

Report of Director of Resources

Medium Term Financial Strategy projections – July 2013

1 Purpose of report

- 1.1 This report has been prepared to update members on the projected financial position over the medium term to 2017-18. It also covers some of the financial pressures facing Local Government in general and the financial sustainability faced by smaller Councils in particular.

2 Executive summary

- 2.1 As reported in February 2013 as part of the Medium Term Financial Projections the Council faces a huge financial challenge over the coming year to match its current spending levels to its future forecasted funding.
- 2.2 The 2013-14 budget was set using approx £1.9m of revenue reserves to balance this position. The level of revenue reserves is no longer sufficient to continue to support the budget to such an extent and as such approx £2.6m of savings and efficiencies will need to be identified and implemented for the 2014-15 budget to be fully funded with out the use of reserves.
- 2.3 The spending review announcement of 26th June 2013 indicated that the level of funding for the whole of local government from 2015-16 onwards would reduce by 10%. This does not necessarily mean that the borough will see this level of reduction as it is for local government in total. As further analysis is done the predicted level of reduction for district councils and hence the Borough will be updated in the projected figures but for now an assumption of at least 10% has been made, compared to the previous assumptions made of 7.5%. This means the Council will get approx £460k less in funding for 2015-16 than in the 2014-15 (provisional settlement). A summary of the key points in the Spending Round are attached at Appendix 3 and will also be the subject of a Members Briefing Note.
- 2.4 This report sets out the revised financial position for the revenue budget, taking into account any known pressures on spending and the refreshed assumption on future funding. An assumption of an increase in the rate of Council Tax at 1.99% pa has been made for illustrative purposes only. The Chancellor announced further funding for potential freeze grants. The extension of the current freeze grant has been included in the figures but no other assumptions on further grants have been included. Further freeze grants would be at 1% of council tax and as such using the assumption of 1.99% (just below referendum level) is the best case scenario. If the Borough were to again accept the offer of the freeze grant it would put additional pressures on the revenue budget.
- 2.5 A further report on the progress in setting a balanced position for 2014-15 onwards, along with any proposals on how to achieve this will be presented to the September meeting of this committee.
- 2.6 Capital planning is not included in this report but will form part of the September report.

3 Appendices

Appendix 1: Future year's financial projections

Appendix 2: Forecast levels of Reserves

Appendix 3 : The Spending Round 2013 - Summary

4 Proposed Action:

The Resources Committee is invited to RESOLVE to

4.1 note the revised financial position and the content of the report.

5 Background

5.1 This committee received a report on the Medium Term Financial position in February 2013 as part of the 2013-14 budget report. The figures presented at that time have now been refreshed and are shown in Appendix 1.

5.2 Proposals to meet the challenge are being discussed and will be developed in line with the Business Planning Framework presented to this committee in June 2013. progress on this will be further discussed in the reports to be presented in September 2013.

5.3 The risk of not delivering a balanced budget over the medium term is becoming more acute as the level of revenue reserves diminishes. This also increases the risk that the council will not be financial sustainable in the future and may not be viable as an independent body of local democracy and governance.

5.4 For this reason this report also covers the issues around financial sustainability, and those particularly affecting smaller councils like Wellingborough.

6 The Current Financial Position

6.1 The figures in Appendix 1 show that over the period to 2017-18 the council will need to either make efficiency savings or reduced service levels totalling approx £3.8m on the base budget per annum. Cumulatively this means that over £13m of reserves would be needed to support the budget if no actions were taken to resolve this matter.

6.2 £2.6m needs to be found to balance the position for 2014-15. However, due to the size of this task there may be scope to profile the savings targets over the medium term to smooth the impact. But there is still a large target for 2014-15, at least £1.5m of savings to be achieved in year, and if this approach is taken then robust plans for the future years must be in place as there will be very little scope for non-delivery of the planned actions.

6.3 The graph at Appendix 2 shows the position on reserves over a number of these profiling options, including a do nothing option, which shows the Council becoming financially unsustainable in 2014-15. This is clearly not an option the council could consider, but does illustrate the immediate need to make decisions on the future of the councils spending on services and priorities. This situation is not unique to Wellingborough and a number of other councils face similar challenges.

6.4 A number of pressures have been recognised in these updated figures. These

are unavoidable cost pressures that the Borough Council has very little control over and are driven by external factors, such as the economy.

