



CABINET

2ND FEBRUARY 2012

AGENDA ITEM (7)

MEDIUM TERM FINANCIAL PLAN AND BUDGET STRATEGY 2012/13

Accountable Member	Councillor Lynden Stowe Leader
Accountable Officer	Mrs Jenny Poole Chief Finance Officer 01285 623313 jenny.poole@cotswold.gov.uk

Purpose of Report	This report has been produced to enable Cabinet to debate the Council's draft Medium Term Financial Plan and Budget Strategy for 2012/13 before it is presented to full Council.
Recommendation(s)	That Cabinet considers the draft Medium Term Financial Plan (MTFP) and the Budget Strategy for 2012/13 and recommends it to the Council.
Reason(s) for Recommendation(s)	<p>The Council's Medium Term Financial Plan (MTFP) and associated Budget Strategy for 2012/13 have been updated as a result of the financial settlement announced by the Department for Communities and Local Government for this Council.</p> <p>The draft MTFP and Budget Strategy were approved by Cabinet for consultation in November 2011. This report provides Cabinet with an update on the responses to the consultation to help to inform the debate on the budget.</p>

Ward(s) Affected	All
Key Decision	Yes
Recommendation to Council	Yes

Financial Implications	Subject of the report
Legal and Human Rights Implications	The budget strategy for 2012/13 assumes that central government will complete the legislative process required to enable the Council to set its own local planning fees.
Environmental and Sustainability Implications	None directly from this report.
Human Resource Implications	None directly from this report. However, in order to deliver the level of savings required, the organisation will have to undergo change which will impact upon staff. The Medium Term Financial Plan

	<p>contains savings targets, a proportion of which will be delivered through reductions in the salary budget. These reductions will be achieved through various means such as: further sharing of posts/services or restructuring of teams and promoting the opportunity to take early retirement in accordance with existing Council policy.</p> <p>In line with the Council's Constitution, separate reports will be brought to Cabinet and JCC as appropriate.</p> <p>The Corporate Team are aware of the potential impact that change can have on the level of morale and motivation of staff. It is important, therefore, that the Council supports its staff through this period of change. The Council is putting a programme of training and support in place to help staff to cope through this period of change.</p>
<p>Key Risks</p>	<p>(1) The level of CPI inflation reported in December 2011 was 4.2% The MTFP only contains inflationary increases where the Council has a contractual commitment to pay inflationary increases for services. Given the level of inflationary pressure in the economy there is a risk that contractual costs could increase over and above the provisions within the MTFP. The pressures will be identified within the Council's budget monitoring procedures and will be reported to the Council's Strategic Management Team and Cabinet Members in accordance with Financial Rules. Inflation is however expected to fall rapidly from January 2012 towards the 2% long term target.</p> <p>(2) There is an allowance for unavoidable budget pressures in years 2 to 5 of the plan. It is possible that increased demand for Council services or the impact of new legislation (such as the enactment of the Localism Bill or localised Council Tax Benefit scheme) may lead to budgetary pressures exceeding the provision. This will be monitored during the annual update of the plan.</p> <p>(3) The level of general central government funding that will be available over the medium term remains uncertain. Although the provisional settlement figure for 2012/13 has been announced, CLG is carrying out a further review of the allocation of funding to local government from 2013/14 onwards, including plans for localisation of business rates. The MTFP assumes that central government funding will reduce further by 5% in years 2 and 3 of the plans and by 7.5% in years 4 and 5 in line with projections in the Autumn statement of the Chancellor.</p> <p>(4) The Council faced a challenge to deliver savings of £2m over the life of the MTFP, with £0.9m due to be delivered in 2012/13. Plans have been developed with the Council's Strategic Management Team to deliver this level of savings however the impact of Council Tax freezes and further funding cuts in later years means that a further £1m of savings will be required Plans will need to be prepared over the next year or so to meet these targets.</p> <p>(5) The budget for 2012/13 assumes that the salary budget can be managed to deliver £300,000 of savings from management of vacant posts. There is a risk that this target is too high. The savings will be monitored on a monthly basis as part of the key</p>

