

SECTION 7

7. THE FUTURE - MEDIUM TERM FORECAST

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. Pay settlements in schools and other council services now span more than one year. Price inflation has stayed between 2% and 3% for the past few years. Interest rates do not vary significantly. The government now sets out its intentions for local authority funding over a 3 year period, and is planning to introduce 3 year revenue and capital settlements from 2006/2007 onwards.
- 7.3 The introduction of the prudential regime for local authority capital finance in the Local Government Act 2003 means councils now have considerable choice over the level of borrowing they can do 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 The Gershon review into efficiency of the public sector expects councils to develop strategies for delivering efficiency savings over a 3 year period.
- 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;
 - Reviews the main spending pressures the council faces over the four years this forecast covers;
 - Looks at the prospects for external funding;
 - Considers the impact on council tax of various scenarios;
 - Identifies the main issues the council will have to address over the next 4 years to ensure effective planning of services and limit the impact of council tax increases.

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.
- 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) There will be a redirection of resources to fund corporate policy priorities as expressed in the Corporate Strategy.
- 7.9 As part of this process indicative cash limits have been set not only for the coming financial year but also for the following three financial years. These cash limits assume current levels of service delivery, allow for pay and price inflation, and build in a 2% per annum savings assumption. Service areas have also identified growth pressures/commitments for future years but at this stage they have not been included within service area budgets. Instead they will be subject to prioritisation, alongside new growth priorities that arise during the period of the plan.
- 7.10 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.

Expenditure Forecast

- 7.11 Appendix K sets out a possible scenario for Brent's budget requirement in future years. It provides an illustration of how spending pressures are already inherent within current service levels and will be heightened by increased public and government expectations of performance levels. This is summarised in Table 7.1 below.

Table 7.1 Initial Forecast of Spending Pressures on the Council

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
Service Areas Budgets (exc. schools)	177.1	186.5	187.9	189.3	190.9
Schools Budget	131.0	141.8	152.8	163.4	172.9
Growth Outside Service Area Budgets in 2005/2006	0	2.3	3.4	3.3	3.3
Central Items	37.1	36.7	44.3	50.7	57.1
Spend to Save	0	0.3	(0.1)	(0.1)	(0.1)
Balances to Fund Spend to Save	0	(0.3)	0.1	0.1	0.1
General Contribution to/from Balances	2.4	(0.1)	0	0	0
Underspend	(0.2)	0	0	0	0
Contingency/Commitments from 2006/2007 Onwards	0	0	7.0	14.0	21.0
Total	347.4	367.2	395.4	420.7	445.2
% Increase		+5.7%	+7.7%	+6.4%	5.8%

- 7.12 It is not suggested that the above position is anything more than an initial forecast. First, the starting position itself will be modified by any late changes to the budget. Secondly, the figures will be adjusted for changes we are not even aware of at this time and more accurate calculations of the cost of various expenditure pressures. Thirdly, the savings assumed have not yet been identified and recent experience suggests that to achieve them will also require a fundamental reappraisal of the purpose and efficiency of the base budget. This medium term financial assessment is also required as part of the prudential regime on borrowing, and is referred to and used in that context in the section on capital spending and prudential borrowing.
- 7.13 The exemplification set out above depends on a range of assumptions about inflation and interest rates, demographic change, the legislative framework, and a range of other factors, many of which are outside the council's control. Members need to be aware of the assumptions made, and the sensitivity of the budget forecasts to changes in those assumptions.
- 7.14 The forecasts for service area budgets make an allowance of 2.95% for pay in 2006/2007 (in line with the national agreement for non-teaching staff that involved a 2.75% increase in 2004 and a 2.95% increase in both 2005 and 2006) and 3% thereafter. 2.0% has been provided for prices each year. Allowance has been made for increases in pension contributions. 2% savings assumptions are built into each service area's budget.
- 7.15 The Schools' Budget is assumed to grow at broadly the same rate as recent years. It has been shown separately because from 2006/2007 onwards there will be a separate dedicated schools budget, which the council will have no direct control over.

