



## Council - 19 July 2010

### Review of Medium Term Financial Strategy

#### Summary

Over recent weeks a number of significant changes to local government and public sector finance have been announced by the new Government. The opportunity has been taken to review the impact of these and other changes on the Medium Term Financial Plan (MTFS).

#### Attachment(s)

Appendix A - Breakdown of changes to MTFS.

#### 1 Introduction

1.1 The MTFS agreed in December 2009 identified a significant gap between our revenue expenditure plans and our projected income. At the time we were also aware of a number of risks due to the likely change of Government and uncertainty about how its public sector spending cuts might impact on us. In considering the MTFS Members agreed to:-

- bring the budget back into balance over the life of the MTFS;
- use a maximum of £2m of revenue reserves to fund the deficit; and
- identify and bring forward further revenue savings during the current financial year.

1.2 Members will recall that a workshop was held for all Members on 1 February 2010. The workshop outlined the savings identified to that point and included in the 2010/11 budget. A further 17 options for potential savings to tackle the deficit were put forward by the Corporate Management Team. However the Members who attended the event were only prepared, at that stage, to progress two further proposals. The approved budget for 2010/11 was amended to include a provision to reflect savings from these two proposals.

1.3 The Budget Review Group has already been successful in identifying revenue savings of about £1m over the past fifteen months or so. These savings are reflected in the MTFS deficits attached.

1.4 The total revenue reserves at 1 April 2010 stood at about £6.4m. The Council's policy on revenue reserves states that the minimum level of reserves will be £1.7m.

#### 2 Changes in the financial climate

2.1 Since the formation of the new coalition Government a series of announcements has been made about the availability of funding to local government in both the current and future years. These changes are summarised below.

2.2 On 10 June the Government published details of £1.166bn in year savings as Local Government's contribution towards the overall Government savings of £6.2bn in 2010/11. A number of grants and funding streams were abolished with immediate effect and this included the abolition of the Housing and Planning Delivery Grant and the Local Authority Business Growth Incentives Scheme together with the abolition of LAA reward grant from 2011/12. These reductions in Government grant all impact on our MTFS and increase our budget deficit.

2.3 An early announcement has been made of the Government's intention to review the

Local Government Finance system again and this included a commitment to freeze council tax for at least one year. This commitment was reaffirmed in the Emergency Budget last week. The Budget document states "The Government will work in partnership with local authorities in England to implement a council tax freeze in 2011/12."

- 2.4 The Government has confirmed that the Comprehensive Area Assessment together with the Organisation Assessment, Use of Resources and Managing Performance assessments will be abolished with immediate effect. This should result in a small expenditure saving to us in terms of reduced audit fees. It will also result in a reduced workload for some staff, but not sufficient to create a redundancy.
- 2.5 The big changes in the Emergency Budget as far as the Council concerned are:
- A 2-year pay freeze for public sector employees on more than £21k p.a., and a flat £250 increase each year for those on less than £21,000. We had already agreed a pay freeze for 2010/11 so, subject to Council approval, we will implement this measure next year, and everyone below £21k will receive a rise of £250 in 2011/12.
  - £17bn of cuts in departmental spending by 2014/15 – 'unprotected departments' face an average cut of around 25% over 4 years. CLG is one of those 'unprotected departments', so at this stage we have to assume that we're looking at a 25% cut over the next 4 years, as opposed to the 15% cut over 3 years that we have assumed in the MTFs. We will not know for certain until the Comprehensive Spending Review in October precisely how much the grant for 2011/12 and future years will reduce.