	<p>variance report provided to Corporate Team and Cabinet.</p> <p>(6) The Council is experiencing an increasing number of planning appeals and it is anticipated that this trend is likely to continue over the medium term. One-off funding has also been identified to enable the Council to resource the additional workload and appeal costs.</p> <p>(7) The Council is reliant upon central government passing legislation that will permit the Council to set its own level of planning fees.</p> <p>(8) Capital receipts from asset disposals may be less than anticipated and capital resources may therefore be insufficient to meet the requirements of the capital programme or the Council's plans for investment in commercial property.</p> <p>An analysis of the likelihood and impact of these risks is shown at Appendix 'C'.</p>
Equalities Impact Assessment	<p>Not required directly from this report. In order to deliver the savings targets, it may be necessary to be make changes to services. Where this applies, separate Equalities Impact Assessments will be carried out and the results reported to the appropriate decision making meeting.</p>

Related Decisions	Draft MTFP and Budget Strategy 2012/13 approved for consultation by Cabinet 3 rd November 2011.
Background Documents	None
Appendices	<p>Appendix 'A' - Draft MTFP</p> <p>Appendix 'B' - Comments received from consultees</p> <p>Appendix 'C' - Risk Analysis</p>

Performance Management Follow Up	Financial performance is monitored monthly by Corporate Team and Portfolio Holders. Performance against budget will be reported to Cabinet quarterly within the Performance Report.
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<p>Background Information</p> <p>1. Introduction</p> <p>1.1 The Council approved its existing Medium Term Financial Plan (MTFP) in February 2011. The existing plan covers the period 2011/12 to 2015/16. The plan is updated annually, and work on this commenced during the summer of 2011. In November 2011, Cabinet approved the draft MTFP and Budget Strategy 2012/13 for consultation.</p> <p>1.2 Consultation was carried out during November and December. Feedback from the consultation is detailed in section 6 of this report.</p>

2. Updates to the MTFP

2.1 On 8th December 2011, this Council received the announcement of its provision financial settlement from the Department for Communities and Local Government (CLG). The settlement figures of £78,897 Revenue Support Grant and £3,708,935 Redistributed Business Rates is in line with the Budget Strategy considered by Cabinet in November 2011.

2.2 Since issuing the draft MTFP for consultation, further minor budget adjustments have been included as follows:

- Provision has been made for additional, unavoidable business rates at Cotswold Leisure Centre;
- A reduction in the level of Housing and Council Tax Benefits subsidy has been reflected in the budget;
- Provision has been made for the additional costs associated with improvements to car parking services;
- The inflationary assumption on green waste income has been updated;
- The provision for inflationary growth in utility costs has been reviewed in line with the latest market conditions.

2.3 The impact of these changes are to increase the Council's net budget as follows:

2012/13	2013/14	2014/15	2015/16	2016/17
£33,000	£17,000	£15,000	£17,000	£17,000

2.4 The level of investment income has been updated to reflect the latest advice from the Council's Treasury Management advisors – (even lower for even longer). As investment income is forecast to be lower than previous anticipated, this has increased the revenue budget for the next four years as shown below:

2012/13	2013/14	2014/15	2015/16	2016/17
£70,000	£67,000	£135,000	£4,000	(£6,000)

2.5 In the Autumn Statement, the Chancellor of the Exchequer announced that the government would "set plans for public spending in 2015–16 and 2016–17 in line with the spending reductions over the Spending Review 2010 period." The average cuts over the current four year period have been 7.5% per annum. Therefore, in 2015/16 and 2016/17, the MTFP has been updated to include further central government funding cuts of 7.5% per annum. Pay award inflation has also been adjusted to reflect the Chancellors announcement of "public sector pay awards at an average of one per cent for each of the two years after the current pay freeze comes to an end". Departmental spending totals will be adjusted to reflect this level of pay award and there is a risk that the Council's funding settlement for 2013/14 may be lower than assumed within this plan.

2.6 In view of the Chancellor's announcements, the Council will need to find further savings on top of those originally envisaged of £2m. Whilst immediate action is not required additional savings will be required to set a balanced medium term budget and consequently targets have been included within the MTFP as follows: £200,000 in 2014/15, £400,000 in 2015/16 and £400,000 in 2016/17.