7.16 The main areas of growth for central items are as follows:

- Levies and other charges from external bodies over which the council has little or no control. An assumption has been made that both concessionary fares charges to the ALG and the payment to the West London Waste Authority (WLWA) will increase by £700k per annum during the period of the plan. Charges for both have risen at this rate in recent years. Future charges are particularly uncertain for the WLWA because of the introduction of the landfill allowance tax scheme (LATS) and proposed changes to the legislative basis for apportioning the levy.
- There will be increased charges for unsupported borrowing which the council uses to fund its capital programme. On the basis of the capital programme proposed in this report, these will increase from £1.9m in 2005/2006 to £3.3m in 2006/2007, £4.6m in 2007/2008, and £5.6m in 2008/2009.
- The current state of the council's office accommodation is unsustainable. It will have to be replaced or a substantial amount of investment will have to be incurred to bring it up to an acceptable standard. Whichever the case, significant provision for growth needs to be made in the revenue budget. The growth in 2006/2007 is assumed to be £600k, with higher levels of growth in subsequent years.
- The other main area of growth in central items is the South Kilburn Development, for which growth of £750k is estimated to be required in 2006/2007 and further growth in future years.

7.17 Further growth has been allowed in 2006/2007 for the roll out of ward working to all wards. This is assumed to add a further £1.0m to the £0.5m already allowed in the 2005/2006 budget.

7.18 The projections also allow for £7m growth in each year of the plan – cumulatively £21m by 2008/2009 - for demand pressures, new legislation, and service priorities. The growth schedules in Appendix D(ii) identify a number of areas where there is additional full year growth within services, coming to a total of £4m in 2006/2007 and further amounts in 2007/2008. This has not been allowed for in service area budgets from 2006/2007 onwards. The council has also to some extent managed to fund growth in 2005/2006 from increases in specific grant, particularly in Social Services. The government has announced that £100m for access and systems and a further £100m for safeguarding children is one-off. If the government does not fund these again, the loss to the council would be around £1.5m in 2006/2007. The government also plans to phase out Planning Delivery Grant which would add a further £250k per annum to growth over the next 3 years – a cumulative amount of £750k per annum by 2008/2009.

7.19 The projections also assume that the council will not use significant levels of balances to fund the annual budget or to keep down council tax rises. If balances 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.

Funding in Future Years

7.20 On 12 July 2004 the Chancellor of the Exchequer announced details of the government's three year spending plans in the 'Spending Review 2004'. Alongside setting cash limits for all government departments, from 2005/2006 to 2007/2008, the Chancellor also provided information on the Total Formula Spending Share (TFSS) local authorities can expect to receive in each of these years and the total increase in funding. Table 7.2 below shows the percentage the government expected to increase FSSs by nationally between 2004/05 and 2007/08.

Table 7.2 Government Plans for TFSS - 2004/05 to 2007/08

	2004/05 £m	2005/06 %	2006/07 %	2007/08 %
Education	26,402	5.9	6.8	6.0
Personal Social Services	12,427	9.2	5.0	4.5
Highway Maintenance	2,004	2.5	0.0	0.0
Environmental, Protective and Cultural Services	11,152	0.6	3.5	3.7
Capital Financing ¹	2,802	16.7	10.1	9.0
Total FSS (exc Police and Fire)	54,787	6.0	5.7	5.2
Police and Fire	6,203	4.0	4.3	4.4
Total FSS (inc Police and Fire)	60,990	5.8	5.5	5.1

7.21 The increases in TFSS are planned to continue, but at a reduced rate, in 2006/2007 and 2007/2008. There are a number of reasons for being cautious about projected increases in Brent's funding over this period, as follows:

- The government increased formula grant (the total of NNDR and RSG) by £408million in 2005/2006 compared to its 2004 spending plans. Unless the government adds this to its spending plans in 2006/2007, there will be a shortfall in funding. TFSS could go up as planned but a greater proportion of the increase would fall on council tax.
- The introduction of the dedicated schools budget from 2006/2007 will affect funding for other services in Brent. There will be a phased shift in funding towards Brent schools, to bring them in line with FSS for schools, matched by a shift away from funding for other services. For 2005/06, Brent's contribution to the Schools' Budget has been set at £141.771m, £8.204m below the schools' FSS of £149.975m.
- The Office for National Statistics (ONS) figures for Brent's population, which are used in calculating most non-schools Formula Spending Shares, are projecting a reduction in population. The figures are contradicted by other evidence and the council is lobbying to have them

¹ Note the capital financing increases include resources for local authority PFI schemes.

revised. If they are not, the council stands to lose significant amounts in grant. Overall the projections show a reduction in Brent's population from 267,800 in 2003, used in the 2005/2006 settlement, to 264,500 in 2004, which will be used in the 2006/2007 settlement, down to 256,000 in 2008, which will be used in the 2010/2011 settlement.

