

DRAFT MEDIUM TERM FINANCIAL STRATEGY – SUPPLEMENTARY PAPER**Agenda Item 5(e)**

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Background Papers:- Meeting the Aspirations of the British People – 2007 Pre-Budget Report and Comprehensive Spending Review (HM Treasury October 2007)
Financial Implications:- Addressed in report
Equalities Implications:- Not applicable
Legal Implications:- Not applicable
Options: Not applicable
Risks:

EXECUTIVE SUMMARY

The Draft Medium Term Financial Strategy 2008 to 2012 prepared for discussion by Cabinet on 15th October 2007 contained a number of assumptions regarding financial support from Government.

Government published its 2007 Pre-Budget Report and Comprehensive Spending Review (CSR07), of 282 pages, on 9th October 2007. The decision was taken by the Chief Executive to postpone the Cabinet meeting until 29th October 2007 to allow for consideration of the implications of this review.

This report provides an update to the Draft Medium Term Financial Strategy 2008 to 2012 covering:

- an overview of CSR07;
- the likely implications for this Council from CSR07;
- the Invest to Save Reserve and the Business Efficiency Programme;
- changes required to Treasury Management limits; and
- an updated General Fund Profile 2008/09 to 2011/12.

Whilst details of the actual financial settlement for this Council, for the three-years - 2008/09 to 2010/11, from Government will not be known until late November/early December the CSR07 provides some early indications of the likely settlement. The Draft Medium Term Financial Strategy provided for a reduction in the amount of grant receivable compared to previous years but this has needed to be reduced further to 2.5% in 2008/09, 2.25% in 2009/10 and 2% in 2010/11.

In addition the CSR07 indicates that the Department of Work and Pensions is to receive a budget that falls by over 5% per year on average in real terms over the three-year period. Whilst a 5% reduction in Housing Benefit Administration Subsidy had been anticipated for 2008/09 provision is now included for further reductions in 2009/10 to 2011/12.

The net effect of these changes is an increase in the amount of savings required over the four-year period from £1.5 million to £1.6 million and is shown in Appendix 1.

A number of proposals made through the Business Efficiency Programme result in the reduction in the number of staff required following the transfer of the housing stock. One-off costs of redundancy and access to pension payments (£568,170) are required to achieve ongoing savings (£324,490). In order to cover these costs and other costs in running the Business Efficiency Programme an increase in the Invest to Save Reserve of £367,050 is proposed, with funding from the projected General Fund underspend in the current year.

Finally, as a result of the increased monies that the Council will have available to invest following the transfer of the housing stock, an increase in the limit of monies that can be invested longer than 364 days from £5 million to £25 million is requested.

DECISION

Members are asked:

1. For any comments and/or amendments required to the Draft Medium Term Financial Strategy 2008/09 to 2011/12;
2. To agree the process for identifying the projected savings required: by means of the Business Efficiency Reviews, the joint office accommodation project, managers reviewing 2007/08 spending (as at half-year) to identify potential areas for savings and for a review of fees and charges.

To RECOMMEND TO COUNCIL

3. An addition of £367,050 to the Invest to Save Reserve, to be funded from the projected underspend against budget in the current year.
4. That the prudential indicator limiting investments longer than 364 days be increased to £25million with immediate effect.

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The Comprehensive Spending Review 2007 (CSR07) and the Pre-Budget Report was published by Alistair Darling, the Chancellor of the Exchequer, on 9 October 2007.

An overview of the report, produced by the Local Government Information Unit, is provided below:

Background

Government spending reviews take place every two years, but cover three-year periods. They set out the policy and financial framework and departmental spending plans for the period. The government delayed the spending review that should have been published in 2006, with the intention that the next review was going to be a more wide ranging and comprehensive review, setting the financial framework for the next decade of public service provision. The Treasury undertook a programme of analytical work and produced related reports on cross-cutting issues, as well as commissioning independent reports on specific areas, such as land use planning.

Spending reviews also set out the performance framework and targets for government departments and for local government.

