The Council therefore continues to receive significantly less funding than the Government's own assessment of B&NES needs requirement.

The Formula Grant Baseline included a previously announced reduction of £335k as a result of the impact of Academies taking the total reduction of the over the two years 2011/2012 and 2012/2013 to £760k. It had also been anticipated that following a consultation issued by the Department for Education over the Summer of 2011, a further adjustment would be made from 2012/2013 to the level of funding being top sliced for academy schools. The financial planning model had assumed this would be up to an additional £1.5m however the Settlement deferred this to 2013/2014 pending further analysis and consultation. This creates potential one-off headroom within the financial planning model for 2012/2013.

The New Homes Bonus Scheme which provides funding for new homes brought into use and included in the Council Tax Base, was confirmed at £1.218m for 2012/2013 (which includes the second year of funding from 2011/2012). Funding provided from 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 Settlement included provision of financial support from the government for councils who freeze their Council Tax for next year – 2012/2013. Unlike the freeze grant for 2011/2012 which is provided for a period of 4 years, the grant for 2012/2013 is stated to be a one off only and will therefore impact upon the budget considerations for 2013/2014 and beyond.

The December 2011 Local Government Finance Settlement is potentially the last under the current system of government funding for local authorities. It is the Government's stated intention to introduce a new funding system for 2013/2014 based on the principle of returning an element of the growth in business rates to local authorities – further details are expected in the spring.

The Settlement announcement confirmed that as part of the new Localism provisions, Council tax referendums are required for any Council (excludes parishes in 2012/2013) increasing council tax by more than 3.5% (4% for police and fire). This is clearly irrelevant for councils accepting the council tax freeze grant.

5. Medium Term Service and Resource Plans

Whilst the medium term service and resource plans will ensure financial balance for 2012/2013, further work will be required in relation to 2013/14 and 2014/15. It is also the case, 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.

The Council approach to these medium term challenges will be driven by the new Vision and Values which will support the development of a new Corporate Plan. These will be used to help prioritise services and resources going forwards to minimise the impact of unavoidable service cuts in future years. The Council will continue to focus on the delivery of efficiency savings, supported by its Change Programme.

Given the scale of efficiency savings already achieved and those planned for 2012/2013 it is likely that future savings will require reductions in Council services. A rigorous process will therefore continue to be applied to the 2013/2014 budget and medium term financial planning process to enable resources to be prioritised between service areas.

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.

A range of Earmarked Reserves are maintained by the Council for specific purposes and commitments. The likely commitments against each of these reserves were reviewed as part of the Budget for 2012/2013 the full details of which are set out in Appendix 1.

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 was being undertaken by the Government (the Hutton Review).

The outcome of the actuarial review was factored into the base Budget for 2011/2012 and whilst no change was provided for in terms of the overall contribution level for the Council, linked to an inflationary uplift, the implications of a reducing workforce will require a further adjustment by the Council in future years. For 2012/2013 the overall budget position is projected to be sufficient to meet the required contribution level although this will need to be reviewed for 2013/2014 reflecting on changes like the Sirona staff transfer, impact of Academies etc.

In considering the implications of future changes to the scheme, it is likely that there will be a single set of changes from 2014. Negotiations are currently underway between the Government and the unions on the nature of those changes. The next actuarial review will take place as at 31 March 2013 and will reflect any position agreed by this date for employer contribution rates from 2014/2015.

8. <u>Pay</u>

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.

Purely for financial planning purposes at this stage, provision for 2013/2014 and 2014/2015 will be in-line with the national position outlined in the governments Autumn Financial Statement 2011. This provides for a maximum of 1% per annum.

9. <u>Other Assumptions</u>

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 2012/2013 financial settlement.

- Balanced budgets are delivered for 2012/2013 - there is no specific 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. Interest earnings are assumed to increase to 2% in 2013/2014 and 3% in 2014/2015 should anticipated increases in the Bank Base Rate come through in the last quarter of 2012.