### **3 Changes to the 2010/11 Budget and MTFs**

- 3.1 The various announcements referred to above have a significant impact on our budget for the current year and the availability of resources in future years. Appendix A sets out the key changes since the MTFs was agreed in December 2009 and the 2010/11 budget in February 2010. The key changes are set out below.
- 3.2 A review of the salary provision to reflect our locally agreed pay freeze from April 2010; the pay freeze from April 2011 as outlined in the Emergency Budget and likely on going pay restraint in subsequent years.
- 3.3 A reduction in audit fees following the abolition of the CAA, UoR and managing performance. The reductions reflect the sums agreed in 2010/11 in respect of these elements of the audit fee.
- 3.4 The loss of specific revenue grants from 2010/11 onwards. The MTFs had assumed the receipt of £390k in HPDG and LABGI in 2010/11 and therefore there will be an immediate shortfall in our income this year. Whilst the MTFs had assumed these funding streams would cease from 1 April 2011 there was an expectation, based on noises made prior to the election, that alternative funding streams would be forthcoming to compensate authorities for growth and development in their area. However, there have been no further announcements since the election that suggest that there will be any significant pots of money available to us. Our assumption therefore is that we will lose £390k per annum with immediate effect;
- 3.5 Interest rates remain subdued and the returns on investments set out in the MTFs look very challenging. It is therefore felt prudent to reduce the amount of investment interest in the next two years. The Finance Sub-Committee on 28 June 2010 was of a similar view when it considered the Treasury Management Report.
- 3.6 A further reduction in the Formula (General) Grant from Government. The original assumption was 15% spread evenly over three years. The Emergency budget would

suggest a reduction of 25% over four years and our assumption now is the loss of 10% in 2011/12 and 5% in each of the next three years. This increases the loss in 2011/12 from about £333k to some £665k.

- 3.7 The transfer of concessionary fares from the District Council to the County Council has been confirmed. But at this stage it is not clear how the funding will be withdrawn from the Formula Grant. There have been 22 methods considered all of which would see more funding withdrawn than it costs us to provide the function. The impact of these varies with a net increase in our cost from £26k to £841k. At this stage it would be prudent to make some provision for a loss of grant greater than the reduction in running costs. Our assumption is that the provision of the bus tokens and passes will transfer to the County Council.
- 3.8 The existing MTFS assumes that from April 2010 the cost of the administration of the LAA administration and Partnership Support Unit will be funded from the LAA reward grant received by the County Council. The in year grant reductions saw the abolition of the LAA reward grant with effect from 2011/12. It is therefore assumed a contribution will continue to be required in our budget to support this activity.
- 3.9 The MTFS assumes that our council tax income will grow by 4.9% each year from 2011/12. The assumption made in December was that this would come from either a straight forward 4.9% increase or alternatively a 2.45% increase in council tax together with “match funding” from Government to encourage lower council tax rises in the future. The Emergency Budget refers to a partnership with Local Government on freezing council tax rises in 2011/12 but it is unclear how this will be implemented. We have assumed that we will not be able to levy a 4.9% increase in 2011/12 as planned and that the Government will provide some cash, equivalent to a 2.5% rise in council tax in 2010/11, but that this will be a one off.
- 3.10 The cost of Manor Park within the MTFS has been revisited to reflect the current cost of borrowing. The original cost of borrowing was assumed at 3% but long term interest rates have never fallen to this level and currently 40 year PWLB is sitting at 4.38%. This will increase the cost of borrowing by £92k pa. However the original MTFS had assumed savings of only £301k in the management fee whereas the figure reported to Council is £376K. In addition the MTFS has been amended to reflect that a revenue contribution will be required towards the provision of an improved bus service to the Centre. It is anticipated the subsidy required by the bus operator in the early years will be £35k and that this sum will become self-financing or the bus service will cease in the latter years. All these changes are now built into the revised MTFS figures.
- 3.11 Once all of the changes have been taken into account the deficits on the 2010/11 budget and future years significantly increase. This emphasises once again the need to bring forward proposals to balance the budget over the life of the MTFS and to maintain adequate reserves.

#### 4 Budget Review Group

- 4.1 The Budget Review Group met 29 June 2010 to consider the draft report and felt it was necessary to bring details of these changes to full Council for its consideration.

#### 5 Recommendation

That Members note the increase in budget deficits and consider the process for identifying and bringing forward budget savings to balance the budget.

