SECTION 7

7. THE FUTURE - MEDIUM TERM FINANCIAL STRATEGY

Introduction

7.1 Councils are expected to plan their finances over more than a one year period. The longer term planning of finances supports the achievement of priorities in the corporate strategy and allows more effective planning of services. It encourages councils to predict events in the future and develop their strategy in the light of these. It helps councils work more effectively with partners in the public, voluntary and private sectors. It allows councils to plan their strategy for balances, using them as a safety valve to ensure that changes in resources or demands from year to year do not impact unduly on services or council tax payers.

7.2 Longer term planning has been made easier for councils in recent years. The government has for the first time announced the level of local authority funding over a 3 year period from 2008/09 to 2010/11. Announcements were also made for area based and specific grants and other related funding, including the Dedicated Schools Grant and the Working Neighbourhoods Fund, over this three year period. These changes have further improved the basis on which the council can plan its finances over the medium term.

7.3 In addition, the introduction of the prudential regime for local authority capital finance in the Local Government Act 2003 meant councils were given considerable choice over the level of borrowing they could use to fund capital spending but the consequence is that they need to be much more aware of the impact of their decisions over a longer period. CIPFA’s Prudential Code requires that councils set indicators related to the impact of unsupported borrowing on council tax levels and the proportion of revenue costs made up of capital financing charges over at least a 3 year period.

7.4 Prior to 2008 macro economic factors had also helped local authorities plan realistically in the medium term. Pay settlements had tended to span more than one year. Price inflation had predominantly stayed between 2% and 4%. Interest rates had not varied significantly compared with volatility previously experienced. However, as the economy moved into recession by the last quarter of 2008 a number of the main indicators which influence the council’s finances have moved significantly. Inflation rose to over 5% in September 2008 but is now falling with some commentators predicting a period of deflation during 2009. Similarly the base rate is 1% with further falls projected. This increased uncertainty means the MTFS will need to be reviewed and updated more frequently as planning and decision making is less certain. Other sections within the report provided further details of the impact of the economic downturn on the council’s budget and services.

7.5 This section of the report sets out the financial forecast for Brent, and looks at the financial issues that will affect Brent in the medium term. It:

- sets out the council's Medium Term Financial Strategy to address the major issues raised;
- considers the resource envelope within which the council will be operating over the next four years; and
- looks at the way the council will need to manage its finances within the resource envelope.

Medium Term Financial Strategy

7.6 Financial planning needs to be carried out in the context of a Medium Term Financial Strategy (MTFS).

7.7 The MTFS is not simply or even primarily a set of forecasts of future spending needs. Instead it allows Members and others to examine the financial consequences of their priorities for spending and council tax levels within a set of clear principles and set out actions required to align resources and spending.

7.8 Members have agreed that the MTFS should be based on the principles that:

(i) Financial plans should provide for a balance between income and expenditure for both capital and revenue accounts;

(ii) Adequate provisions are made to meet all outstanding liabilities;

(iii) A rigorous financial control system is implemented that ensures that these financial plans are delivered and therefore reduces the corporate impact of adverse events and trends;

(iv) A system is established that protects balances from erosion by ensuring that every decision to release balances is accompanied by a decision to replenish them;

(v) Each year there will be a thorough examination of the council's "Base Budgets" to identify efficiency savings and to ensure that existing spend is still a council priority;

(vi) Resources will be allocated to investment in the council's assets to ensure they support the delivery of corporate and service priorities;

(vii) There will be a redirection of resources to fund corporate policy priorities as expressed in the Corporate Strategy.

(viii) Resources will be made available to finance invest to save schemes to help modernise and improve services and generate efficiencies in the medium term. This is set out in some detail in the Improvement and Efficiency Strategy launched in September 2008.

7.9 Service areas will be required to manage their budgets over all three years within these limits subject to any changes within the overall strategy. For example, if the inflation allowance set was felt to be insufficient, a service area would have to review its base budget provision to identify how additional savings could be made within its budget. This is a rolling programme with an indicative target set for Year 4 as part of each budget process.

Resource envelope

7.11 The introduction of multi-year settlements was associated with an expectation from government that councils would use the additional certainty about external funding to enable forecast council tax levels to be set.

7.12 The fact that the level of external funding is now known up until 2010/11 allows local authorities to forecast with more certainty than before the level of external funding over the medium term although this becomes more difficult as the end of a three year settlement period approaches.

