SECTION 6

6. THE FUTURE - MEDIUM TERM FINANCIAL STRATEGY

Introduction

6.1 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 Borough Plan 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.

6.2 2010 saw the British economy emerge from recession which began in the last quarter of 2008. The recovery has been fragile underlined by the 0.5% reduction in GDP in the December quarter and there has been sluggish growth apart from in manufacturing. The current forecast for 2010/11 is now expected to be 1.5% annually. In addition there continues to be inflationary pressures with RPI rising to 4.8% and CPI at 3.7% in December 2010. Inflation has risen again having peaked in the spring of 2010 and there will be further pressure from the January increase in VAT and higher fuel and commodity prices.

6.3 The October 2010 Spending Review 2011/12 – 2014/15 highlighted the need to reduce the deficit and improve economic growth. The deficit for 2010/11 is forecast to be £150bn and the intention is bring this down to £37bn by 2014/15. By 2015/16 £128bn savings are planned and this will be achieved by £99bn of spending reductions and £29bn of tax increases which should eliminate the structural deficit. As part of these proposals Local Government will be one of the hardest areas with a reduction in funding of 26.7% over the spending review period and funding reductions much deeper and quicker than expected. Councils will also be hit with household benefit caps from 2013, council tax benefit to reduce by 10% and schools budget to see only a 0.1% increase although pupil rolls are rising. With all these changes it is important that the Council estimate both the timing and impact on the Medium Term Financial Strategy (MTFS) to allow the Council to effectively plan its response.

6.4 The two year settlement announced in December saw Brent's formula funding reduce by 11.3% in 2011/12 and 7.4% in 2012/13, the removal of area based grants and the consolidation and deletion of many specific grants. For 2013/14 and 2014/15 there is likely to be a new system of funding and nationally we can still expect reductions in funding of 1.4% and 7.8%. However, there are a number positive aspects to the settlement with introduction of the Council Tax Grant , the New Homes Bonus and greater flexibility afforded by the lifting of ringfencing on most grants.

6.5 As part of the challenge of meeting the funding reductions Brent has achieved £42m of savings and funded cost pressures of more than £12m to balance the budget in 2011/12. The savings have been achieved through a combination of One Council projects and service initiatives. This is on top of £10.9m of One Council Savings achieved in 2010/11. For future years One Council initiatives are planned to deliver further savings of £13.8m and £24.3m in 2012/13 and 2013/14 respectively. These will be delivered through additional procurement savings, the customer contact project, waste and recycling, fundamental review of activities and further changes to staffing and conditions.

6.6 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

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

6.8 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.

6.9 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 Borough Plan.

(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.

6.10 Service areas will be required to manage their budgets over all three years within these limits subject to any changes within the overall strategy and adjustments for savings delivered through the One Council Programme. 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

6.11 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.

6.12 The fact that there was only a two year settlement for 2011/12 and 2012/13 means that we can only be certain of funding for two years but we can make assumptions based upon the national figures included within the Spending Review to forecast funding beyond 2013/14.

Managing the budget within the resource envelope

6.13 Appendix H 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 from the One Council Programme. It also includes resource projections, including grant levels, movements in the council tax base, and collection rate assumptions.

6.14 The result of the process is that a level of net savings required is identified for each year of the plan over a range of council tax increases between 0% per annum and 3.5% per annum. Details of projected net savings required are provided in Table 6.1.

Table 6.1 Initial Forecast of Net Savings Required in Future Years

	2012/13 £m	2013/14 £m	2014/15 £m
Net savings required where council tax rise is:			
- **0% per annum**	**23.6**	**16.6**	**28.4**
Cumulative	**23.6**	**40.2**	**68.6**
- **2.5% per annum**	**21.0**	**14.0**	**25.6**
Cumulative	**21.0**	**35.0**	**60.6**
- **3.0% per annum**	**20.0**	**12.9**	**24.4**
Cumulative	**20.0**	**32.9**	**57.3**

6.15 The figures shown in Table 6.1 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 2012/13 to 2014/15 with the increases in council tax.

6.16 The projections also assume that the council will neither increase or reduce its level of balances.

6.17 Factors that are built into the projections include:

Spending assumptions

- Service area budgets have been rolled forward at 2011/12 levels into future years;
- No allowance for pay inflation in 2012/13 other than for staff earning less than £21k per annum (2%) then 2% for future years;
- Inflation of 2% for prices in 2012/13 and future years;
- In addition an allowance has been made for providing additional monies to fund the pension fund deficit with contributions of £1.7m (2012/13), £0.5m (2013/14) and £1.7m(2014/15)
- No savings assumptions are built into service area budgets for 2012/13 onwards;
- Provision for cost pressures in service area budgets in future years is £6m per annum and these are inclusive of identified growth for future years of £1,089k in 2012/13, £297k in 2013/14 and £297k in 2014/15. Details of this are provided in Appendix D(i). The £6m is required 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 economic conditions or other factors. This replicates the level of growth required in previous 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 £25.359m in 2011/12, £26.563m in 2012/13 and £27.603m in 2013/14 and £29.104m in 2014/15 (these figures include the costs of the Civic Centre);
- *Levies:* These are forecast to grow from £2.238m in 2011/12, £3.089m in 2012/13 and £3.986m in 2013/14 and £4.973m in 2014/15. 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 in later years;
- *South Kilburn Development:* Funding from central items for the South Kilburn Development is set at £900k in 2011/12, rising to £1.5m in subsequent years as the level of development increases;
- *Freedom Pass/concessionary fares.* These have risen significantly over the last few years and currently stand at £13.767m. There are no indicative figures for years but the current assumptions for future years is that prices will rise by 4% and there will be a 1.5% increase in usage. In addition because of the volatility of this budget in the past an additional contingency of £500k is being allowed for in 2012/13 to reflect any additional increases in transport costs. Therefore, Brent has budgeted for an additional £1.257m (2012/13), £826k (2013/14) and £872k (2014/15).
- *New Homes Bonus/Regeneration.* For 2011/12 the Council is matching the income received for the New Homes Bonus with additional spend on regeneration because of the linkages between the two areas. The details of the New Homes Bonus are still to be finalised and there are issues over funding in future years. The cautious assumption for the moment is that there will be no additional income over and above the £1.25m currently assumed.
- *Redundancy and Restructuring Costs.* A budget of £6.354m has been set aside for 2011/12. These costs are assumed to remain constant over the medium term but their mix is likely to change with higher redundancy and severance costs in the earlier years being replaced with the actuarial strain costs of meeting the costs of early retirements which are spread over three years.

<u>Resource assumptions</u>

- Formula grant 2012/13 £152.845m (settlement figure), 2013/14 £151.011m and 2014/15 £139.383m (based on national assumptions from the Spending review);
- Other unallocated grants to remain at 2012/13 levels
- Council tax base increase of 0.25% per annum in line with previous forecasts;
- Council tax collection of 97.5% in each year;
- Council tax increases ranging from 0% to 3.5%.

6.18 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*. The delivery of projects within the One Council programme will be vital in containing demand pressures and delivering transformed and improved services.
- *Identifying the impact of corporate and service priority growth.* No allowance has been made for additional or service priority growth in future years.
- *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 H includes £46.170m in 2011/12, £50.251m in 2012/13, £53.195m in 2013/14 and £56.741m in 2014/15.

Summary

6.19 The year on year budget gap shown in Table 6.1 is substantial. However, the One Council Programme provides a planned means of addressing a significant element of this shortfall over the period of the MTFS.