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 financial planning has been made more certain in recent years. There has been a 3 year local authority funding settlement (2008/09 to 2010/11). The requirements in CIPFA's Prudential Code to set indicators for capital financing charges over at least a 3 year period has also helped this. Notwithstanding the recession, there has been a relatively stable macro economic environment with pay and price inflation within a reasonably narrow band. However the future is much less certain.

7.3 The country has only just emerged from recession which began in the last quarter of 2008. The downturn has been longer and deeper than initially expected and the cost to the public purse of managing the banking collapse and instigating stimulus packages has seen unsustainable levels of public debt. All the major political parties, prior to the forthcoming general election, have acknowledged public sector spending reductions are unavoidable. There is a need to estimate both the timing and extent for the Medium Term Financial Strategy (MTFS) to allow the Council to effectively plan its response.

7.4 Local Government has a good record of delivering efficiency savings but the government is looking to local authorities to produce at least a further £550million of savings by 2012-13[1]. This is certain to be factored in to resource allowances for councils, and this target could well increase as part of the next Spending Review.

7.5 Local Government has therefore been planning for this new harsher environment. A recent CIPFA SOLACE report produced two main funding options either a freeze on public spending levels over the 2011-14 spending period (equating to a 7.5% decrease in real terms), or a 2.5% reduction per annum (equating to a 15% decrease in real terms)[2]. Officers feel this is a suitable model to be used in Brent's MTFS. However, there will be a need to review this regularly particularly in the post election period.

[1] Pre Budget Report chapter 6
[2] CIPFA SOLACE, After the downturn – Managing a significant and sustained adjustment in public sector funding, December 2009

7.6 Local authorities have delivered the majority of the ‘quick win’ efficiency savings open to them in recent years. A more radical programme is needed to help maintain and improve priority services. This will include re-engineering services, increased collaboration with other agencies and changes to charging policies. Brent’s response to this significant challenge has been the Improvement and Efficiency Strategy. This is a planned approach to meet the challenges of the new environment, which seeks to reduce costs in a strategic way to protect frontline services. Further details are set out in Section 13.

7.7 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 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

7.8 Financial planning needs to be carried out in the context of the MTFS.

7.9 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.

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

(i) Financial plans should provide for a balanced position 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) There will be a thorough examination of the council’s ’Base Budgets’ on a regular basis 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.

7.11 Service areas will be required to manage their budgets over all three years within these limits subject to any changes within the overall strategy and adjustments for savings delivered through the Improvement and Efficiency 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

7.12 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.

7.13 The fact that 2010/11 is the last year of a funding settlement period and that there is a general election before the next Comprehensive Spending Review, combined with the need to address the national budget deficit means that there is a high level of uncertainty about both future funding levels and whether 3 year settlements will continue. However, we intend to assume this will be the case.

7.14 The formula used to determine local authority funding is also currently under review and virtually all the options being considered would result in reduced resources for London. Such changes are being resisted but any reform is likely to be harmful to Brent.

7.15 Brent, with 24 of the 33 other London Boroughs, is a floor authority. This gives the lowest percentage increase in resources for this class of authority. It also means that whatever the average settlement figure is for local government Brent will get less. The overall financial position would be even worse if the protection of the floor were removed entirely.

7.16 Using the CIPFA SOLACE scenarios, we have assumed two assumptions about government funding

- the level of the formula grant is frozen
- the level of the formula grant is decreased by 2.5% per annum

7.17 The council recognises the large number of variable factors 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 MTFS is 0% and 3%.

Managing the budget within the resource envelope

7.18 Appendix 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 savings for 2010/11 from the Improvement and Efficiency Plan. It also includes resource projections, including grant levels, movements in the council tax base, and collection rate assumptions.

