

**MEDIUM TERM FINANCIAL STRATEGY UPDATE****Agenda Item 3a**

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**Background Papers:-** Medium Term Financial Strategy 2008/09 to 2011/12 report to Cabinet on 4<sup>th</sup> February 2008

**Financial Implications:-** Included in report

**Equalities Implications:-** None identified

**Legal Implications:-** None identified

**Options:**

**Risks:**

**EXECUTIVE SUMMARY**

The Council's Medium Term Financial Strategy (MTFS) 2008/09 to 2011/12 was prepared on the basis of assumptions and predictions regarding a range of factors that were considered likely to impact on the Council's expenditure and income. However, it is clear that since that time the world has changed and this is having a significant impact on the Council.

The main areas that will have an impact as the Council reviews and rolls forward its MTFS for 2009/10 to 2012/13 are:

- General rate of inflation has increased by 2.25% from the allowance of 3% included for 2009/10 to 2011/12;
- Inflation of utility and fuel, in particular, will incur the Council in significant additional cost;
- Pay and Pension costs. Employee costs are a significant proportion of the Council's total costs. The pay award for 2008/09 is still to be agreed. The allowance currently provided in each year is 2.5%. Pension contribution costs are set until 2010/11, with a review to be undertaken as at 31<sup>st</sup> March 2010 to determine the contribution costs for 2011/12 to 2013/14. Performance of the equity markets have a significant impact on pension funds.
- Income received for a number of the Council's services is declining. In particular, services linked to the housing market i.e. Development Control with fewer large scale planning applications and Land Charges with a reduction in the number of local land searches.
- The level of interest rates is positive for the Council, as it has significant monies to invest not least as a result of the receipt from the transfer of the housing stock. The main issue is the selection of counter parties to lend the money to.

The affordability gap for 2009/10 identified in the current MTFS stood at £405,310. It is clear from the above that the Council is facing a significant increase in its costs, which will see the gap rise to around £1million.

In accordance with the budget setting timetable detailed work is underway to determine the overall impact of the above factors on the Council's finances. A number of reviews of services are in progress to identify efficiencies for 2009/10 and 2010/11. Management Board are currently scrutinising proposed plans for all services. Cabinet members will undertake a business plan and budget Challenge with the Chief Executive and Directors during November 2008.

An update of the financial position will be presented to the Cabinet at its meeting on 1<sup>st</sup> December 2008.

#### **RECOMMENDATION**

Members are requested to receive and note the issues, identified in the report, that are expected to impact on the review of the Council's Medium Term Financial Strategy for 2009/10 to 2012/13.

### **MEDIUM TERM FINANCIAL STRATEGY UPDATE**

The Budget Consultation and Budget Setting process timetable for 2009/10 was agreed by the Cabinet at its last meeting, held on 1<sup>st</sup> September 2008.

In accordance with that timetable this report provides an initial update to the Medium Term Financial Strategy 2008/09 to 2011/12 (MTFS), which was agreed by Full Council on 18<sup>th</sup> February 2008.

The summary of the spending profile for the General Fund for the four-year period, as provided in the MTFS, is attached as an Appendix.

The MTFS was prepared on the basis of assumptions and predictions regarding a range of factors that are likely to impact on the Council's expenditure and income. However, it is clear that since that time the world has changed and this is having a significant impact on the Council. The following provides an update on the issues for the Council as it revises and moves its MTFS forward:

#### **1. Expenditure/Income in 2008/09 based on First Quarter**

- 1.1 The Quarterly monitor based on the first quarter's income and expenditure predicted a balanced position for the year. This, however, is after a number of compensatory large variations, which may impact into future financial years. These include:
- 1.2 Development Control income. The national slowdown in the building and construction industry is having a negative impact on the Planning Development

Control income. Although the overall number of planning applications is showing a reduction of about 10% the majority of the reduction are major fee earning applications. Predicted shortfall against budget of £254,000.