Government objectives for CSR07

- An examination of the key long-term trends and challenges that will shape the next decade - including demographic and socio-economic change, globalisation, climate and environmental change, global uncertainty and technological change.
- A national debate to build a shared understanding of how the UK and public services need to respond to these challenges.
- Detailed studies of key areas where cross-cutting, innovative policy responses are required to meet these long-term challenges.
- An ambitious and far-reaching value for money programme, involving both further development of the efficiency areas developed in the Gershon review, and a set of zero-based reviews of departments' baseline expenditure to assess its effectiveness in delivering the government's long-term objectives.
- A more strategic approach to asset management and investment decisions.

Cross-cutting issues

The related reports on cross-cutting issues published in advance of CSR07 were:

- Children and Young People Review
- Sub-national economic development and regeneration review
- Review of Counter-Terrorism and Security
- Mental Health and Employment Outcomes Review
- Review of the Future Role of the Third Sector in Social and Economic Regeneration

Independent reviews

The independent reviews undertaken to inform CSR07 were:

- Barker Reviews of Land Use Planning and of supporting housing growth

- Stern Review of the Economics of Climate Change
- Sir Michael Lyons' Inquiry into the funding, role and function of local government
- Eddington Transport Study
- Sir David Varney's review of 'Service transformation: A better service for citizens and businesses; a better deal for the taxpayer'

Some of these reviews were commissioned by the Treasury as part of the 2006 Pre-Budget Report.

The economy

The UK economy has grown strongly in 2007, reaching 3.25 per cent over the year. The Treasury, however, has had to cut its growth forecast from the 2.5-3 per cent in the March budget to 2–2.5 percent in 2008, before returning to its trend rate of 2.5–3 percent in the following two years. However, the Treasury warns that the recent turbulence in world financial markets casts some uncertainty over its forecasts, and it is difficult to foresee how the consequences of credit tightening will affect the timing of the spending decisions of households and firms.

To meet the government's expenditure plans, borrowing will rise steeply this year and it is likely that net borrowing will be very much higher than now in each year until 2012. The government will meet some of its shortfall through gains in corporation tax and in closing loopholes for rich non-domiciles but also, crucially, through efficiency gains in the public sector and asset sales.

Public spending

Spending growth will halve over the next three years - to an average of 2.1 per cent per annum in real terms. Public spending will therefore grow less quickly than the economy over the three years of the Review period, and will continue to do so over the next period. Over the next five years, spending will be cut as a share of national income by the equivalent of £7 billion in today's money.

Health has by far the biggest increase in growth in public services, but the growth of 3.7 per cent a year is well down on the 7.2 per cent average that it has seen since 1999.

Local government spending 2008-2011

The government's view is that it has provided 'a fair and affordable settlement' for local government, worth £26 billion by 2010 with a one per cent growth on top of inflation. In exchange, local government should not make 'excessive' council tax increases or reduce in service quality. Overall Council tax increases should be 'substantially' below 5 per cent.

Within the overall figures there are announcements on £1.7 billion targeted for infrastructure in growth areas and £500 million to incentivise local authorities to increase housing supply.

The settlement also delivers £2 billion over three years for neighbourhood and local renewal programmes and £50 million over the same period to promote greater community cohesion and integration.

Failure to meet the new efficiency targets is likely to wipe out any extra cash local government will be able to spend on services. In addition, the government set tough new targets for local services including increasing the rate of waste recycling to 40 per cent by 2010 and improved services for children in care, families in need and old and vulnerable people.

The Local Government Association sees this as the 'worst settlement for a decade' believing that council tax will continue to rise above inflation and unable to meet demand for a range of services, including support for up to 370,000 elderly people with low level needs who under current criteria are entitled to care.

Efficiency target for local government

The Value for Money Delivery Plan, published alongside CSR07, shows that there should be annual net cash-releasing savings of £4.9 billion by 2010-11, through:

- up to £2.8 billion from smarter procurement
- up to £300 million from better asset management
- up to £1.8 billion from business process improvements and collaboration initiatives

The new target compares with the target of £3 billion over this current spending review period.