7.19 The result of the process is that a level of net savings required is identified for each year of the plan depending on whether formal grant funding is frozen or reduced and whether council tax increases are at 0% per annum or 3% 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

	2011/12 £m	2012/13 £m	2013/14 £m
Scenario A – Freeze in Formula Grant:			
Net savings required where council tax rise is:			
- **0% per annum**	**21.6**	**14.7**	**14.8**
Cumulative	**21.6**	**36.3**	**51.1**
- **3% per annum**	**18.5**	**11.6**	**11.4**
Cumulative	**18.5**	**30.1**	**41.5**
Scenario B – Reduction in Formula Grant:			
Net savings required where council tax rise is:			
- **0% per annum**	**25.7**	**18.8**	**18.6**
Cumulative	**25.7**	**44.5**	**63.1**
- **3% per annum**	**22.6**	**15.6**	**15.4**
Cumulative	**22.6**	**38.2**	**53.6**

7.20 The figures shown in Table 7.1 are the level of savings in each year, and assume that the savings the previous year have been made. The figures are also shown cumulatively to show the total level of reductions that would be needed in the period 2011/12 to 2013/14 with the various scenarios.

7.21 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.

7.22 Factors that are built into the projections include:

Spending assumptions

- The impact of one-off use of £1.4m of balances in 2010/11;
- 1% per annum for pay inflation for 2010/11 2.5% for 2011/12 to 2013/14 which also allows for national insurance increase and any pension fund rises, all to be held centrally until pay awards are confirmed;
- Inflation of 0% for prices in 2010/11, and 2% per annum for prices in future years held centrally as the economic forecast is still uncertain;
- No savings assumptions are built into service area budgets for 2011/12 onwards;
- Provision for 'inescapable growth' in service area budgets in future years. This includes identified growth for future years of £1,086k in 2011/12, £296k in 2012/13 and £25k in 2013/14. Details of this are provided in Appendix D(i)(a). An additional contingency for 'inescapable growth' of £6m in 2011/12 and £6m in each of the subsequent years has been included. This would have to meet additional demand pressures, legislative or other regulatory changes which lead directly to additional costs to the council, and any on-going loss of income due to recession or other factors. This replicates the level of growth required in 2010/11. It would also have to meet the cost from 2012/13 of continuing to fund priority growth items which are currently funded from Performance Reward Grant over the next three years.
- 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 £22.989m in 2010/11, £24.085m in 2011/12 and £24.201m in 2012/13 and £24.344m in 2013/14;
    - *Levies:* These are forecast to grow from £10.576m in 2010/11, £12.295m in 2011/12 and £13.336m in 2012/13 and £14.441m in 2013/14. The main reason for this is the West London Waste Authority levy which is expected to increase as a result of the increased real cost of waste disposal and Landfill Tax increases of £8 per tonne per year. The impact of the Landfill Allowance Trading Scheme could also have a significant impact after 2010/11;
    - *South Kilburn Development:* Funding from central items for the South Kilburn Development is set at £600k in 2010/11, rising to £1.5m in subsequent years as the level of development increases;
    - *Freedom Pass/concessionary fares.* The government has recently amended the basis on which the concessionary fares grant is allocated with the result that London has lost £30.2m of funding and Brent's contribution will rise by more than £1m in 2010/11 due to this change alone, doubts must remain about the quantum of funding in future years and whether further loss of grant will result. Furthermore the phased move to apportioning costs to London boroughs on the basis of usage rather than passes issued has increased costs for Brent and will

continue to add further costs into 2011/12. In addition negotiations continue to take place around increased fare charges by TfL and these may well outstrip the assumptions included in London Council's indicative figures. All these factors taken together mean that resources will need to be provided in future years and Brent has budgeted for an additional £1.532m (2010/11), £2.608m (2011/12), £1.140m (2012/13) and £1.175m (2013/14).

Resource assumptions

- Area Based Grant decreases 2.5% per annum from 2011/12;
- Council tax base increase of 0.25% per annum in line with recent trends;
- Council tax collection of 97.5% in each year;
- Council tax increases ranging from 0% to 3%.

7.23 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. With likely reductions in external funding streams, any new growth for service priorities would impact on the net additional savings that would be required to keep council tax increases in the 0% to 3% range.
- *Reviewing provisions 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 £51.035m in 2010/11, £58.384m in 2011/12, £61.135m in 2012/13 and £64.018m in 2013/14.

The 30 Year Plan

7.24 The council has a thirty year financial plan which was updated two years ago 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.

Summary

7.25 The year on year budget gap shown in Table 7.1 is substantial. However, the Improvement and Efficiency Strategy provides a planned means of addressing this over the period of the MTFS rather than adopting a short term approach which has been the main practice in previous years.