

**MEDIUM TERM FINANCIAL STRATEGY UPDATE**

**Agenda Item ..**

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**Background Papers:-** Medium Term Financial Strategy Update report to Cabinet on 9<sup>th</sup> October 2008

**Financial Implications:-** Included in report

**Equalities Implications:-** None identified

**Legal Implications:-** None identified

**Options:**

**Risks:**

**EXECUTIVE SUMMARY**

The purpose of the report is to propose a budget for the next financial year, 2009/10, for consultation with stakeholders. The report identifies many factors that are impacting and influencing the Council's financial position in the short and medium term. These include downturn in the economy, increase in the general rate of inflation, substantial increases in fuel and energy costs, the turmoil in the financial markets, recent cut in interest rates (and further cuts expected), the collapse of the Icelandic Banks (in which we have investments that are now at risk) and increasing unemployment. Against this is the need to ensure the continued provision of services required by the community particularly during the difficult times ahead that are predicted by many commentators.

**RECOMMENDATION**

Members are asked to:

- a) To consider the overall financial position as set out in the report and agree:
  - i) the level of Council Tax;
  - ii) the level of Parish Group Tax;
  - iii) the schedule of new demands;
  - iv) the changes to the current levels of service provision as set out in the options schedule.
- b) Support the proposal to transfer the operational responsibility of the concessionary fares scheme to the Essex County Council with effect from 1<sup>st</sup> April 2009.
- c) Recommend to Full Council the adoption of the revised Credit worthiness Criteria, as detailed in Appendix B to this report;
- d) Agree a process for receiving the report from the Fees and Charges Task and Finish Group; and
- e) Agree that the General Fund Financial Profile (Appendix H) be used for the purposes of consultation.

## MEDIUM TERM FINANCIAL STRATEGY UPDATE

An initial update of the Medium Term Financial Strategy 2009/10 to 2012/13 was reported to Cabinet on 9<sup>th</sup> October 2008. The report indicated that the economic climate had changed significantly since the MTFS 2008/09 to 2011/12 was agreed in February 2008 and that the Council was facing increasing pressures on its finances. The report anticipated that the Council could be facing a gap between income and expenditure of £1million for 2009/10.

At the meeting the Cabinet agreed a number of recommendations for information to be presented at its next meeting. The information requested is included within this report.

### **1. General Fund Expenditure/Income update for 2008/09**

- 1.1 The quarterly monitor based on the first half year's expenditure and income predicts a net addition to balances of £368,800 for the year.
- 1.2 The main changes from the earlier prediction based on quarter 1 figures are:
  - With the Housing Revenue Account being kept open, the Council is able to continue making recharges from the General Fund in respect of the pension deficit payment (for former housing staff, other than those transferred to Greenfields CH) and apportioned costs associated with accounting for and running the account, totalling £300,300.
  - Planning application income was significantly higher in September such that the budget for the year is now expected to be achieved.
  - Land charge searches continue to decline with the shortfall of net income expected to be £242,100 (£183,000 as at Quarter 1).
  - Investment income is anticipated to be lower than the earlier forecast due to the Council's investment of £5million with three Icelandic banks, which are now in administration/receivership, which would have earned £236,800 of interest and to the decline in the level of interest rates payable in the market.
  - Increased fuel costs for the operational fleet are expected to result in an overspend against budget of £147,000 (£90,000 as at Quarter 1).
- 1.3 The overall position includes the achievement of the Efficiency Factor of £335,310 provided in the budget.

### **2. Spending Pressures in 2008/09**

- 2.1 Concessionary Fares Scheme. The agreement between the Essex authorities and the Bus Operators has resulted in a cash limited total cost of the Essex scheme of £17.9million for 2008/09, with the provision for an allowance for inflation to be added for 2009/10 and 2010/11. The proposed apportionment of the total cost between the Essex authorities provides a cost for this Council of £1.208million in 2008/09. This will provide a saving of £ 44,500 against the budget of £1.253million.