To support the delivery of these savings, the government is providing an additional £150 million for efficiency support over the CSR07 period.

A new Improvement and Efficiency Strategy will be developed between local and central government and published later this year.

Housing and planning

The report confirmed the spending figures and the targets for new housing in the Housing Green Paper. £4 billion will also be spent over the review period on renovating homes and measures introduced to bring empty residential properties back onto the market.

The government used CSR07 to announce that they were dropping the plan to introduce a planning gain supplement, after months of controversy. They are now proposing to set up a roof tax system - a planning charge - that would enable councils to levy a charge proportionate to the size and scale of a development. This would operate alongside a limited section 106 agreement. Key details have not yet been published. The government will consult on the charge before it is included in the planning reform bill when it is laid before Parliament.

Sustainability

The majority of proposals for environmental sustainability are directed towards business and technology to shape a low carbon economy. The supporting document 'Moving to a global low carbon economy: implementing the Stern Review' provides more detail.

For local authorities there are two specific areas for investment, the increased risk of flooding and improvements in waste management.

Following the series of summer floods and the potential impact of climate change, local authorities will be pleased to see the increased funding for flood and coastal erosion defences, although a rise to just £800 million by 2010-2011 is unlikely to meet the wide demand to improve flood defences. The government has also announced an additional £10 million per year fund for communities where defences would not be appropriate to prevent flooding. This will be ever more necessary as a changing climate leads to flash floods or in areas that have not previously suffered from flooding.

Recognising the ongoing need to divert waste from landfill sites, there is additional investment in more sustainable waste management options. The funding is through the waste Private Finance Initiative, for projects in partnership with the private sector that will

help the UK meet EU Landfill Directive diversion and recycling targets. There is also a reminder that the Landfill Tax will increase in April 2008.

There are two new Public Service Agreements announced in relation to environmental sustainability:

- to lead the global effort to avoid dangerous climate change
- to secure a healthy natural environment for today and in the future

Local authorities should be aware that these are likely to be translated into local indicators in the new performance framework. In particular, targets for reducing carbon emissions of councils buildings and also possibly the wider community. The indicators linked to a healthy natural environment, cover issues of air quality, water quality and biodiversity.

Performance framework

In line with earlier commitments to reduce and rationalise the performance-monitoring burden on local authorities, the CSR07 announces a single set of priority outcomes for local government (working alone or in partnership), as set out in the relevant Public Service Agreements and Departmental Strategic Objectives; a single set of 198 national indicators to manage performance delivery outcomes; and the negotiation of all targets reflecting national priorities (to a maximum of 35, plus 17 statutory educational attainment and early years targets from DCSF) through Local Area Agreements – with a further round of reward grants available maintain effective incentives for the delivery of ambitious, cross-cutting targets.

Business Rate Supplements: A White Paper

As part of the CSR07, HM Treasury and the Department for Communities and Local Government published a White Paper on Business rate supplements. The following is an extract from the executive summary:

Building on the extensive public debate on reforms of business rates in England, the recommendations of the Lyons Inquiry and the commitment to consider options for business rate supplements in the review of sub-national economic development and regeneration, the Government's proposed model for business rate supplements involves four levels of protection for business:

- Revenue from supplements will only be available for spending on economic development – such as infrastructure.
- A national upper limit of 2p in the pound.
- Properties liable for business rates with a rateable value of £50,000 or less will be exempted from paying supplements.
- Where the supplement will support more than a third of the total cost of the project there will additionally be a ballot of businesses affected.

Revenues from supplements will be locally raised and retained, with local decision-making on the duration of any supplement and the specific projects it should be spent on. The Government intends that only the highest tier local authority in any area should be entitled to levy supplements. Shire counties will be required to consult their districts on any supplement proposals.

The Government will consult on technical issues before finalising detailed arrangements.

