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 2012 saw the British economy continue its struggle to recover from the recession which began in the last quarter of 2008. It is now forecast that the economy will remain broadly flat during 2013 with a risk of a return to recession. In addition there continues to be inflationary pressures with RPI peaking and CPI both around 3%. It is anticipated that inflation may fall marginally during 2013 before further reductions in 2014.

6.3 The October 2010 Spending Review targeted a reduction in the deficit to £37bn by 2015/16. In the Autumn Statement in December 2012 the forecast for 2015/16 is that that the deficit will be £73bn. The Autumn Statement also included a further reduction of 2% in local government spending nationally for 2014/15. The Government also announced that austerity measures would continue in place until 2017/18. It is therefore important that the Council focuses on the medium term financial position to enable it to effectively plan its response to the challenges ahead.

6.4 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

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

6.6 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.

6.7 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 spending 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.

6.8 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

6.9 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.

6.10 The provisional local government finance settlement in December 2012 covered 2013/14 and gave indicative allocations for 2014/15. A one year spending review for 2015/16 is anticipated by June 2013. Therefore we can not be certain of funding for future years but we can make assumptions based upon the national figures included within the Autumn Statement in December 2012.

Managing the budget within the resource envelope

6.11 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, business rate yield and collection rate assumptions.

6.12 The result of the process is that a level of net savings required is identified for each year of the plan based on no council tax increases. Details of projected savings required are provided in Table 6.1.

Table 6.1 Initial Forecast of Savings Required in Future Years

	2014/15 £m	2015/16 £m	2016/17 £m
Net savings required:			
Annual	**20.5**	**17.1**	**17.3**
Cumulative	**20.5**	**37.6**	**54.9**

6.13 The figures shown in Table 6.1 are the level of savings in each year, and assume that the savings in 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 2014/15 to 2016/17.

6.14 The projections also assume that the council will its level of balances unchanged.

6.15 Factors that are built into the projections include:

Spending assumptions

- Service area budgets have been rolled forward at 2013/14 levels into future years;
- An allowance for pay inflation of 1% in 2014/15 and 2% thereafter;
- No general inflation for prices in 2014/15 and future years other than that which is contractually committed ;
- No savings assumptions are built into service area budgets for 2014/15 onwards;
- Provision for cost pressures in service area budgets of £5.6m in 2014/15, £2.1m in 2015/16 and £3.7m in 2016/17. Details of this are provided in Appendix D(i).
- 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 £25.1m in 2013/14 to £27.3m in 2014/15, £28.1m in 2015/16 and £27.9m in 2016/17;
- *Levies:* These are forecast to grow from £3.5m in 2013/14 to £3.6m in 2014/15, £3.8m in 2015/16 and £3.9m in 2016/17;
- *Freedom Pass/concessionary fares.* These have risen significantly over the last few years and the budget for 2013/14 is £15.3m. 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 2014/15 to reflect any additional increases in transport costs. Therefore, Brent has budgeted for an additional £1.2m (2014/15), £0.8m (2015/16) and £0.8m (2016/17).
- *Redundancy and Restructuring Costs.* A budget of £2.6m has been set aside for 2013/14. These costs are anticipated to reduce over the medium term as higher redundancy and severance costs in the earlier years are replaced with the actuarial strain costs of meeting the costs of early retirements which are spread over three years.

<u>Resource assumptions</u>

- Revenue support grant of £95.2m in 2014/15, £81.8m in 2015/16 and £69.6m in 2016/17 (based on national assumptions from the Autumn Statement 2012);
- Council tax freeze grant incorporated into revenue support grant from 2015/16;
- New Homes Bonus to increase to £9.5m by 2016/17;
- Other unallocated grants to reduce by £0.5m each year;
- Council tax base increase of 0.7% each year;
- Council tax collection of 96% in each year;
- Retained business rates to increase by 3% each year;
- Business rate top-up to increase by 2% each year;

6.16 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 £40.4m in 2013/14, £42.6m in 2014/15, £44.6m in 2015/16 and £45.5m in 2016/17.