SECTION 11

11. THE FUTURE - MEDIUM TERM FORECAST

Introduction

11.1 The budget for 2004/2005 is part of a longer-term process. The Council has taken a deliberate step to plan its finances in a medium term context. This has to some extent been made easier by the Government's relatively firm commitments, announced in the Spending Review 2002, to the level of overall local authority funding for a three year period up to 2005/2006.

Medium Term Financial Strategy

11.2 Financial planning therefore has been carried out in the context of a Medium Term Financial Strategy (MTFS).

11.3 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.

11.4 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.

11.5 As part of this process indicative cash limits have been set not only for the coming financial year but also for the following two financial years.

11.6 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 has to review its agreed growth or make additional savings. This is a rolling programme with an indicative target set for Year 3 as part of each budget process.

Future Expenditure Forecast

11.7 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 below:

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Service Areas Budgets		317.6	326.0	332.0
Central Items		37.0	40.5	44.6
New Growth Pressures/Contingency		18.2	25.6	35.0
Contributions to Balances		3.0	0	0
Total	**347.4**	**327.8**	**392.1**	**411.6**
% Increase		**+7.3**	**+5.2**	**+5.0**

11.8 It is not suggested that the above position is anything more than an initial forecast. Firstly 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 chapters on capital spending and prudential borrowing.

The Assumptions

11.9 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.

Inflation

11.10 The forecasts give an allowance of 3.5% for pay and 2.0% price rises. Each 1% allowance for inflation adds around £2.6m to forecast spending.

Growth

11.11 Service Area Budgets are those included in the detail at Appendix C. The following section of the report highlights significant factors which are driving the spending pressures.

Accommodation Issues

11.12 The targets for the reduction in number in Bed and Breakfast will need to be maintained without funding from the Bed and Breakfast Task Force. Legislation now requires local authorities not to use Bed and Breakfast for more than 6 weeks for any family. There will be continuing increases in Temporary Accommodation and the Housing Benefit Deficit. Although there will be a rise in supply of permanent stock as new units come on stream the new developments in South Kilburn will reduce the net supply over the period. Rents are seen to rise above the general level of inflation.

New Deal for Communities in South Kilburn

11.13 The major redevelopment and refurbishment of Council owned dwelling houses in South Kilburn will have significant revenue costs for the Council. Prominent amongst these will be the cost of decanting and re-housing the current tenants. The exact timing and level of these costs is subject to further review.

11.14 Education, Arts and Libraries

(i) Education Act

Provisions within the Education Act allow the Secretary of State to increase the budget allocation to schools if they think that the Council's proposals for growth are insufficient. The planned figures assume sufficient increase in the schools budget each year to match the increase in the schools block FSS.

(ii) Youth and Community

The Government has emphasised the importance it puts on the Youth Service and its contribution to promoting social inclusion and assisting young people at risk. From 2003/2004 onwards a separate Youth and Community sub-block within the Education FSS has been established for Ministers to more closely monitor the position.

(iii) Meeting National Public Library Standards

This represents the requirement to achieve levels of benchmarked standards in the Library Service. A further £489k is required.

11.15 Environment

(i) Streetlighting PFI

The gap between the payment to the contractor and the level of Government grant will widen as grant tapers down over the period.

(ii) Waste Costs and Waste Strategy

The quantity of refuse collected within the borough continues to rise and hence disposal costs. This is also a requirement to substantially increase recycling levels, as the Government imposes ever more punitive financial penalties and requires the Council to meet ever-higher recycling targets. It remains more costly to recycle waste than to dispose of it in traditional ways.

(iii) Other *"Green"* Schemes/Regulatory Functions

Growing legislative requirements as the *"Green Agenda"* expands.

11.16 Social Services

There continue to be significant pressures on the Social Services budget as client numbers, costs and standards rise. It is assumed therefore that there will continue to need to be real terms growth within this budget.

Central Items

11.17 Details of the items and the amounts assumed in the forecast are set out in Appendix F.

Employers' Pension Fund Contributions

11.18 The next actuarial review of the Pension Fund at 31st March 2004, given the current performance of world stock markets, will lead to another significant increase in the employer's contribution rate to meet the deficit on the fund.

Levies

11.19 The most significant growth here will be increases by West Waste as the Government continues with its policy of a minimum increase of £3 per tonne per annum in the Land Fill tax.

Capital Financing Charges

11.20 A significant part of the growth relates to the size of the Council's capital programme as discussed in Section 7 of this report. Part of these costs will be met by increases in FSS, and this has been allowed for in the assessment of grant entitlement. Part is due to the use of prudential borrowing, and the Council has to assure itself that this remains "affordable" in the context of its objectives for levels of Council Tax. This is discussed at length elsewhere in this report.

Insurance Fund/Premiums

11.21 As the number and size of claims are increasing a £1.8m per annum contribution is needed.

Collection Fund

11.22 Collection rates for Council Tax need to improve from current levels if further increased provisions for a deficit on the Fund are to be avoided.