Whilst the Central Government is currently considering the option of transferring the responsibility for the Concessionary Fares scheme to County Councils, the Leader of Essex County Council has indicated that the County Council would consider taking on the responsibility from 2009/10. A proposal on behalf of the Essex authorities was sent to Councillor Norman Hume, Cabinet Member for Highways from Councillor Mrs P Challis, Chair of the Essex Leaders and Chief Executives Group on 4<sup>th</sup> November 2008. A copy of the letter and proposal is attached at Appendix A.

- 2.2 Energy costs. The Council's energy is procured through the Office of Government Commerce. The new contract commenced on 1<sup>st</sup> October 2008 with average increases of 90% for gas and 81% for electricity over the previous contracts.
- 2.3 Annual Pay Award. Negotiations are continuing to seek an agreement on the pay award due on 1<sup>st</sup> April 2008. The budget for 2008/09 and each subsequent year provides for an increase of 2.5%. The current offer, from the Employers Association, is 2.45%. It has been agreed, both nationally and locally, that this increase should be paid to staff pending a decision on the final award; the increase was paid to staff in their November salary.
- 2.4 Interest Rates. The recent turmoil in the financial markets culminating in the 1.5% cut by the Bank of England in its Base Rate, with further cuts in the short-term forecast, has reduced significantly the level interest rates offered for investments. In addition, the choice of counterparty with which the Council invests its monies has been brought into sharp focus by the failure of the Icelandic Banks. The review of the Council's Investment Strategy, requested by the Leader of the Council, has been undertaken. Proposed changes to the strategy together with an updated position on the investments with the Icelandic Banks are provided in Appendix B.

The contract for Treasury Management advice, with Butlers part of the ICAP Group, expired on 31<sup>st</sup> October 2008. Following a review of the service received, in particular regarding investment advice, it was agreed not to renew the contract. Whilst the market for Treasury Management advisors is limited it was agreed, by the Head of Finance in consultation with the Corporate Director, that Arlingclose Ltd. be appointed for a period of three years, following a presentation and the taking of references.

### 3. General Fund Profile 2008/09 to 2012/13

- 3.1 An update of the General Fund financial profile for 2008/09 to 2012/13 is provided at Appendix C.
- 3.2 In summary the profile identifies:

	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m
Additional spending demands	2.522	1.188	0.676	0.769
Planned reductions	(0.702)	(0.259)	(0.030)	(0.221)
Use of Balances	(0.154)	(0.007)	(0.040)	0.201
Additional Government Grant	(0.279)	(0.290)	(0.256)	(0.262)

Council tax increase	(0.358)	(0.345)	(0.347)	(0.329)
<b>Shortfall</b>	<b>1.029</b>	<b>0.287</b>	<b>0.003</b>	<b>0.158</b>

3.3 Explanations and details of the assumptions for each of these elements are provided in the following sections.

#### 4. Spending Pressures for 2009/10 to 2012/13

4.1 **Inflationary increases** for 2009/10 are calculated to cost £1.07million, covering the following main types of spend:

- **Pay.** An allowance of 2.5% is provided, in each year of the period, for the annual pay award due on 1<sup>st</sup> April to officers and members. In addition the increase provides for incremental progression for those officers that are not at the top of their salary grade.
- **Pension Fund Deficit.** The financial position of the Council's Local Government Superannuation scheme, administered by Essex County Council, is assessed every three years. The current assessment was undertaken as at 31<sup>st</sup> March 2007 with the outcome of establishing the costs to be paid over the three-year period 2008/09 to 2010/11. The next assessment will be undertaken as at 31<sup>st</sup> March 2010 and the outcome will provide the costings for 2011/12 to 2013/14, at this point in time a provision of £100,000 has been included for 20011/12 and 2012/13.
- **Energy Costs.** The increase of £154,090 reflects the impact of the increases in gas and electricity prices from 1<sup>st</sup> October 2008, as mentioned above at section 2.2 offset partially by an expectation that the prices will fall at the next renewal in October 2009.
- **Fuel.** The assumption is that the average price for diesel during 2009/10 will be at the level currently paid of £0.88 per litre.
- **Other Expenditure.** Inflation increases have been determined for a variety of types of expenditure based on components of the Retail Prices Indices for September 2008. Examples are 5.5% for supplies and services and Business Rates, 6.5% for water and sewerage, 5.32% rent allowances and 2.15% for road fund licences.
- **Fees and Charges.** The review of all of the Council's fees and charges by the Task and Finish group is currently in progress, however, it is not anticipated that the report will be available for presentation at this meeting. A process will need to be agreed at the Cabinet meeting, in order that proposed fees and charges for 2009/10 can be determined and made available for consultation.

