

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 planning has been made easier for councils in recent years. Pay settlements in schools and other council services often now span more than one year. Price inflation has predominantly stayed between 2% and 3% for the past few years. Interest rates have not varied significantly compared with past periods.
- 7.3 The government has stated its intention to set out local authority funding over a 3 year period from 2008/09. For the first time in 2006/07, the government announced grant funding for the year ahead but also for 2007/08. Announcements were also made for specific grant and other related funding, including Dedicated Schools Grant, Supporting People funding, and Neighbourhood Renewal Funding, over this 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 to address the major issues raised;
 - Considers the resource envelope within which the council will be operating over the next four years; and

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- Looks at the way the council will need to manage its finances within the resource envelope.

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 and set out actions required to align resources and spending.
- 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.
 - (viii) Resources will be made available to finance spend to save schemes to help modernise and improve services and generate efficiencies in the medium term.
- 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 (3% for pay and 2% for prices), 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 any new growth priorities that may 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

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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 the level of external funding is not known for 2008/09, 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 what external funding will be over the longer term. Government policy in recent years has been to set the 'floor' broadly in line with the rate of inflation of between 2 – 3%. However, early indications are that the Comprehensive Spending Review 2007, which will set out the resource available to local government for 3 years from 2008/09, will be particularly tough. It is anticipated that any increase in resources will be below inflation as education and the health service are targeted as priorities for available funds.
- 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 by the PCT to transfer costs to the council – which are not always 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 relatively wide 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 0% - which is the stated preferred increase of this administration – 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 two scenarios for Formula Grant totals for 2008/09 and thereafter:

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- (i) A 1.0% increase reflecting a squeeze on resources currently available to local authorities.
- (ii) A 2.5% increase similar to the last two year settlement.

It also builds in a 0.75% increase each year in the council tax base (based on recent experience of growth in the number of properties in the borough), and assumed council tax increases of 0% 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 is identified for each year of the plan depending on whether council tax increases are at 0% per annum or 5% per annum and government grant increases are at 1% or 2.5%. Details of projected net savings required are provided in Table 7.1.

Table 7.1 Initial Forecast of Net Savings Required in Future Years

	2008/09 £m	2009/10 £m	2010/11 £m
Net savings required where council tax rise is:			
- 0% per annum	16.7	10.2	6.1
- 5% per annum	12.0	5.2	0.8
and where grant increase is 1%			
Net savings required where council tax rise is:			
- 0% per annum	14.4	7.9	3.7
- 5% per annum	9.7	2.8	(1.6)
and where grant increase is 2.5%			

- 7.17 These projections 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.

- 7.18 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 £1.4m growth arising from budget pressures in 2008/09 with a further £0.8m in 2009/10, based on what is known about the effect in future years of increased pressure on budgets in 2007/08 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. A further £1m has therefore been included in each year.
- *Identifying the impact of corporate and service priority growth agreed as part of the 2007/08 budget in future years.* Allowance has been made for this in budget projections beyond 2007/08 on the basis of information in Appendix D (i)(b) which shows the full-year effect of service priority

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growth proposed in this report. In some cases this additional growth is committed but in others Members will retain a policy choice about whether they allocate the further growth in 2008/09 and beyond. These figures therefore represent an upper limit on growth which will flow from 2007/08 decisions on service priority growth;

- *Limiting new corporate and service priority growth for 2008/09 and beyond.* It is assumed that no new growth will be identified as this was done as part of the work to deliver the new Corporate Strategy and spread over 4 years beginning in 2007/08. Any new growth agreed subsequently would impact on the net additional savings that would be required to keep council tax increases in the 0% to 5% range;
- *Limiting transfer of costs from PCT:* As set out in Section 5 the total potential costs estimated to be transferred from the PCT of £11.1m has been allocated over the next 3 financial years from 2007/08. Action will be taken to limit this by challenging transfers where they are not considered appropriate and reviewing packages for clients transferred;
- *Limiting the impact of proposed changes to the subsidy cap for temporary accommodation:* Proposed further reductions in subsidy cap, on top of the 5% in 2007/08, are proposed for 2008/09 and a total of £700k growth has been included for this from 2008/09. The council will be making representations to the Department of Work and Pensions on this, but also identifying ways of limiting the impact if further reductions are imposed;
- *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 £34.1m for central items in 2007/08 to £43.1m in 2008/09, £46.6m in 2009/10 and £49.9m in 2010/11. Details of the items are in Appendix F. The principal areas of growth are as follows:
 - o *Debt charges (including prudential financing charges):* These are forecast to grow from £19.1m in 2007/08 to £21.0m in 2008/09, £21.9m in 2009/10 and £23.0m in 2010/11. 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;
 - o *Levies:* These are forecast to grow from £6.6m in 2007/08 to £7.3m in 2008/09, £8.0m in 2009/10 and £8.8m in 2010/11. 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;
 - o *South Kilburn Development:* Funding from central items for the South Kilburn Development is set at £500k in 2007/08, rising to £1.5m in 2008/09, £2.0m in both 2009/10 and 2010/11. Funding actually

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required is going to depend on discussions with the NDC Board, Department of Communities and Local Government, 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:* This is forecast to grow from £1.3m in 2007/08 to £2.5m in 2008/09, £2.9m in 2009/10 and £3.1m in 2010/11. The current state of the council's office accommodation is unsustainable. It will have to be replaced through the Civic Centre proposal or a substantial amount of investment will have to be incurred to bring it up to an acceptable standard. The figures also include projected rent increases. Whichever the case, significant provision for growth will need to be made in the revenue budget in future years;
 - *Neighbourhood Renewal Fund:* The £2.279m annual government grant ends at 31st March 2008. The corresponding expenditure is within the Policy and Regeneration budget and has also been removed from the budget.
- *Delivering additional savings over and above those already built into service area budgets (i.e. 2% per annum) and the central efficiency savings of £1m in 2007/08 and £1.5m in future years 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 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.

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