- 1.3 Land searches income. The slowdown in the housing market is having a direct impact on the number of land charge searches undertaken and this combined with the continued change in mix of the type of search undertaken from full (£159 fee chargeable) to personal (£16 fee chargeable) is resulting in a forecast underachievement of income of £183,000.
- 1.4 Increased fuel costs are expected to add about £90,000 to the cost of operating the Council's fleet.
- 1.5 One-off costs of redundancy following staffing restructure in the Customer Services Centre.
- 1.6 Interest earned from monies invested is expected to be £318,000 more than budgetted. The expected average rate of interest achieved is 5.8% against an anticipated rate of 5.5% and the average balance on money available for investment is marginally higher.
- 1.7 Additional income for receiving and disposing of recyclable waste from Uttlesford District Council. The income was not anticipated in the budget for the year, as Uttlesford DC has been reluctant to sign a long-term contract.
- 1.8 Salaries budgets are expected to be underspent to meet the Efficiency Factor of £335,310 allowed in the budget.

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

- 2.1 Leisure Management contract. DC Leisure has approached the Council requesting an increase in the management fee to meet higher energy costs. Negotiations are currently in progress to agree the level of increase. In addition the proposed temporary closure of the Bramston Sports Centre, to undertake repair works, will incur the Council in a loss of income claim from DC Leisure.
- 2.2 Energy costs. The Council's own energy costs will rise from 1<sup>st</sup> October 2008 as the existing contract expires on 30<sup>th</sup> September. Indications are that the increase could be in the region of 105%.
- 2.3 Concessionary Fares. Concerns existed over potential additional cost to the Council if the take-up of the new nationwide free bus travel scheme introduced from 1<sup>st</sup> April 2008 exceeded that forecast by MCL Transport Consultants to the Essex Scheme. These concerns have been alleviated following the recent agreement between bus operators and the Essex Scheme, to cash limit the cost of the scheme for 2008/09 and to increase the costs for 2009/10 and 2010/11 by the rate of inflation.
- 2.4 Negotiations are continuing to seek an agreement on the pay award, due on 1<sup>st</sup> April 2008. The budget provides for an increase of 2.5%. The current offer, by the Employers Association, is 2.45%.

## **3. Spending Pressures for 2009/10 to 2012/13**

- 3.1 The current MTFs provides for a general inflation allowance of 3% for 2009/10 and beyond. Whilst the allowance for 2009/10 will be based on the September Retail Prices Index, which will be published in early November, the current (August 2008) index is 5.25%.
- 3.2 The Council currently has loans outstanding of £8.5million. A loan of £2.5million, at an interest rate of 4.85%, from the Public Works Loans Board matures in March 2009. The two remaining loans, each of £3million, at interest rates of 4.75% and 4.65%, are market loans, which have 33 years to maturity although the Lender has the option (twice per year) to request a change to the interest rate. If this option were to be exercised, the Council would have the opportunity to repay. As the Council has more investments than loans the implication of the maturing loan and the possible early repayment of the market loans is that there would be a net loss of interest i.e. between the current estimated investment rate and the rates on the loans.
- 3.3 The returns on investments in the current MTFs are 5.5% in 2008/09 and 5% for 2009/10 onwards. Whilst the rate for 2008/09 is being out-performed, predictions from the Council's treasury consultants, Butlers, are that rates will fall in 2009/10 to an average of 4.7% before rising to averages of 4.9% and 5.2% in 2010/11 and 2011/12, respectively. With the out-performance of interest received in recent years the Council has set-aside some of this interest in a Treasury Reserve. At this stage in the budget process it is proposed to suggest interest rates of 5.25% for 2009/10, 5% for 2010/11 and 5.25% for 2011/12 and 2012/13.
- 3.4 Pay and Pensions. The allowance for pay award in 2009/10 onwards is 2.5%. The employer's contribution to the pension scheme is set on a three-yearly basis, with the current agreement covering the years 2008/09 to 2010/11. The current MTFs allows for increases in 2009/10 and 2010/11. A review of the Essex Pension Scheme will be conducted as at 31<sup>st</sup> March 2010, at which time new contribution rates will be set for 2011/12 to 2013/14. It is likely that the current economic downturn will impact adversely on the returns achieved by the Essex Pension Scheme and therefore the review will require further increases in contributions.

