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 in recent years. 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 sets out its intentions for local authority funding over a 3 year period.

7.3 The government has now taken this one step further. For the first time, the government has not only announced grant funding for the year ahead – 2006/07 – but also for 2007/08. Announcements have also been made of specific grant and other related funding, including Dedicated Schools Grant, Supporting People funding, and Neighbourhood Renewal Funding, over a two year period. These changes have further improved the basis on which the council can plan its finances over the medium term.

7.4 In addition, 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.

7.5 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;
- Considers the resource envelope within which the council will be operating over the next four years;
- Looks at the way the council will need to manage its finances within the resource envelope; and
- Up-dates the 30 year General Fund business plan.

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) 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.

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. Growth pressures/commitments for future years have also been identified 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.

Resource envelope

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

7.12 Despite the fact that external funding is known for only two years (although this is likely to change in future years), the use of 'floors' and the extent to which scaling factors limit increases in grant, allows local authorities to forecast with more certainty than before not only what external funding will be in the years for which it has been announced and over the longer term. Government policy in recent years has been to set the 'floor' broadly in line with the rate of inflation. If this policy remains, Brent's increases in grant over the forthcoming years are likely to be between 2% and 2.5% each year (assuming inflation remains at the level it has been at in recent years).

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, the effect of demographic change on demand for services and pressure on the tPCT to transfer costs to the council – which are not possible to forecast. In addition, the council's policy priorities develop and change and this can have an impact on spending.

7.14 It is therefore proposed that the council recognises this uncertainty in setting forward projections of council tax and instead plans its spending within a resource envelope which sets a range within which the council tax increase in future years is expected to fall. The proposed range for the period of this medium term financial plan is 2.5% - which is the underlying rate of inflation – 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 contains the financial forecast for the council. It is built up using the 4 year budgets for service areas (which include provision for pay and price inflation and assume 2% annual efficiency savings), projections over four years of currently identified growth and central items, and expected efficiency savings over and above the 2% within service area budgets. Resource projections take into account the provisional Formula Grant total for 2007/08 and assume increases of 2.5% thereafter, build in a 1% increase each year in the council tax base (based on recent experience of growth in the number of properties in the borough), and assume council tax increases of 2.5% 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/net growth allowed is identified for each year of the plan depending on whether council tax increases are at 2.5% per annum or 5% per annum. Details of projected net savings/growth are provided in Table 7.1.

Table 7.1 Initial Forecast of Net Savings/Growth in Future Years

	2007/08 £'000	**2008/09 £'000**	**2009/10 £'000**
Net (savings)/growth required/allowed where council tax rise is:			
- **2.5% per annum**	**(5,645)**	**(8,338)**	**(7,224)**
- **5% per annum**	**(3,410)**	**(3,702)**	**(10)**

7.17 These projections 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.

7.18 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*. Allowance has been made for £2m growth arising from budget pressures in 2007/08 with a further £1.7m in 2008/09 and £0.4m in 2009/10, based on what is known about the effect in future years of increased pressure on budgets in 2005/06 and 2006/07 as set out in Appendix D(i)(a). In the past, additional pressures are identified as the next budget year approaches. It is therefore almost certain that additional sums will be required. For example, in 2006/07, a total of £5.1m has been included to meet unavoidable pressures;
- *Identifying the impact of corporate and service priority growth agreed as part of the 2006/07 budget in future years.* Allowance has been made for this in budget projections beyond 2006/07 on the basis of information in Appendix D (i)(b) which shows the full-year effect of service priority growth proposed in this report as £0.8m in 2007/08 and a further £0.1m in 2008/09. In some cases this additional growth is committed – e.g. the Freeman Centre – but in others Members will retain a policy choice about whether they allocate the further growth in 2007/08 and beyond e.g. youth service and libraries. These figures therefore represent an upper limit on growth which will flow from 2006/07 decisions on service priority growth;

- *Identifying new corporate and service priority growth for 2007/08 and beyond.* At this stage it is not possible to assess likely levels of priority growth that may be required from 2007/08 because of the forthcoming municipal elections and the need to agree a new Corporate Strategy for 2006 to 2010. Work will proceed on this after the May 2006 elections. Any growth agreed as part of this process would impact on the net additional savings that would be required to keep council tax increases in the 2.5% 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 £37.418m for central items in 2006/07 to £44.952m in 2007/08, £53.132m in 2008/09 and £55.898m in 2009/10. Details of the items are in Appendix F. The principal areas of growth are as follows:
    - *Debt charges*. These are forecast to grow from £20.757m in 2006/07 to £22.183m in 2007/08, £24.243m in 2008/09 and £25.243m in 2009/10. Measures have been taken to limit growth in the capital programme and therefore borrowing (see section 10 below), and these measures are reflected in this forecast. The council has successfully restructured its debt in recent years to deliver reductions in debt charges and officers will again be looking at measures which will help them achieve further reductions in the requirement;
    - *Levies.* These are forecast to grow from £7.7m in 2006/07 to £8.5m in 2007/08, £9.2m in 2008/09 and £9.9m in 2009/10. 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 and the impact of the Landfill Allowance Trading Scheme. Measures to reduce waste and increase recycling will be crucial to limiting this increase. Decisions on arrangements for the new waste management contract due to start from 1st April 2007 will also be important;
    - *Remuneration strategy.* Growth of £2m is currently allowed in the projections for 2007/08 to fund implementation of single status from 1st April 2007. This is a maximum and officers will be looking for ways in which single status can be introduced on a cost neutral basis in line with the national agreement on single status;
    - *South Kilburn Development:* Funding from central items for the South Kilburn Development is set at £500k in 2006/07, rising to £1m in 2007/08, £1.5m in 2008/09 and £2m in 2009/10. Funding actually required is going to depend on discussions with the NDC Board, ODPM, and the delivery partner on the best way to secure and fund delivery of the master-plan;
    - *Freedom pass/concessionary fares.* Growth of £400k in each year of the plan is forecast. This is not within the control of the council. Allowance for growth is in line with recent years' experience;
    - *Civic facility/property repairs and maintenance:* Growth of £2m each year is assumed in 2007/08 and 2008/09. 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 will need to be made in the revenue budget in future years;

- *Delivering additional savings over and above those already built into service area budgets (i.e. 2% per annum) and the central efficiency savings of £500k in 2006/07, £1m in 2007/08, £1.5m in 2008/09 and £2m in 2009/10 built into the medium term projections.* There is already a high level of savings built into the council's budget plans. But if the council is to continue to fund delivery of its priorities and keep council tax increases in the 2.5% to 5% range, whilst receiving grant increases at the 'floor' level, further savings will need to be delivered. The development and delivery of the Efficiency Programme, detailed in section 13, is crucial to this.

7.19 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. In the short term, the council's grant increase is likely to be at 'floor' level whatever the outcome of the discussions. But if the council is successful at changing the approach to measuring population so that the growth in population in Brent is properly reflected in the ONS population figures, the length of time the council's grant increase is at the 'floor' will reduce.

The 30 Year General Fund Business Plan

7.20 The council produced a 30 year business plan as part of the 2004/05 budget report. The changes to school funding and introduction of multi-year funding settlements mean circumstances have changed and as a result officers have produced a revised 30 year plan (see Appendix J). This builds on the forecasts in this chapter 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, including the development of a civic centre facility.