BUDGET PLANNING 2013/13

1 Purpose

1.1 The attached report will be submitted to Cabinet on 13 November 2012. Any relevant comments made by Cabinet at that meeting will be reported orally to the scrutiny committee.

1.2 The report sets out the high level issues facing the Council when developing budget proposals for 2013/14 and in terms of updating the Medium Term Financial Plan (MTFP).

1.3 The report also sets out a proposed timetable in order to agree the budget and set the Council Tax prior to the end of February 2013.

2 Recommendation

2.1 The Scrutiny Committee is requested to consider the report and indicate any comments on the approach proposed for developing the 2013/14 budget and the Medium Term Financial Plan that it wishes to be reported back to Cabinet.

2 Executive summary

2.1 The attached report details the information considered by Cabinet on 13 November 2012.

3 Resource implications

3.1 These are set out within the Cabinet report.

4 Response to Key Aims and Objectives

4.1 The Budget is the key lever in terms of delivering Corporate Plan objectives where they require additional investment or resources. The budget also articulates the costs of providing existing services and a balance has to be struck between the competing demands for resources. These issues will be explored further in subsequent reports on budget development.

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Background Documents — Cabinet report 13 November 2012

BUDGET PLANNING 2013/14
Councillor Neil Blake
Cabinet Member for Resources

1 Purpose

1.1 This report sets out the high level issues facing the Council when developing budget proposals for 2013/14 and in terms of updating the Medium Term Financial Plan (MTFP).

1.2 The report also sets out a proposed timetable in order to agree the budget and set the Council Tax prior to the end of February 2013.

2 Recommendations/for decision

2.1 Cabinet is requested to consider the report and agree the approach proposed for developing the 2013/14 budget and the Medium Term Financial Plan.

3 Supporting information

3.1 The current Medium Term Financial Plan (MTFP) for 2013/14 was agreed by Council in February 2012. This predicted the need to identify £1.2 million of savings in order to balance the budget for 2013/14 based upon the information available at that time and a set of assumptions around key variables within the budget.

3.2 Importantly, the plan included only a modest reduction in Government Grant based upon the high level Government spending numbers set out in the Comprehensive Spending Review (CSR) 2010.

3.3 However, the prospect of lower reductions in Government grant was offset by the higher assumed impacts of inflation. The report predicted that inflationary pressures could only be suppressed for so long and would therefore need to be factored into the budget in 2013/14.

3.4 This report provides a high level update on the key assumptions used in the Medium Term Financial Plan, highlights the principle risks in refining the budget numbers and sets out the proposed process for setting the budget for 2013/14.

4 Government Grant

4.1 In 2010 the Government announced its intention to introduce a radical new system of financing for local government from 2013/14. In order to demonstrate that councils would be no worse off as a result of its introduction they factored in a respite into CSR2010 for 2013/14 whereby grant would not be significantly reduced.

4.2 From next year the system of Business Rate Retention will be introduced allowing councils to benefit (or lose) from changes in the amount of business rates collected in their area and thus will be incentivised to promote economic expansion within their areas.

4.3 There is still considerable uncertainty as to the extent to which councils will benefit from the new scheme, however what is increasingly certain is that any upside benefit will be considerably less than was originally hoped and the system is likely to pass on much of the downside risk. For example, if a council generates an additional £10 of business rate income, it may keep only £1 to £2 of the growth. On the other hand, if its business rate income shrinks by £10, then it may lose the majority of this sum.

4.4 The Government originally intended that all of the upside gain would be retained by councils beyond the amount they had assumed business rate income would grow by in any event. Following concerns expressed by some councils that the risks to their budgets from business rate reductions were too great the Government amended their proposals so that half the risk was retained by central Government and the other half would be borne by councils.

4.5 It proposes to achieve this by distributing half of future grant through a system akin to the current Formula Grant system and half through Business Rate Retention.

4.6 Key to determining how we will fare under the new system is us knowing how much we will receive via Formula Grant and where our Starting Point is assumed to be for Business Rate Collection, this being the target against which growth will be measured.

4.7 It is also still proposed that any excessive growth experienced by councils will be captured and redistributed to those councils whose business rate income falls below a certain percentage (somewhere between 7% and 10%). This is referred to as the system of Safety Nets and Levies.

4.8 Finally, to further complicate matters the Government is choosing to amalgamate into the new system a number of other funding streams which it has previously allocated separately, including Council Tax Freeze Grant, Homelessness Prevention Grant and the new Localised Council Tax Support Grant.

4.9 It is impossible to tell at this time how these will be distributed within the new system. It is also the case that once these allocations are combined in to the national control totals for local government they will be eroded by reductions in support for local government in the same way as the main settlement is.

4.10 A piece of forecasting work commissioned on the changes has indicated a potential loss of grant, based on indicative numbers published by DCLG, of up to £800,000. This cannot be substantiated because it makes assumptions as to how the Government may allocate elements of funding, but in the absence of a better indication at this stage it is being used for the purposes of initial budget planning.