Implications of CSR07 for Braintree DC

Revenue Support Grant

Whilst the specific details of the financial settlement for this and all other Councils will not be received until the last week of November/ first week of December, the information provided in the 2007 Pre-Budget and Comprehensive Spending Review and associated papers provide indication of likely changes to the assumptions already made in the projected financial position contained in the Draft Medium Term Financial Strategy report, Cabinet agenda 15th October, item 5c.

The report indicates spending plans for Local Government for 2008/09 to 2010/11 as follows:

Net Aggregate External Finance (excluding support for PFI), which equates to the Revenue Support Grant and share of the Business Rates Pool.

Year	National Amount £(m)	Increase %	Inflation Assumed %
2007/08 (Settlement)	21,163		
2007/08 (Adjusted)	22,557		
2008/09	23,404	3.8	2.75
2009/10	24,067	2.8	2.75
2010/11	24,694	2.6	2.75

The 2007/08 figure is adjusted as some grants which were allocated as specific grants are now to be allocated through the Revenue Support Grant mechanism. Of the £894.3million specific grants only £46.7million relate to district council services.

The increases allowed, equate to approximately 1% per annum in real terms over the three-year period, are for all local government services whereas the increases for individual services and authorities will vary. Adult social care, police and children's services will probably receive grant increases in excess of 3.8%. It is expected that as in previous years a 'floor' will be used, to guarantee each council a minimum increase in its grant. However with the level of overall resources rising by a smaller amount than in recent years commentators are suggesting that a floor of 2.5% for 2008/09, and possibly tapering down to 2% for 2010/11, seems inevitable.

An increase of 2.5%/2.25%/2% for each year would have the following impact on the General Fund profile:

Year	Current Profile	Update Profile Floor	Variation
2008/09	£9,618,570 (3%)	£9,571,880 (2.5%)	-£46,690
2009/10	£9,810,940 (2%)	£9,787,250 (2.25%)	-£23,690
2010/11	£9,909,050 (1%)	£9,983,000 (2%)	+£73,950
2011/12	£10,206,320 (3%)	£10,232,580 (2.5%)	+£26,260

Housing Benefit Administration Subsidy

The Draft Medium Term Financial Strategy anticipated a 5% reduction of this subsidy from the Department of Work and Pensions (DWP) in 2008/09. The subsidy receivable in 2007/08 is £968,920. The reduction of £48,440 is however to be found within existing resources.

The CSR07 report determines that the DWP will receive a budget that falls by over 5% per year on average in real terms over the three-year period. The expectation is that the Department will make these year-on-year reductions to the subsidy but will seek to work with councils to achieve efficiencies in the processes.

Year	Current Profile	Update Profile	Variation
2008/09	Net nil	Net nil	0
2009/10	Nil	£46,020	-£46,020
2010/11	Nil	£43,720	-£43,720
2011/12	Nil	£41,530	-£41,530

Delivering Value for Money in Local Government

CSR07 builds on the efficiency programme established in CSR04, which required local authorities to achieve cumulative efficiencies of 7.5% over the period 2005/6 to 2007/8. Latest forecasts indicate that local government would comfortably exceed the Gershon requirement.

For Braintree Council, reported efficiency gains achieved and forecast to the end of March 2008 exceed the three-year target of £1.3m by around £700,000.

Under CSR07 all public services have been set a target of achieving at least 3% net cash-releasing value for money gains per annum over 2008/9 to 2010/11. Collectively, councils are expected to achieve £4.9 billion cash releasing efficiencies by 2010/11 from revenue and capital expenditure. Councils will be allowed to determine how and where to deliver and reinvest efficiency gains based on local circumstances. This now means there will no longer be a mandatory efficiency target for individual councils, but instead this is to be negotiated and agreed at a local level through the Local Area Agreements (LAA).