#### **4. Resources**

- 4.1 General Grant for Central Government. The government announced a three-year settlement for 2008/09 to 2010/11 this provided an increase of 2.9% for both 2009/10 and 2010/11. It is possible that changes may be made but these are likely to be only minor amendments. The Government will undertake a Comprehensive Spending Review in 2010 which will be used to determine the next three-year grant settlement covering 2011/12 to 2013/14.
- 4.2 Housing Benefit Administration Subsidy. Notice has been received of the Council's allocation for 2009/10, of £991,674. The increase is due to the change in workload as the housing stock transferred are now classified as rent allowances rather than rent rebates. This is an increase of £22,750 over the current year and compares with an expected reduction of £23,670 provided in the MTFs for 2009/10.
- 4.3 Service Level Agreements with Greenfields Community Housing. The Council has budgetted to receive a total of £1.836million under these service level agreements (SLA). These SLA's cover a range of services including

accommodation, grounds maintenance, procurement, payroll, customer contact centre, out-of-hours, ICT infrastructure, etc. The original agreements have various termination dates ranging from December 2008 to March 2010. Whilst discussions are being held with Greenfields CH to determine the likely termination dates, for example the original date for the accommodation at Causeway House and Millenium Tower was June 2009, Heads of Service are working on plans to compete to retain the SLA when re-tendered and/or to address the loss of an SLA.

- 4.4 Housing Revenue Account. It is to be proposed to keep the account open whilst the Council is able to recover subsidy against a debt of £4.5million for the early repayment of debt. If the account is not kept open, then the debt would have to be written down against the LSVT capital receipt. The assumption in the current MTFS is for the account to have been closed during 2008/09 which would enable the balance of the account to have been transferred to the General Fund in 2009/10, with the interest earned from investing the balance accruing to the General Fund revenue account. Under the proposal to keep the account open the balance and hence the interest will continue to accrue to the Housing Revenue Account.
- 4.5 Local Authority Business Growth Incentives Scheme. A revised scheme is currently the subject of consultation, closing date for comment is 20<sup>th</sup> November 2008.
- 4.6 Housing and Planning Delivery Grant. The Council has received a grant of £258,000 for 2008/09. The Government has announced that the grant available nationally will rise from £100million in 2008/09 to £160million in 2009/10 and £250million in 2010/11.
- 4.7 Fees and Charges. The Fees and Charges Task and Finish group presented a revised Charging Policy to Full Council on 15<sup>th</sup> September 2008. The Cabinet will now consider the revised policy. Once agreed all fees and charges will be reviewed in accordance with the policy and as part of the budget setting process for 2009/10.

## **5. Efficiency Reviews**

- 5.1 The MTFS recommended that the affordability gap identified for the years 2009/10 to 2011/12 should be addressed with the identification of £500,000 of efficiency savings for each of 2009/10 and 2010/11 by October 2008.
- 5.2 Reviews of a number of services have been commissioned, with progress against each being reported to the Performance and Efficiency Programme Board. To-date the reviews have identified:
  - £25,000 savings in 2008/09
  - £119,500 additional savings in 2009/10 (total of £144,500 in 2009/10) and
  - £373,000 additional savings in 2010/11 (total of £517,500 in 2010/11)
- 5.3 In addition to the efficiency reviews, strategic reviews have also been commissioned on Community Hall provision, Cultural Services and Leisure Facilities. Whilst the reviews of community halls and leisure facilities are in progress, the review of cultural services has been concluded. The main outcome of the review was that the provision of the Museum Service, including the Warner

Collection, which is run in partnership with the Museum Trust, is facing severe financial difficulties such that the Trust owes the Council £72,108 from 2007/08, and £14,117 for the first quarter of the current year. A number of actions have been agreed with the Museum Trust and these are being implemented, including the restructuring of the service that will involve one post being declared redundant.

## **6. Balances**

- 6.1 The General Fund balance as at 1<sup>st</sup> April 2008 was £2.939million.
- 6.2 Total amount of balances earmarked for specific purposes was £3.538million as at 1<sup>st</sup> April 2008. The balances are earmarked for a variety of purposes including: capital financing, treasury management, risk management, concessionary fares, balances carried forward from previous year including those for local committees.
- 6.3 The Housing Revenue Account (HRA) balance was £4.859million as at 1<sup>st</sup> April 2008. This balance will transfer to the General Fund following the closure of the HRA.