4.11 These numbers do not include any assumed business rate growth next year, when in practice it is reasonable to assume that both Arla and Waitrose will start to pay business rates during 2013/14. However, it is not evident how the assumed increases in income can be factored into the budget for next year as the guidance on this has yet to be published.

4.12 To comply with the requirement to recommend a budget to Council, Cabinet must agree their final proposals on the 15th January 2013, the papers for which will need to be dispatched on the 31st December 2012. The Government will not announce grant settlement numbers until after the Autumn Statement on the 5th December 2012

4.13 This will leave at best a couple of weeks, or worst case a matter of days in which to adjust the final budget proposals to take account of the grant settlement.

5 Business Rate Pooling

5.1 The Government has included within the draft legislation the option for councils to pool Business Rate income in order to reduce the amount of payments (Levies) to the national pool in the event of excess business rate growth.

5.2 Aylesbury Vale has tentatively indicated to the Government that it wishes to enter into a pooling arrangement with Bucks County Council and Wycombe District Council on the agreed basis that none of the councils should be worse off as a consequence of pooling.

5.3 The Council has the option to reapply annually to pool and will also have a 28 day window to opt out of pooling for next year once the grant figures are published in December. A better indication of the potential merits of pooling can only be determined after the Grant figures become available in December.

5.4 An initial inter authority agreement (IIA) has been drafted between the pooling parties. The key decision left to resolve is how to deal with any gains made as a result of pooling. The options available are to either distribute in proportion to the income derived by each council from business rates or to make gains available to the Bucks LEP to distribute in accordance with economic development priorities across the LEP area.

5.5 The Government has set a deadline of the 9th November 2012 for councils interested in pooling to submit their detailed applications.

6 Council Tax Freeze Grant

6.1 The MTFP agreed in February assumed that after 2 years of freezing council tax in accordance with the Government's wishes we would revert to annual inflationary increases of 2.5%, in order to offset rising costs.

6.2 The Government announced in the past couple of weeks its intention to offer a third year of Council Tax Freeze Grant for councils who hold their increases to no more than 1% and for those that choose not to do so a Referendum Cap will be imposed at 2%.

6.3 If the Council opted to reject the Freeze Grant and increase Council Tax up to the 2% cap, then the loss compared to the 2.5% assumed in to the MTFP will require an additional £45,000 of savings to be found.

6.4 If the Freeze Grant offer is accepted then an additional £136,000 of savings will need to be identified above the current MTFP target. This will increase to £227,000 when the 2 year Freeze Grant ends in 2015/16.

6.5 If accepted, then the income the Council derives from Council Tax in 2013/14 will be approximately £800,000 a year lower than it would have been had the Council increased Council Tax by 2.5% in each of the past 3 years.

7 New Homes Bonus

7.1 The Government is funding New Homes Bonus (NHB) by top slicing the amount available for Formula Grant to councils. All Councils will therefore lose a proportion of their grant to pay for the introduction of the Bonus scheme.

7.2 Because the Bonus for each housing unit is paid for 6 years, the maximum cost to the Government of paying NHB is achieved in year 6. In introducing the new system of finance from next year the Government has indicated that it may top slice the maximum estimated scheme cost immediately from next year and then hand back to councils a proportion of the top sliced amount not required in years 1 to 5.

7.3 It is believed that the Government intends to top slice £2 Billion of funding from Formula Grant (approx. 10% of the total) next year. The current MTFP assumed that all councils would lose grant in proportion to the total grant they receive, but it now appears that the reduction in grant may be weighted towards district councils who do better under the Bonus scheme.

7.4 The NHB Policy recommended by Cabinet assumes that some of the Bonus we receive is used in our revenue budget to compensate for this loss of grant. This was calculated using the proportionate reduction assumption. If districts are targeted to a greater extent then the element taken to the revenue budget may need to be increased.

8 Inflation, Pay and other Economic Pressures

8.1 The MTFP agreed in February made assumptions around these elements based upon a gradual improvement in economic outlook. In practice the economy has yet to show any substantive improvement and inflation has now finally started to decrease. As a result the amounts assumed for Pay and Inflation can probably be relaxed significantly.

9 Financial Impacts of Major Capital Investment Decisions

9.1 The Business cases supporting the Council's decision to invest in major capital projects such as Waitrose, the Gateway, Pembroke Road Depot and Aqua Vale all had revenue costs and income (or savings) which would impact on the budget. These have been factored into the budget proposals in accordance with approved business case assumptions.

9.2 Because costs (the borrowing to fund construction) are generally incurred before the savings, the financial impacts of these decisions are front loaded on the budget.

10 Savings and Transformational Efficiencies

10.1 The Council has been committed to savings and transformational programmes for the past few years in recognition of the fact that the national funding position was not going to improve in the near future.

10.2 This has already delivered significant contributions to savings targets and is expected that it will continue to do so.