2.7 Central Government has also announced its proposals on the Local Government Resource Review which are planned to come into effect from April 2013. The government is proposing to allow councils to keep a greater proportion of the business rates raised locally. This offers local authorities a financial incentive to encourage growth in their local economy. The Government is putting before parliament a Local Government Finance Bill to be debated in 2012.

2.8 Each billing authority (such as this Council) will retain a fixed percentage of the business rates it actually collects (subject to any levy) and will pay the remaining share to central government. The percentage share of business rates that is to be localised, together with the mix of functions and services to be funded through retained business rates will be announced in spring of 2012.

2.9 The MTFP, included at Appendix A, assumes that the Council will be no better or worse off as a result of these changes to financing. However, there could be a significant impact upon this Council's finances and further reports will be presented to Members as the situation becomes clearer.

3. Risks

The risks to the MTFP and Budget Strategy 2012/13 are set out in the Risks section of the report.

4. Savings Proposals

4.1 The MTFP includes proposals to deliver savings totalling £3m over the next five years. The savings are proposed to be delivered as follows:

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Level of savings within MTFP	850	469	431	629	703

4.2 The Council has developed plans to deliver £2m of these savings from projects such as:

- The Council has worked with Cheltenham Borough Council to establishing a local authority wholly owned company to deliver Environmental Services including waste collection services. The company will begin to deliver services on behalf of this Council from August 2012 and savings will be achieved from that date;
- Working with Gloucestershire County Council and other Gloucestershire districts to establish a Gloucestershire Joint Waste Committee which will enable further joint working and efficiency savings to be delivered;
- Implementing proposed changes which (if enacted) will enable the Council to sets its own level of planning fees. The local planning fees will enable the Council to recover its costs of processing planning applications;
- Moving to a more efficient method of delivering leisure and cultural services;
- Working with Cheltenham Borough Council, West Oxfordshire District Council and the Forest of Dean District Council to establish a partnership (GO Shared Services) for delivering Finance, HR, Procurement and Payroll services;
- Sharing further posts and services with West Oxfordshire District Council;
- Reviewing the level of grants awarded to external organisations

4.3 As stated in 2.9, the Council is facing further cuts in central government funding. Although the precise impact of this is unknown; in the past the Council has received the full impact of central government cuts and therefore, it is assumed that a similar level of cuts will be forthcoming. The MTFP has been updated to reflect the potential for further savings to be made in the region of £1m over the last three years of the plan. The Council will need to form contingency plans for this level of savings during the next financial year as the outcome of the Local Government Resource Review becomes clearer.

5. Collection Fund Surplus

There is no surplus on the collection fund available to be distributed to the Council in respect of 2012/13.

6. Budget consultation

6.1 Consultation with Town and Parish Councils and this Council's Overview and Scrutiny Committee was carried out in November. The budget strategy was also placed on the Council's website in December to enable businesses and residents to provide feedback. A summary of feedback is shown in Appendix B.

6.2 The budget consultation included consultation on proposed reductions to grants to external bodies. The proposed reductions are set out in the table below:

	2011/12 Grant £	2012/13 Proposed Reduction £	2013/14 Proposed Reduction £
Gloucestershire First	13,500	13,500	N/A
Gloucestershire Rural Community Council	19,000	3,192	2,708
Citizens Advice Bureau	73,800	7,380	0
Cotswold Conservation Board	30,850	5,183	4,381
Cotswold Water Park Joint Committee	35,000	0	35,000

6.3 It is proposed that the grant to the Cotswold Water Park Joint Committee will cease from 2013/14.

6.4 The Cotswold Conservation Board has responded to the consultation document. A copy of the response is included at Appendix C.

7. Proposed Budget Strategy and General Fund Revenue Budget for 2012/13

In summarising the detail contained within this report and its appendices, the following are the key elements of the proposed budget strategy for 2012/13:

- Council tax freeze;
- One-off central government grant to support the 2012/13 council tax freeze of £136,680;
- A deduction in the level of grant from the government of £637,487;
- Income from New Homes Bonus of £671,000;
- Income from new investment in commercial property £50,000;
- Investment income target of £287,000;
- Realignment of income targets to reflect planned asset disposals and reduced housing benefits and council tax benefit subsidy £74,000 (see Appendix A for details);
- Savings target of £850,000 to be delivered as per section 4 of this report;
- No provision for inflationary increases in costs except where the Council has a contractual commitment, inflation based upon 2.5% except for the waste contract which has a greater exposure to inflation in respect of fuel costs therefore an inflation assumption of 3% has been included;
- Provision for inflationary pay award of 1%;
- Provision for unavoidable budget pressures as set out in the MTFP in Appendix A.