For the purposes of financial planning the profile provides for an allowance of a 3% increase, each year, on the charges made for discretionary services. The main services included are Building Control, Environmental Health, Community Halls, Cemeteries and Trade Waste. No allowance has been made for an increase in car parking charges.

An analysis of the Council's key sources of income was requested at the last meeting. This information presented in graphical format is provided at Appendix D and shows actual income received for 2006/07 and 2007/08, estimated and projected for 2008/09 together with projections for 2009/10 to 2012/13 for the key sources of income.

- 4.2 **Housing Transfer – Service Level Agreements.** Following the transfer of the housing stock to Greenfields Community Housing a number of services continued to be supplied by the Council under Service Level Agreements (SLA). Whilst SLA's are permissible for a short period Greenfields CH is required by the Housing Corporation to ensure it is receiving value for money for services and also that it has its own accommodation separate from the Council.

The total value of the SLA's is £1.836million and these are summarised in the General Fund profile at Appendix C, and are listed individually in Appendix F, 'Programme of Delivery – All Reviews'. Details of the current expected expiry date of each SLA are also provided together with the consequential financial impact of all of the SLA's expiring.

However, solutions to the loss of the SLA's are being worked on such that, provision is made for:

- An alternative tenant to share Causeway House and meet the rent currently paid by Greenfields CH, after its departure on 1<sup>st</sup> November 2009.
- Alternative depot arrangements to meet the Council's needs and offset the rent currently paid Greenfields CH, after its departure from Millenium Tower on 1<sup>st</sup> November 2009.
- The continuation of the Grounds Maintenance SLA after 31<sup>st</sup> December 2009 following the successful outcome of the tender process.
- The instigation of the deferred TUPE rights for five members of staff in the Customer Services Centre and one member of staff in Procurement to the new suppliers of those services to Greenfields CH following the expiry of the SLA's.
- Specific savings which have been identified and achieved to offset the loss of the Payroll and Post Delivery SLA's and to reduce the loss of the Customer Services Centre SLA.

The current position on the Service Level Agreements is that a balance of cost remains of £364,140 in 2009/10, £388,980 in 2010/11 and £37,500 in 2011/12 these will either need to be met from General Fund resources or solutions found to address the cost or a combination between the two.

- 4.3 **New Demands.** Each year the Council is faced with demands for additional or new funding to meet corporate objectives, provide new services, etc. The demands for 2009/10 are currently being compiled and will be circulated at the meeting. For financial planning purposes a provision of £100,000 has been included in the General Fund profile for each year.

In addition to the above there are two specific demands to address substantial reductions in income to the Council caused by the significant downturn in the economy. These are:

- **Local Land Charge searches**, with income declining due to the downturn in the housing market and the continuing change in the mix of the type of search undertaken from full (£159 fee chargeable) to personal (£16 fee chargeable). It is anticipated that income will drop by £200,000 in 2009/10 followed by a further £100,000 in 2010/11.
- **Investment Income.** With the capital receipt from the transfer of the housing stock in November 2008 the Council has had increased funds to invest, the returns on which were agreed would support the General Fund revenue account. The anticipated level of return will be substantially

reduced for 2009/10, for two reasons. First, interest rates levels have declined, with Bank Base rate currently at 3.5% and further reductions expected over the next 12 months. An average rate of return of 3% is assumed for 2009/10, this compares with a budgetted return of 5.5% for 2008/09. Secondly, the investments at risk with the Icelandic Banks. For budgeting purposes it is assumed that the return of the £5million investments or part thereof in the future will be used to fund capital expenditure and therefore there will be no interest on the amount to support the General Fund revenue account. The impact of these for 2009/10 is a reduction in interest of £713,770. A small increase in interest rates is predicted for 2010/11 (to 3.5%) and for 2011/12 (to 4%).

