

Summary and update of assumptions in the 2012/13 – 2016/17 Medium Term Financial Plan (MTFP)

Existing Savings Targets & Business Strategies

1. The existing Medium Term Financial Plan includes the final two years of the directorate business strategies approved by Council in February 2011. These included savings of £119m from 2011/12 – 2014/15. Whilst there have inevitably been some changes, the strategies are being delivered as planned with the majority of the original savings expected to be achieved. 75% of the £119m savings are expected to be achieved by the end of 2012/13 with the remainder being achieved by the end of 2014/15. The table below shows the remaining total of £15.8m funded pressures and £27.2m savings to be achieved in 2013/14 and 2014/15.

Funding for demographic and other agreed pressures in existing MTFP¹	2013/14 £'000	2014/15 £'000	Total £'000
Children, Education & Families	-90	-590	-680
Social & Community Services	4,700	5,710	10,410
Environment & Economy	4,962	1,328	6,290
Chief Executive's Office	56	-244	-188
Cross Directorate	0	0	0
TOTAL	9,628	6,204	15,832

Savings in existing MTFP	2013/14 £'000	2014/15 £'000	Total £'000
Children, Education & Families	-1,257	-1,072	-2,329
Social & Community Services	-6,598	-7,117	-13,715
Environment & Economy	-7,904	-3,903	-11,807
Chief Executive's Office	-672	-188	-860
Cross Directorate	-140	1,605	1,465
TOTAL	-16,571	-10,675	-27,246

Pressures on the Medium Term Financial Plan (MTFP) arising from Funding Changes

Council Tax Base

2. The taxbase represents the number of properties council tax can be collected from. The government's scheme to localise council tax support will change the way support is provided – people will get a discount on their council tax bill rather than benefit being deducted from their gross council tax bill. The effect of giving discounts is to reduce the council taxbase. The Council will receive council tax support grant to help offset the reduction in the council taxbase, however it is anticipated that this will not fully meet the costs of the scheme. The District Councils are considering reducing discounts/exemptions on certain classes of properties which would have the effect of increasing the taxbase and reducing the budgetary pressure. Together with anticipated lower taxbase growth and

¹ Where a negative is shown the figure relates to previous years' one-off funding falling out.

changes to collection rates an on-going pressure of £4.4m is expected over the medium term.

Council Tax level

3. The existing MTFP includes an increase in the Band D council tax of 3.75% in each of the years 2013/14 to 2016/17. The government has lowered the threshold at which a referendum on council tax increases can be triggered to 2%. The difference between a 2% increase in 2013/14 and the 3.75% set out in the existing MTFP would result in an on-going pressure of £5.8m.
4. The government has also announced support for local authorities to freeze council tax. An authority that freezes its Band D council tax for 2013/14 will receive a 2-year grant equivalent to a 1% increase. The indicative grant is £2.6m for each of 2013/14 and 2014/15. As the grant is only for two years if taken it would need to be replaced on an on-going basis from 2015/16, resulting in an a pressure of £6.7m in addition to the amount set out in paragraph 3. A decision on the council tax level for 2013/14 will need to be part of the proposed Cabinet budget.

Business Rates Retention Scheme

5. From April 2013 the current formula grant system is being replaced by the business rates retention scheme. Business rates are currently collected by district councils and paid into a central pool which is then redistributed as part of Formula Grant. Under the new scheme business rates will be split between a local share (retained by local government) and a central share (returned to central government). The aim of the scheme is to provide an incentive for local authorities to promote and facilitate growth in their area – through being able to keep a proportion of the growth. The central share will be paid into the central pool as now, and used to fund local authorities through revenue support grant or other specific grants.
6. Part of the Council's funding will come from a local share of business rates and part from revenue support grant. Various grants are transferring in and out of the start-up funding position for the scheme.

Grant Funding following the Provisional Local Government Finance Settlement

7. Over the medium term, grant funding will be £9.1m lower than the planning assumptions in the existing MTFP. Significant reductions in Early Intervention Grant and in returned Education Service Grant have contributed to this position. The existing MTFP already included £17.3m for an anticipated shortfall in funding, bringing the revised shortfall to £26.4m.
8. The estimated shortfall in funding taken together with the pressures on the council tax base and council tax level amount to total funding pressures of at least £36.6m over the medium term.

Inflation

9. The table below sets out the inflation assumptions built into the current MTFP.

Year	Pay	Non Pay	Contracts	In MTFP
2013/14	2.5%	2.0%	3.0%	£10.2m
2014/15	2.5%	2.0%	3.0%	£10.3m
2015/16	2.5%	2.0%	3.0%	£10.3m
2016/17	2.5%	2.0%	3.0%	£10.6m

In view of the government's proposed cap on public sector pay, it is proposed that provision for pay inflation for 2013/14 and 2014/15 is reduced to 1%. In addition, it is proposed that no provision is made for non-pay inflation in 2013/14 and 2014/15, with directorates absorbing any pressure arising. Taken together these changes to allowances for inflation are expected to generate on-going savings of £3.9m in 2013/14 and a further £3.5m in 2014/15.

10. The Consumer Prices Index (CPI) was 2.7% in November 2012, unchanged from October. Although unchanged overall, at a more detailed level there were significant upward and downward pressures on CPI annual inflation between October and November. The largest upward pressures to annual inflation came from food & non-alcoholic beverages (principally bread & cereals and vegetables) and housing & household services (particularly domestic gas and electricity). The largest downward pressures came from motor fuels and furniture, household equipment & maintenance.