7.13 Knowing external funding is not however sufficient to be able to plan with certainty what level of council tax will have to be raised. The council's four year budgeting framework has significantly improved the ability of the council to forecast likely spending needs in future years. But there are external pressures – including, for example, in particular the effect of recession on services and the council's funding – which are not always possible to forecast. In addition, the council's policy priorities develop and change and this can have an impact on spending.

7.14 The council recognises this uncertainty by planning its spending within a resource envelope which sets a relatively wide range within which council tax increases in future years are expected to fall. The proposed range for the period of this medium term financial strategy is 0% and 5% - above which the council risks capping. This assessment of a range within which council tax increases will fall provides greater certainty to council tax payers about increases in council tax, and, together with greater certainty about grant funding, forms a basis for effective financial and service planning.

Managing the budget within the resource envelope

7.15 Appendix I (i) contains the financial forecast for the council. It is built up using the 4 year budgets for service areas, projections over four years of currently identified growth and central items, and expected efficiency savings over and above those included within service area budgets. Resource projections take into account the following scenario for Formula Grant totals for 2009/10 and thereafter:

- 1.5% in 2010/11 as already notified by the government. This is followed by no growth in future years which reflects the anticipated tightening of public finances in the next Comprehensive Spending Review and Brent's position on the grant floor.
- It also builds in a 0.75% increase each year in the council tax base (based on recent experience of growth in the number of properties in the borough), and assumed council tax increases of 0% to 5% per annum.

7.16 The result of the process set out in paragraph 7.15 is that a level of net savings required is identified for each year of the plan depending on whether council tax increases are at 0% per annum or 5% per annum. Details of projected net savings required are provided in Table 7.1.

Table 7.1 Initial Forecast of Net Savings Required in Future Years[1]

	2010/11 £m	2011/12 £m	2012/13 £m
Net savings required where council tax rise is:			
- **0% per annum**	**8.4**	**7.3**	**7.3**
- **5% per annum**	**3.2**	**1.8**	**1.4**

7.17 The figures shown in Table 7.1 are the level of savings that year, and assume that the savings the previous year have been made. Appendix I shows the same figures but cumulatively to show the total level of savings that would be needed. In addition, the savings are after taking account of the savings already built into individual service area budgets in future years.

7.18 The projections also assume that the council will not use any one-off funding such as balances to fund the annual budget or to keep down council tax rises. If balances or other one-off resources are used in this way, an equivalent saving or increase in council tax is required in the following year to make up for the fact that balances are a one-off resource.

7.19 Factors that are built into the projections include:

- The impact of one-off use of £0.5m of balances in 2009/10;
- 2.5% per annum for pay inflation and 2% per annum for prices built into service area budgets;
- 3% per annum savings in service area budgets. The exceptions are adult and children's social care, waste management and customer services, all of which are involved in transformation or *"invest to save"* programmes primarily aimed at containing demand;
- Provision for 'inescapable growth' in service area budgets in future years. It includes identified growth for future years of £1.849m in 2010/11, £100k in 2011/12, and £74k in 2012/13. Details of this are provided in Appendix D9(i)(a). The single largest item in 2010/11 – amounting to £869k - is the impact of use of Local Housing Allowance in the calculation of housing benefit subsidy for temporary accommodation leased direct from the private sector. An additional contingency for 'inescapable growth' of £2m in 2010/11 and £4m in each of the subsequent years has been included. This would have to meet additional demand pressures that can not be contained by transformation of the way services are delivered, legislative

[1] The figures shown in this table are the level of savings that year, and assume that the savings the previous year have been made. Appendix I shows the same figures but cumulatively to show the total level of savings that would be needed.

or other regulatory changes which lead directly to additional costs to the council, and any on-going loss of income due to recession of other factors. It would also have to meet the cost from 2012/13 of continuing to fund priority growth items which will funded from Performance Reward Grant over the next three years (Table 5.3 has details of the items)..