<b>Implications:</b>			
<b>Corporate Outcomes or Other Policy/Priority/Strategy</b>			
Good Quality of Life	<input type="checkbox"/>	Good Reputation	<input type="checkbox"/>
Good Value for Money	<input checked="" type="checkbox"/>	High Quality Service Delivery	<input type="checkbox"/>

Effective Partnership Working	<input type="checkbox"/>	Strong Community Leadership	<input checked="" type="checkbox"/>
Effective Management	<input checked="" type="checkbox"/>	Knowledge of our Customers and Communities	<input type="checkbox"/>
Employees and Members with the Right Knowledge, Skills and Behaviours			<input type="checkbox"/>
<b>Other:</b>			<input type="checkbox"/>
Decision(s) would be outside the budget or policy framework and require full Council approval			<input type="checkbox"/>
<b>Financial</b>	There are no financial implications at this stage		<input type="checkbox"/>
	There will be financial implications – see paragraph The report is of a financial nature		<input checked="" type="checkbox"/>
	There is provision within existing budget		<input type="checkbox"/>
	Decisions may give rise to additional expenditure at a later date		<input type="checkbox"/>
	Decisions may have potential for income generation		<input type="checkbox"/>
<b>Risk Management</b>	An assessment has been carried out and there are no material risks		<input type="checkbox"/>
	Material risks exist and these are recorded at Risk Register Reference – 470,546, inherent risk score - High residual risk score - High		<input checked="" type="checkbox"/>
<b>Staff</b>	There are no additional staffing implications		<input checked="" type="checkbox"/>
	Additional staff will be required – see paragraph		<input type="checkbox"/>
<b>Equalities and Human Rights</b>	There will be no impact on equality (race, age, gender, disability, religion/belief, sexual orientation) or human rights implications		<input checked="" type="checkbox"/>
	There will be an impact on equality (see categories above) or human rights implications – see paragraph		<input type="checkbox"/>
<b>Legal</b>	Power: Local Government Act 1972 and 2003. Local Government Finance Acts		
	Other considerations: Policy and Budgetary Framework		
<b>Background Papers:</b> .			
<b>Person Originating Report:</b> Mark Lovell, Executive Director/CFO. Tel: 01832 742074 email: malovell@east-northamptonshire.gov.uk			
<b>Date: 28 June 2010</b>			
<b>CFO</b>		<b>MO</b>	
			<b>CX</b>

(Committee Report Normal Rev. 21)

	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s
Previously Reported Deficit	1,071	1,644	1,734	2,085
<b>Adjustment in Budget Setting Process</b>				
Management Restructuring	50	(100)	(100)	(100)
Reduction in Staff Benefits & Pay Freeze April 2010		(200)	(200)	(200)
<b>Changes in assumptions since preparation of MTFS</b>				
Review of Salary Budget		(98)	(190)	(349)
Reduction in Audit Fees due to the end of CAA/UoR	(8)	(26)	(27)	(28)
Loss of Specific Grant Income	390	390	390	390
Manor Park - increased revenue burden		127	52	17
Reduction in investment returns due to subdued rates	50	50	-	-
<b>Potential grant losses not confirmed</b>				
Transfer of Concessionary Fares to County		300	300	300
Reduction in Formula/Revenue Support Grant		332	332	332
Loss of LAA reward grant from County Council		10	10	10
<b>Council Tax Freeze in 2011/12</b>				
Loss of Income at 4.9%		176	185	194
Incentive/compensation for Council Tax Freeze		(89)		
<b>Revised estimated deficit</b>	<b>1,553</b>	<b>2,516</b>	<b>2,486</b>	<b>2,651</b>
<b>Revenue Reserves</b>				
Balance at start of year - 1 April	6,415	4,862	2,346	(140)
Less deficit in the year	(1,553)	(2,516)	(2,486)	(2,651)
Balance at the end of year - 31 March	4,862	2,346	(140)	(2,791)