8. Capital

The Council's capital plans are unchanged from the draft MTFP considered by Cabinet in November 2011. Details are included within Appendix A. The Capital Programme is also the subject of a separate report on agenda of the meeting.

9. Reserves

9.1 The MTFP has made provision for £200,000 of one-off costs associated with the production of the Council's Local development Framework (LDF). Reports will be taken to Cabinet to access this funding to enable specific pieces of work to support the LDF to be commissioned.

9.2 The Council is experiencing a rising number of planning appeals and it is anticipated that this trend is likely to continue over the medium term. A provision of £200,000 has been made to enable the Council to resource the additional workload and appeal costs. Further report(s) will be taken to Cabinet to seek approval to utilise this provision.

9.3 At the end of 2012/13 it is projected that the Council will have £2.7m of general fund working balance available to support General Fund operations. At the end of the five year plan, the council will still hold £2.6m, which exceeds the Chief Finance Officer recommended minimum limit of £1m.

9.4 The Council has sufficient reserves to deliver the proposed MTFP. However, there are likely to be further costs associated with the implementation of efficiency and service savings which will put a strain on the Council's reserves. The Council maintains the Council Priorities Fund which enables it to respond to such pressures. A provision of £300,000 has been included within the MTFP to fund these costs. Separate reports will be presented to the Council as funds are required for specific change projects. At the end of 2012/13, it is predicted that the Council Priorities Fund will have £0.9m of funding available.

10. General Fund Revenue Budget 2012/13

10.1 The proposed General Fund Revenue Budget for 2012/13 is set out below:

	£000s	£000s
Gross Expenditure (excluding benefits)		20,539
<u>Less</u> Income from fees and charges	(11,045)	
Contribution from revenue reserves	(71)	
Cash Investment interest	<u>(287)</u>	
		<u>(11,403)</u>
Net Budget		9,136
Funded by:		
RSG/NNDR		3,644
Council Tax (frozen at £144.38)		5,492
		9,136

10.2 The proposed budget would give rise to a District Council Tax at Band "D" of £144.38, the same as 2011/12.

11. CFO Opinion

11.1 The Council's Chief Finance Officer is required to comment on the robustness of the General Fund Revenue Budget Estimates and the adequacy of the Council reserves.

11.2 I am satisfied that the proposed Medium Term Financial Plan and Budget Strategy for 2012/13 are based upon sound assumptions. However, there is significant uncertainty over the level of central government funding in the medium term from both the central government's austerity measures and the formula funding review which includes proposals for the localisation of business rates.

11.3 The Council's Senior Management Team, working with Members and Officers from across the authority, have responded very proactively to the financial situation and they have developed robust plans that will enable the Council to limit the need to draw upon revenue reserves to fund the 2012/13 financial year to £71,000.

11.4 The 2012/13 budget includes plans to deliver savings of £850,000. Plans are already in place to deliver these savings. These plans, together with the Council's proven track record on delivering savings give me confidence that these savings can be delivered.

11.5 The council has sufficient revenue reserves to enable it to fund its services over the life of the MTFP.

11.6 As the Council's Chief Finance Officer I believe that the highest risks within the Budget Strategy for 2012/13 are:

- Central government passing legislation in time for the Council to set its own planning fees for 2012/13;
- Delivery of the savings target for 2012/13, especially the savings expected in Environmental Services following the transfer from SITA to the local authority company and the inclusion of plastic collections within the recycling service;
- Achieving income and investment income targets given the current economic conditions;
- Being able to maintain costs within the budgetary provision given the level of inflationary pressure in the economy;
- Capital receipts from asset disposals are less than anticipated and capital resources are insufficient to meet the capital programme or finance the Council's plans for investment in commercial property.

(END)