- The movement in central items detailed in Appendix F. These include:
  - *Debt charges (capital financing charges net of interest receipts)*: These are forecast to grow from £20.818m in 2009/10 to £24.560m in 2010/11, £25.221m in 2011/12 and £26.097m in 2012/13. The main reason for the large increase in 2010/11 is that the impact of reduced interest rates in 2009/10 is offset by application of the capital financing reserve set up in 2008/09 from additional interest receipts. These figures also take account of the short term additional borrowing set out in Section 10 of this report although, by maintaining overall capital spending at planned levels over the four year capital programme, there is no long term impact. The council can limit its debt charges by effective treasury management but the key determinant of whether or not these increases can be reduced will be future interest rates;
  - *Levies:* These are forecast to grow from £9.802m in 2009/10 to £12.317m in 2010/11, £14.528m in 2011/12 and £16.800m in 2012/13. The main reason for this is the West London Waste Authority levy which is expected to increase as a result of a phased change to calculation of the levy onto a tonnage basis from a population basis. Landfill Tax will increase by £8 per tonne per year at least up to 2010/11. The impact of the Landfill Allowance Trading Scheme could also have a significant impact after 2010/11. The measures to reduce waste and increase recycling will be crucial to limiting the amount the council pays;
  - *South Kilburn Development:* Funding from central items for the South Kilburn Development is set at £570k in 2009/10, rising to £1.5m in subsequent years. The funding actually required is going to depend on discussions with the NDC Board and the Department of Communities and Local Government on the best way to secure and fund delivery of the master-plan;
  - *Freedom Pass/concessionary fares.* The current agreement between London Councils and Transport for London on overall contributions to the Freedom Pass scheme runs out after 2009/10. The expectation is that the new arrangement, which is currently being negotiated, will lead to substantial increases in council contributions, partially because the existing charges have been relatively favourable to boroughs and partially because the Mayor of London wants to include the cost of 24 hour bus passes in the charge to boroughs. Brent is also affected by a move from borough contributions being based on number of passes to number of journeys. The impact in 2010/11 will be offset by use of a Freedom Pass reserve. The figures in Appendix F are based on one of the options being discussed by London Councils and TfL.

- The projections assume that Area Based Grant will continue at the its 2011/12 level (except for phasing out of Working Neighbourhoods Fund) when the current 3 year Local Government Finance Settlement runs out.

7.20 There is significant uncertainty in these projections. The longer term impact of recession is a particular unknown. Account has been taken of reduced interest in the capital financing charges projections but the impact of turbulence in the financial markets on the Pension Valuation due for April 2010 and which will impact on budgets from 2011/12 has not. Each 1% added to employer contributions to the Pension Fund (which currently stand at 22.9% of employees' contributions) would add £1m per annum to the budget gap.

7.21 The budget projections provide a framework within which the council can manage its budget over the medium to longer term. This involves:

- *Reviewing projections of budget pressures resulting from demand pressures, cost increases, and loss of income and identifying means by which they can be reduced/eliminated*. A key success of the transformation programmes in adult and children's services is that they have provided a means by which demand pressures can be contained or reduced whilst improving outcomes for users and the Improvement and Efficiency Programme provides an opportunity to apply these models to other services.
- *Identifying the impact of corporate and service priority growth.* No allowance has been made for additional or service priority growth in future years. The strategy assumes the same approach will be taken in future years as in 2009/10, with growth being funded from Area Based Grant, specific grants or other external funding. Any new growth agreed subsequently which is not funded in this way would impact on the net additional savings that would be required to keep council tax increases in the 0% to 5% range.
- *Reviewing provision for future areas within central items:* This will be a key area for the council to look at in order to try to limit growth. Appendix I includes growth from £43.696m for central items in 2009/10 to £51.999m in 2010/11, £56.558m in 2011/12 and £60.801m in 2012/13.
- *Delivering additional savings over and above those already built into service area budgets, savings needed to offset growth in adult and children's social care, and corporate efficiency savings.* Savings of approximately £5m each year are already built into service area budgets. Further savings will be required from transformation programmes in adult and children's services to enable demand pressures to be met. There is also a corporate/cross-cutting efficiency savings target of £1.4m each year. But if the council is to continue to fund delivery of its priorities whilst receiving grant increases at the *"floor"* level, further savings will need to be delivered. Again the Improvement and Efficiency Programme is crucial to this.

7.22 In addition to taking action on the issues identified above, the council will continue to press government to review its decisions on funding and, in particular, its use of Office of National Statistics data. However it must be recognised that due to other changes in the methodology for funding Brent is likely to remain on the *"floor"* for many years.

The 30 Year Plan

7.23 The council has a thirty year financial plan which was updated last year following the results of the Comprehensive Spending Review. The plan builds on the forecasts in the MTFS and looks at various scenarios which will impact on the council's future financial prospects. Its key use is in determining the level of borrowing which the council will be able to afford to deliver improvements to its capital assets. It is proposed to next update the plan after the publication of the next spending review expected in 2010.