## **5. Planned Reductions**

- 5.1 The current Medium Term Financial Strategy 2008/09 to 2011/12 highlighted shortfalls of resources for the years 2009/10 to 2011/12. As a measure to address these as early as possible it was agreed that £500,000 of efficiency savings should be identified for each of 2009/10 and 2010/11 by October 2008. Information regarding the spend on services compared with other district councils has been used to provide focus on service areas to be reviewed. An analysis of expenditure by service, expressed as a cost (2008/09 estimates) per property is provided at Appendix E.
- 5.2 Reviews of a number of services have been commissioned, with progress against each being reported to the Performance and Efficiency programme Board. A schedule detailing the efficiencies identified is provided at Appendix F 'Programme of Delivery – All Reviews'.
- 5.3 In addition to the above reviews, Cabinet agreed at its last meeting that:
- Each Cabinet Member reviews their priorities and non-priorities against the Corporate Strategy and brings forward options for savings to a budget value of £100,000 minimum; and
  - The Chief Executive reviews options for organisational efficiencies above the budget value of £100,000 minimum.

A schedule of proposed options is currently in progress and will be circulated separate to the agenda papers.

- 5.4 As the Housing Revenue Account (HRA) is to be kept open, in order to continue to receive Housing Subsidy from Central Government, until the end of 2011/12, the Council can continue to make charges to the account as identified under section 1.2 above. The charges will be £303,640 for 2009/10. When the HRA is closed in 2012/13 the balance on the account will transfer to the General Fund and the interest previously credited to the HRA will also transfer, estimated to be £522,980 for 2012/13.
- 5.5 Whilst interest will continue to be payable to the HRA , until the account is closed, this will be used to fund the recharge identified at 5.4 above. Based on the estimated interest due to the HRA in 2009/10 a balance of £154,540 will remain after the recharge, which will be added to the HRA balance. It is proposed that an amount equivalent to this sum be used from the General Fund balance each year until the HRA is closed.

## 6. Balances

- 6.1 The General Fund balance as at 1<sup>st</sup> April 2008 was £2.939million.
- 6.2 Total amount of reserves earmarked for specific purposes was £3.838million as at 1<sup>st</sup> April 2008. The reserves are earmarked for a variety of purposes including capital financing, treasury management, risk management, concessionary fares, balances carried forward from the previous year including those for local committees.
- 6.3 The Housing Revenue Account balance was £4.859million as at 1<sup>st</sup> April 2008.

## 7. Resources

- 7.1 **General Grant from Central Government.** The government announced a three-year settlement for 2008/09 to 2010/11, which provided an increase of 2.9% for both 2009/10 and 2010/11. An announcement updating the settlement for 2009/10 will be made on 26<sup>th</sup> November 2008, whilst it is possible that changes may be made these are likely to be only minor amendments. The government will undertake a Comprehensive Spending Review of its expenditure in 2010 and this will be used to determine the next three-year grant settlement covering 2011/12 to 2012/14. In view of the pressures on the Council's finances regarding the economic situation Cabinet agreed at its last meeting that the Leader of the Council make representation to the appropriate Secretary of State regarding the impact upon the Council's funding to maintain much needed services for residents of the District. A copy of the response received from the Rt. Hon. John Healey MP, Minister for Local Government, is attached at Appendix G.
- 7.2 **Council Tax.** The level of Council Tax increase included in the General Fund Financial Profile for 2009/10 to 2012/13 at Appendix C is based on the current agreed Medium Term Financial Strategy of a year-on-year reducing increase. At the Leadership Workshop held on 24<sup>th</sup> October 2008, Cabinet Members and their Deputies agreed that in the current economic climate the level of increase should be lower and constant across the period of the new Medium Term Financial Strategy. A revised General Fund Financial Profile for 2009/10 to 2012/13 is provided at Appendix H, which includes a proposed increase in Council Tax of 2.5% for each year.
- 7.3 In summary this revised profile identifies:

	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m
Additional spending demands	2.522	1.188	0.676	0.769
Planned reductions	(0.702)	(0.259)	(0.030)	(0.221)
Use of Balances	(0.154)	(0.007)	(0.040)	0.201
Additional Government Grant	(0.279)	(0.290)	(0.256)	(0.262)
Council tax increase	(0.262)	(0.272)	(0.307)	(0.317)
<b>Shortfall</b>	<b>1.125</b>	<b>0.360</b>	<b>0.043</b>	<b>0.170</b>

- 7.4 In addition to proposing a limited increase in Council Tax levied by this Council, the Leader of the Council has expressed a desire that Parish and Town Councils

should also limit the increase in their precepts in the coming years. Accordingly it is proposed that the inflationary increase applied to the Parish Support Grant (PSG) be limited to 2.5%, but this increase will be reduced down to nil where increases in Parish or Town Council precepts are increased by more than 2.5%. For example, a Parish Council increasing its precept by 4.5% will receive an increase in its PSG of 0.5%.

- 7.5 **Other Resources.** The Council has received additional resources in recent years in respect of Housing and Planning Delivery Grant and under the Local Authority Business Growth Incentives scheme. Whilst both of these sources are to continue over the next two to three years it is considered prudent to only meet one-off expenditure needs from these and as such the resources are not included in the profile.

The Council received a Housing and Planning Delivery grant of £258,000 for 2008/09. Notice of the allocation for 2009/10 is not expected until June/July 2009. The Government has however announced that the grant available nationally will rise from £100million in 2008/09 to £160million in 2009/10 and £250million in 2010/11.

The government has consulted on a revised Local Authority Business Growth Incentives scheme for 2009/10. The outcome of the consultation is still awaited however the revised scheme is expected to give the majority of the resource to county and unitary councils.

## 8. Capital

- 8.1 **Capital Resources.** A significant element of the resources required to deliver the Council's Capital Strategy is receipts from the sale of assets. The downturn in housing market is impacting with reducing land values and a slowdown in the sales of former council houses (from which the Council receives a share of the Right To Buy receipt with Greenfields CH).
- 8.2 A statement of expected capital resources for the period 2008/09 to 2012/13 is provided at Appendix I.
- 8.3 The statement shows limited resources available to fund capital projects, on the basis that the capital receipt from the housing transfer is invested to support the revenue account. The capital receipts anticipated in the resources are for the sales of the Riverside/St. Johns site and the site assembled to the east of High Street, Halstead and from sales of 5 former council houses per annum.
- 8.4 In addition to its own capital resources, however, the Council will have opportunity to seek funding from the CHIP Fund (currently £11million), which it has joint access to with Greenfields CH, for projects that meet the following criteria:
- Development of new social housing;
  - Development of facilities for community benefit;
  - Environmental improvements; and
  - Regeneration activities that the company can undertake as a Registered Social Landlord.
- 8.5 **Capital Bids.** Requests for funding capital projects have been received from Heads of Service. Three Members of the Cabinet, Councillors Lager, Walters

and McKee, are meeting to review and prioritise the projects on Thursday 20<sup>th</sup> November 2008. The outcome from the review will be circulated separate to the agenda papers.

**9. Housing Revenue Account.**

- 9.1 The Council will have a total of 24 dwellings in 2009/10. Rents and service charges increases for 2009/10 will be determined in accordance with the Council's policy on housing rents and within the parameters set each year by Government. A draft Housing Revenue Account prior to the increase in rents is provided at Appendix J.