Achievement of gains will be monitored by a single measure to be reported by each council: "The total value of on-going cash releasing value for money gains that have impacted since the start of the 2008/09 financial year" - which will be part of the National Indicator Set, reported twice a year (i.e. forecast and actual). The purpose of the indicator will be to effectively assess the national and regional performance. Individual council performance will continue to be reviewed under CPA and the forthcoming replacement Comprehensive Area Assessments (CAA), although intervention by the local Government Office may still arise where progress is considered below expectation.

The baseline for the CSR07 Local Government Value For Money target is based on service revenue expenditure of £40.9 billion, plus gross capital spending of £12 billion, for 2007/8.

Translated to Braintree, this would effectively give a baseline of around £33.6m (inclusive of housing capital), and a "target" of £1m per annum, subject to the negotiations and agreement reached through the Essex LAA.

The target figure related to revenue expenditure only is £520,000, which is just less than the updated amount of savings required to be found in 2008/09 of £634,910, as detailed in the updated General Fund Revenue Profile 2008/09 to 2011/12 attached at Appendix 1.

Other Updates

Reserves and Balances

The Draft Medium Term Financial Strategy identifies, in section 14.3.3, the reserves and balances currently held.

The Invest to Save Reserve is used to finance one-off expenditure that will generate savings to the Council in future years. It has been agreed that the reserve will be used to finance the cost of the Business Efficiency Reviews, both the cost of engaging consultants to assist with the reviews and the costs of redundancy and early access to pension. The balance on the reserve as at 1st April 2007 was £450,000.

An assessment of the potential costs of the reviews, undertaken to address the transfer of the housing stock to Greenfields Community Housing, indicates that a budget of £817,050 may be required. This is on the basis that alternative employment is not found for those members of staff that are proposed to be placed at risk. The proposals have been subject to full consultation with staff and the unions. An analysis of the budget requirement together with the amount of savings generated is contained in Appendix 2.

Whilst the total cost of the redundancy and access to pension payments is £568,170 the annual savings achieved is £324,490. This provides a recovery of the costs in under 2 years.

The proposals are supported by Management Board.

The financial implication of the proposals together with the planned continuation and delivery of the Business Efficiency Programme is a requirement of an additional sum of £367,050.

It is proposed that this can be met from the underspend of expenditure and over recovery of income expected in the current year.

The review of the General Fund Revenue Account as at 30th September 2007 is currently in progress and will be reported to members in the Quarter 2 monitor in December. The review currently indicates that the account will be underspent, as was predicted and presented to members in the review of the quarter ended 30th June 2007. A key contributor to this position is the increases in interest rates experienced in the year to date, which indicate that an additional £200,000 will be received in interest for the year.

Treasury Management Prudential Indicators

As part of the budget setting for 2007/08, the Council approved a range of prudential indicators covering debt and investment activity. One of these indicators is:

“Limit on Sums Invested Longer than 364 Days

The limit on the investment of sums managed internally for periods longer than 364 days is £5m for 2007/08 and the subsequent two financial years.”

Since this was set there are a number of issues that have arisen that now mean it is appropriate to revise this limit:

The cessation of the external cash management – the mandate with the external cash manager was terminated effectively from April 2007, and which means an additional £15m of cash balances are now managed in-house.

The change in valuation of the housing transfer now means there is an expected increase in cash balances that will need to be managed. The Draft Medium Term

Financial Strategy (MTFS) is based on this cash being held and invested for the period up to 31st March 2012.

The Draft MTFS also assumes that balances that effectively transfer to the General Fund once the HRA is closed will be held over for investment purposes for the period up to 31st March 2012.

In order to provide maximum flexibility to deal with this increase in internally managed cash it is proposed that the prudential indicator limiting investments longer than 364 days is increased to £25million with immediate effect.

The actual investment of cash will take a balanced approach in terms of maturity profiles and types of investment instruments used from those already approved by Council in February 2007 as part of the Treasury Management Strategy.

The Council will be asked to consider prudential indicators and the Treasury Management Strategy for 2008/09 and beyond as part of the 2008/09 Budget Report.

Invest to Save Reserve

Balance on reserve as at 1st April 2007 was £450,000.