10.3 With this work in train and with the projected lull in Government Grant reductions in 2013/14 it was hoped that a crude cost cutting exercise could be avoided as part of this year's budget planning process and work has been proceeding on that basis.

10.4 Officers have therefore looked to the transformational pieces of service work already in progress to deliver the bulk of the predicted saving requirement for next year with this being supplemented by opportunistic savings which have been identified in the current year.

10.5 The two main elements of this have been the changes to the operation of the Customer Service Centre which are anticipated to save been £425,000 and £500,000 and the redesign of the Waste Service where there is still considerable uncertainty over the final savings, but these are estimated to range between £200,000 and £800,000 per annum.

10.6 Work will continue in the coming months in order to refine the savings amounts generated by these initiatives and to capture on-going operational savings where they arise.

10.7 The predictions for on-going reductions in Government Grant through to the end of this CSR and potentially through the next are daunting.

10.8 Faced with decreasing resources from Government and with on-going pressure on councils not to increase resources from taxation together with the considerable new financial burdens placed on local government, i.e. localised council tax benefit, the financial outlook for councils looks bleak.

10.9 Efficiency initiatives have generated large savings over the past few years and for the most part significant cuts to services have been avoided. The Council will need to continue to think radically about service delivery with a view to further reducing costs.

10.10 However, the predicted extent of the reductions required points to the fact that, by themselves, savings from these mechanisms will no longer be enough to balance subsequent budgets.

10.11 The Council, in common with all public sector bodies, is therefore facing stark choices about what services it will be able to provide in future. If Government grant continues on its current trajectory, and there is good reason to believe it will, then the only funding the Council will have to fund statutory services will be that it derives from Council Tax, i.e. approximately half of its current income.

10.12 Rather than an incremental scaling back of service provision, this will effectively require the large scale dismantling of whole areas of the council's discretionary services.

10.13 Ultimately, only if service users or tax payers are prepared to pay more for the services they use and value will we be able to continue to provide them.

10.14 The Council's approach to dealing with the reality of these choices will be the subject of future papers.

11 Process for Resolving the Budget for 2013/14

11.1 As previously described it is hoped that the budget for 2013/14 can be resolved without the need for a simplistic cuts exercise. It is believed that this should be possible but, as highlighted, there are some key uncertainties which are unlikely to be resolved until late in the process.

11.2 It is therefore proposed to work on refining the budget process making assumptions about the range of outcomes and aiming for the worst case scenario where appropriate.

11.3 In the event that Government grant is even lower than anticipated, then given the short time frame the Council may need to look to a single year use of balances to resolve the budget. Any shortfall will then need to be addressed going into 2014/15, which CSR assumptions already predict as being considerably more challenging than 2013/14.

11.4 In the event that current assumptions are proved too pessimistic and that savings identified are in excess of that required for 2013/14 then these will be banked and used towards balancing the remainder of the MTFP.

11.5 This therefore makes the budget process lighter touch than in the last few years and avoids the need to take lists of potential service reductions through scrutiny committees.

11.6 An initial budget position will be presented to Cabinet in December.

12 Timetable

12.1 An indicative timetable of reports and meetings leading to the conclusion of the process is attached as Appendix A to this report.

13 Options considered

13.1 This report sets out the current position in relation to budget planning and highlights the issues that will need to be resolved prior to agreeing a budget recommendation in January. As such there are no options to consider at this point in time.

14 Reasons for Recommendation

14.1 The report asks members to note the current position and asks them to agree the process to be adopted for concluding Budget Planning for 2013/14 and for revising the MTFP.

15 Resource implications

15.1 These are included within the report.

16 Response to Key Aims and Objectives

16.1 The Budget is the key lever in terms of delivering Corporate Plan objectives where they require additional investment or resources. The budget also articulates the costs of providing existing services and a balance has to be struck between the competing demands for resources. These issues will be explored further in subsequent reports on budget development.

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Background Documents

APPENDIX A

Budget Timetable 2013/14

Meeting Date	CReports	Meeting	Possible Reports
13th November	**30th October**	**Cabinet**	**Scene Setting Report / Grant Changes**
19th November	6th November	Finance Scrutiny	Consideration of Scene Setting / Grant
21st November		Budget Seminar	Consideration of Scene Setting / Grant Changes
4th December		Bucks Business Club	
18th December	**4th December**	**Cabinet**	Initial Budget Plan / Strategy – Grant Settlement numbers will not be available at Agenda publication date
19th December	4th December	Finance Scrutiny	Possible date for consideration of Cabinet Report
		No Scrutiny of Budget Proposals by Economy or Environment	No operational service impacts arising from the proposals which require Scrutiny consideration
8th January	24th December	Finance Scrutiny	Alternative date for consideration of budget (Grant numbers should be known)
15th January	**31st December**	**Cabinet**	**Budget Recommendation to Council**
24th January		2nd Budget Seminar	
6th February	**22nd January**	**Council**	**Budget Setting**
27th February	12th January	Council	Council Tax setting

= Key Meeting Dates