Other Growth

11.23 There are a range of other demographic, legislative and volume increases which are reflected in the budget forecasts.

Contingency

11.24 A contingent amount is included in the forecast budgets. This reflects the fact that not every future expenditure requirement can be accurately forecast. Service areas historically underestimate their spending needs more than one year ahead. In addition there are a range of risks that may give rise to spending in the future not included in the growth above. These include:

(a) Items included under major risks in Section 5 of the report.

(b) Costs needed to meet targets set in the Performance Plan, Public Service Agreements etc.

(c) Inspection Regimes - There are an increasing number of central inspection agencies whose report recommendations usually have financial consequences.

Savings

11.25 The Local Government White Paper stated:

"Across the economy as a whole public and private sector bodies have improved productivity by 2 - 2½% a year and there is no reason why local authorities should not match this." A 2% level of target saving has been built into the forecast excluding the Schools budget. Additionally a base budgeting exercise has been undertaken

Base Budgeting Exercise

11.26 During 2002/3 the Council carried out a Base Budgeting Exercise (BBE). The rationale for the BBE was for the Council to establish that every £1 currently spent is justified or as important as any additional spend that the Council wants to spend in the future. Savings from the exercise have been included in the forecast.

11.27 The Base Budgeting Exercise obviously has close links with the Council's ongoing Best Value review programme. Officers in Brent Financial Services (BFS) and Policy and Regeneration Unit (PRU) have amalgamated the two exercises during 2003/4 and plan to continue to do so in future. The Council will need to examine its Base Budget on a continuing basis to ensure that previously agreed spending is both necessary and a Council priority.

Contributions to Balances

11.28 The Council has historically operated with relatively low levels of balances which has been the source of criticism from our external auditors. The forecast assumes that the level of balances is £7m by 2005/2006. This will need to be reviewed in the light of the risks contained within the budget.

11.29 The White Paper outlined the Government's concerns around ensuring local authorities set a balanced budget.

The White Paper stated that:

1) *"Authorities need to ensure that they budget for sufficient reserves to cover all significant identified risks and a reasonable allowance for those unidentified. Consequently, new legislation will place a new statutory duty on the Chief Finance Officer to write a 'public report' to the authority, at the time the council tax is set, on the robustness of the budget calculations and the adequacy of the reserves."*

"Further, the Government will take reserve powers to enable the Secretary of State for Local Government to specify in regulations a statutory minimum level of reserves for which authorities must provide in their budgets."

2) *"The Government will introduce legislation to create a new duty on local authorities to keep their finances under review during the year, and to take corrective action if there is evidence that financial pressures will result in a budget overspend. In most cases, this action will involve reducing costs, increasing fees and charges, or drawing on reserves."*

These intentions have been legally enacted by inclusion in the Local Government Act 2003.

Government Grant

11.30 The Council's financial position is crucially influenced by the level of Government grant it receives.

11.31 The Government introduced a new funding system for Local Government in 2003/2004 (See Section 10).

11.32 The Government published its Spending Review 2002 in July 2002. This Review set out the assumed increases in funding for local authorities until 2005/6. A new Spending Review will be published in July 2004. This will revise the estimates for 2005/6 and provide forecasts for 2006/7 and 2007/8 for the first time. The Medium Term Financial Plan will need to be revised once the new Spending Review is published. A detailed explanation of the impact on the Council's finances is given in Section 10.

Other Factors

Partnership/Pooling

11.33 The Government is increasingly seeking local authorities to provide their services with other bodies. A number of joint agreements are being entered into particularly with the Health Authority. Although this may have benefits for service delivery it also can limit the flexibility of the overall budget that Brent controls.

Local Public Service Agreement

11.34 The Council has agreed, in principle, to implement a Local Public Service Agreement (PSA) during 2003/04. Negotiations with Government Departments, on the detail of the PSA started towards the end of March 2003, but have not yet been concluded.

11.35 The PSA scheme is a government initiative focused on the achievement of agreed enhanced performance targets in return for a performance reward grant equivalent to approximately £9 million in Brent's case. In addition a small pump priming grant is provided of up to £1 million for initial investment in the specified services to achieve the required performance improvements.

11.36 Although these financial incentives are significant they are in return for what are challenging service improvements, which may require expenditure that is considerable, as well as additional staff resources. The PSA scheme should not be considered as an easy way of accessing additional resources. It is possible that the expenditure required to achieve the targets will be a significant part of the performance reward grant eventually released.

Local Authority Business Incentive Grant

11.37 The Government have 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. These are expected to be 1% of FSS per annum to a maximum of 3% of FSS (in total worth around £10.6m to Brent). The Government recently carried out a detailed consultation exercise on the implementation of this scheme, but the final proposals have not yet been published. It is intended to implement it from April 2005 after the next revaluation of Business Rates. Given the current uncertainties surrounding the scheme no allowance has been made in the forecasts for additional income from this source.