## **7. Capital Resources**

- 7.1 A significant element of the resources required to deliver the Council's Capital Strategy is receipts from the sale of land and buildings. The downturn in the 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. Conclusion**

- 8.1 The affordability gap for 2009/10 identified in the current MTFs stood at £405,310. It is clear from the above that the Council is facing a significant increase in its costs which will see the gap rise to around £1million.
- 8.2 With the budget setting process currently in progress, work is underway to assess the impact of all of the above. In addition, Management Board has commenced its scrutiny of and challenge to all of the proposed plans for services. This will form the basis of information to be presented to the Leadership Workshop on 24<sup>th</sup> October 2008.

**GENERAL FUND - MEDIUM TERM FINANCIAL SUMMARY**

<b><u>GF - Profile Summary</u></b>	<b><u>2008/09</u></b>	<b><u>2009/10</u></b>	<b><u>2010/11</u></b>	<b><u>2011/12</u></b>
<b>Base Budget</b>	17,220,370	17,862,860	18,498,580	19,133,640
Inflation (Pay and Prices)	711,540	725,140	708,290	678,610
New Demands	853,230	209,200	172,000	200,000
Identified Reductions (Expenditure and Income)	(363,760)	34,470	(10,000)	(10,000)
Additional Savings Required		(405,310)	(412,640)	(265,430)
Housing transfer (business efficiency reviews)	(536,520)	72,220	177,410	0
Net Change in charges between funds	(22,000)	0	0	0
<b>BDC Net Expenditure</b>	<b>17,862,860</b>	<b>18,498,580</b>	<b>19,133,640</b>	<b>19,736,820</b>
Contributions to/(from) Balances		0	0	0
<b>BDC Net Expenditure for Council Tax purposes</b>	<b>17,862,860</b>	<b>18,498,580</b>	<b>19,133,640</b>	<b>19,736,820</b>
<b>Percentage Increase in Net Expenditure</b>	<b>4.1%</b>	<b>3.6%</b>	<b>3.4%</b>	<b>3.2%</b>
Formula Grant	(9,662,030)	(9,941,212)	(10,231,363)	(10,487,150)
Surplus on the Collection Fund	(51,010)	(25,000)	0	0
<b>BDC requirement from Council Tax</b>	<b>8,149,820</b>	<b>8,532,368</b>	<b>8,902,277</b>	<b>9,249,670</b>
<b>Council Tax Base</b>	<b>52,585</b>	<b>53,111</b>	<b>53,642</b>	<b>54,178</b>
<b>Council Tax per Band D property (£)</b>	<b>154.98</b>	<b>160.65</b>	<b>165.96</b>	<b>170.73</b>
<b>Percentage Increase in Council Tax</b>	<b>4.3%</b>	<b>3.7%</b>	<b>3.3%</b>	<b>2.9%</b>
<b>Increase per week</b>	<b>£0.12</b>	<b>£0.11</b>	<b>£0.10</b>	<b>£0.09</b>

<b><u>General Fund-Balance</u></b>	<b><u>2008/09</u></b>	<b><u>2009/10</u></b>	<b><u>2010/11</u></b>	<b><u>2010/11</u></b>
<b>Balance brought Forward 1st April</b>	<b>2,222,800</b>	<b>2,531,300</b>	<b>2,531,300</b>	<b>2,531,300</b>
Estimated addition from current year position (as at Q2)	308,500			
Base Budget (addition)/ withdrawal from Balances	0	0	0	0
<b>Balance carried forward</b>	<b>2,531,300</b>	<b>2,531,300</b>	<b>2,531,300</b>	<b>2,531,300</b>
Recommended Minimum Level	1,500,000	1,500,000	1,500,000	1,500,000
<b>(Excess)/Shortfall against Recommended Balances</b>	<b>1,031,300</b>	<b>1,031,300</b>	<b>1,031,300</b>	<b>1,031,300</b>

	<b><u>2008/09</u></b>	<b><u>2009/10</u></b>	<b><u>2010/11</u></b>	<b><u>2010/11</u></b>
<b>Transfers to/ (from) reserves included in the Base Budget</b>	<b>(92,200)</b>	<b>(87,110)</b>	<b>(41,530)</b>	<b>37,000</b>