Business Efficiency Review Programme – budget requirements

	Budget Requirement £	Annual Salary Savings £	Recovery of costs
Programme Support	19,350		
Alexander Consulting – Housing Transfer workstream	44,680		
Alexander Consulting – Business Efficiency Programme	61,210		
Agreed Redundancy and Access to Pension Payments:			
Public Protection and Healthy Living	77,040	25,360	3yrs 1m
Law and Governance	82,720	94,460	11 mnths
Sub- Total	285,000		
Proposed Redundancy and Access to Pension Payments:			
Exchequer Services	63,600	29,090	2yrs 2m
Financial Services	106,930	42,820	2yrs 6m
Asset Management	138,360	89,110	1yr 7m
Human Resources	99,520	43,650	2yrs 4m
Specific Reviews/Work to be commissioned:			
Frontline Services (provision)	40,000		
Training and Development	14,600		
Payroll, Procure to Pay and Internal Communications Strategy	9,040		
Joint project with Colchester Borough Council	60,000		
Totals	817,050	324,490	

General Fund Revenue Profile 2008/09 to 2011/12

APPENDIX 1

	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
Base Budget (inclusive of vacancy factor)	16,471,390	17,220,370	17,678,550	18,166,070	18,623,990
Reversal of one-off New Demands from previous year	(227,730)				
	16,243,660	17,220,370	17,678,550	18,166,070	18,623,990
Inflation - Salaries and other expenditure		692,490	788,550	754,380	733,670
Inflation - Fees and Charges Income		(95,810)	(97,580)	(101,310)	(103,260)
<u>New Demands:</u>					
Pension Fund		100,000	100,000	100,000	100,000
Net changes to Housing Benefit costs		(25,000)			
Extension of recycling/ waste collection		-			
Vehicle & Plant replacement programme		40,000			
Provision for reduced Capital Reserve		30,000	-	-	
Local Committees		100,000			
Leisure Management - additional operating costs		140,000			
Housing Benefits Administration Subsidy reductions			46,020	43,720	41,530
Sub Total - New Demands		385,000	146,020	143,720	141,530
Revenue Contribution to Capital		-			
<u>Housing Transfer:</u>					
Residual costs		691,930	572,980	42,970	
Strategic Housing function additional costs		50,000			
Corporate Management recharge to Housing Transfer ceases		110,230			
Interest earned on capital receipt		(1,040,750)	135,750		
HRA balance received - interest receivable			(320,000)		
HRA Notional capital balance - interest receivable			(379,750)		
Pension Deficit shortfall against existing recharge to HRA		300,000			
Sub Total - Housing Transfer		111,410	8,980	42,970	0
<u>Reductions:</u>					
Additional income:-					
Rental Income from Freebournes Court			(10,000)	(10,000)	(10,000)
		0	(10,000)	(10,000)	(10,000)
Savings required		(634,910)	(348,450)	(371,840)	(260,450)
Revised Base Budget	17,220,370	17,678,550	18,166,070	18,623,990	19,125,480
Contribution from Balances	(54,300)				
	17,166,070	17,678,550	18,166,070	18,623,990	19,125,480
Government Grant	(9,338,422)	(9,571,880)	(9,787,250)	(9,983,000)	(10,232,580)
Collection Fund	(101,750)	(50,000)	(25,000)	-	-
BDC Requirement	7,725,898	8,056,670	8,353,820	8,640,990	8,892,900
Tax base	51,995	52,515	53,040	53,571	54,106
Council Tax (Band D)	£ 148.59	£ 153.42	£ 157.50	£ 161.30	£ 164.36
Council Tax per week	£ 2.86	£ 2.95	£ 3.03	£ 3.10	£ 3.16
Percentage Increase	3.8%	3.2%	2.7%	2.4%	1.9%
Increase per week	£ 0.10	£ 0.09	£ 0.08	£ 0.07	£ 0.06
1% increase in council tax		£ 78,031.57			