- Other 2001 census data dealing with population characteristics – ethnicity, family composition etc - have not yet been included in FSS calculations. The government deferred their inclusion in the 2005/2006 settlement because of the potential changes that would result to grant allocations. They are expected to be included in 2006/2007, and exemplifications from ODPM indicate losses to Brent from their inclusion. There are other changes to social services FSS calculations which are likely to have an impact on Brent.

7.22 Until the 2004/2005 settlement, the increase in Brent's grant allocation was at the ceiling set by government, principally because of increases in the schools' FSS. In 2005/2006, Brent's allocation would have been below the ceiling had it not been abolished. From 2006/2007 onwards, it is expected Brent's allocation will be at the floor for the reasons given in paragraph 7.21. This year the floor increase for London boroughs was 4%. In future years it is likely to be lower as a result of the exclusion of schools from the calculation. For shire district councils, which do not have responsibility for education or social services, the floor increase in 2005/2006 was 2.5%. Floors could be lower in 2006/2007 if one-off funding put in by government in 2005/2006 is not repeated next year. At best, the increase in funding for non-schools activity in Brent in 2006/2007 and 2007/2008 is projected at 4% in 2006/2007 and 2007/2008. We are currently assuming that at worst it will be 2.5%.

7.23 There are two areas where we can anticipate additional funding, albeit not through Revenue Support Grant. The first is the Local Authority Business Growth Incentive Scheme. The government has legislated within the Local Government Act 2003 to enable local authorities to gain some limited access to business rates in their area. The principle is that where the growth in rateable value is above long-term trends, local authorities will be able to retain a share of the increase up to some specified limits. The proposed limits are 3% of Environmental, Protective and Cultural Services' FSS in the first year (£2.3m for Brent) rising to a maximum of 9% in the third year (£7.0m for Brent). The first payment under the scheme is due in 2005/2006 but it is not possible at this stage to forecast how much Brent will receive. It is likely the amounts will be relatively small in the first instance but will grow as the Wembley development gets fully under way.

7.24 The other area is reward grant under the Local Public Service Agreement scheme. The council would be entitled to a total of £6.7m, paid in 2006/2007 and 2007/2008, if it achieved all targets in the LPSA. It is unlikely that this will happen but the council can expect a significant level of reward grant. This is one-off funding and the council will therefore have to be careful how it budgets to spend it. It should however be available to fund one-off growth items in the 2006/2007 and 2007/2008 budgets.

Council Tax in Future Years

7.25 The assumptions in this section would lead to council tax increases significantly above the level that would be acceptable locally or allowable under the council tax capping regime. On the assumption that the deficit in the Collection Fund remains constant in future years (i.e. at £1.5m overall and £1.183m for the Brent element), council tax in Brent would increase by 13% to 15% in 2006/2007, and slightly lesser amounts in future years, depending on the level at which the floor is set.

7.26 The measures the council is taking to ensure this does not happen are as follows:

- We are lobbying the Office for the Deputy Prime Minister, the DFES and the Office for National Statistics about use of 2001 census data, safety nets to support the introduction of the dedicated schools budget, and population projections, in order to try to reduce the adverse effect of grant changes;
- We will be reviewing growth in central items and within service areas to identify the highest priorities and ensure appropriate provision for demand and legislative growth;
- We are instigating our own efficiency review in response to the review of efficiency in the public sector by Sir Peter Gershon to identify measures to achieve further efficiencies over and above those achieved in recent years – although it should be noted that 2% per annum is already built into the budget for efficiency savings;
- We are looking to maximize gains from the Local Authority Business Growth Incentive Scheme through our regeneration activity, and particularly the Wembley development. We will also be trying to maximize LPSA reward grant through the achievement of LPSA targets;
- We are taking measures to improve collection of council tax both to reduce the deficit in the collection fund and to enable higher rates of collection to be set as part of the annual budget process;
- We are taking a prudent approach to use of balances by limiting the amount of one-off resource used to fund the budget.

The 30 Year General Fund Business Plan

7.27 The council produced a 30 year business plan as part of last year's budget report. The proposed changes to school funding and the proposed introduction of 3 year revenue and capital settlements mean that the plan needs to be revised. We are awaiting details from government of the way in which they intend to implement dedicated schools budgets and we will be updating the plan in the light of that, and other, information.