6.5 An over view of the economic position in recent months is included in the Annual Treasury Management report elsewhere on this agenda.

6.6 Inflation is a key driver of the cost of services provided by the borough. It is worth noting that no provision for any inflationary pressures have been assumed in the forecasts. Services are managing these pressures within existing budgets. There are no detailed figures that show exactly how much this is but if we assumed that the approx £5m of our budget was subject to this pressure and used current CPI figures of 2.7% this could be in the region of £135k of efficiencies already being absorbed each year.

7 The Next Steps towards a balanced Medium Term Financial Position

7.1 A business planning framework was presented to Resources Committee in June 2013. This showed the key stages and suggested timelines for an integrated joined up approach to Corporate, service and financial planning.

7.2 Initial stages of this process have begun, with discussion being held with both members and officers. Further developments and potential solutions to meet both the financial pressures and delivery of the services required of the Borough will now commence, with the proposals being presented to the committee in its September meeting.

7.3 In addition to the development of the potential solutions, thought needs to be given to the process to monitor and control the delivery of both the financial benefits and the service performance levels. The impact of the proposals needs to be fully assessed and any risks to delivery identified early and mitigated where possible. This is essential, as mentioned earlier; the non delivery of proposals against the planned profile of savings could have huge financial impacts on the level of reserves available for future years.

7.4 This approach should mitigate most of the financial sustainability risk faced by the council. Both the National Audit Office and the House of Commons Committee on Public Accounts have published papers on the financial sustainability of local authorities. The next sections of this report draws on their findings to raise the awareness of the committee members to the very real risks that may face the borough council if a balanced position can not be achieved.

8 The funding regime for Local Government

8.1 On 26th June 2013 the Chancellor announced details of future local government funding levels for 2015-16 onwards as part of his latest spending review. The full impact of this has yet to be analysed in detail but an estimate based on a 10% pa decrease on the current funding levels from 2015-16 has been assumed. As further details of the true impact on local government funding is known these assumptions will be further refined and the financial position updated and reported accordingly.

8.2 At the same time as these significant funding reductions are impacting on local authorities the Department of Communities and Local Government (DCLG) has introduced fundamental changes to the local government funding system, with reforms to both Business Rates and Council Tax. A previous change brought in the New Homes Bonus scheme, which the council already benefits from.

- 8.3 These changes, which allow the council to retain a portion of its locally raised business rates or generate new homes bonus from housing growth, will reward councils that can generate this growth but could remove or depress the level of income for those areas that see a decline.
- 8.4 The intention of the change was to shift the income revenue stream from one that is focussed on the relative needs of a particular area to one that provides an incentive for the area to promote local growth.
- 8.5 Local councils are also experiencing constraints on the ability to raise further local income as a direct result of the Governments policy on Council Tax referendums for increases to the levels of council tax above a level determined by them. This level is currently 2% pa.
- 8.6 Also as a result of the current economic conditions, which remain uncertain, the ability to generate income from fees and charges is limited because either prices can not be easily raised or demand for services, such as leisure, are decreasing.
- 8.7 So far the highest reductions in terms of spending power have tended to be in councils that depend mostly on government grants, where the need for local services also tends to also be the highest. The funding changes may have a disproportionately greater effect on smaller authorities and those with limited ability to generate growth.
- 8.8 With wider changes to funding over the period of the spending review likely to happen, it is becoming increasingly important to recognise the cumulative effect the changes may have. For Example: Local authorities that do not see economic or housing growth might simultaneously see a fall in business rates income and a rise in council tax support claimants or increases to their housing and homeless lists.
- 8.9 To date councils have on the whole managed to cope, but with reductions in funding set to continue for several years, the pressure on local authorities will inevitably increase. The danger is that there is little room for further efficiencies, which means that future savings will need to be made from changes to services delivered.
- 8.10 As the level of funding decreases, but the level of statutory duties remains broadly the same there is also an increasing risk that councils will be unable to fully meet these obligations and that some council's look less viable for the future.

9 Financial Sustainability and the future of Service Delivery

- 9.1 There are signs that the financial sustainability of some councils is coming under increasing strain in the current climate, and the Borough Council is no exception.
- 9.2 The requirement to balance a budget serves as a strong incentive to make the necessary savings to absorb funding reductions. However, local authorities that are experiencing financial stress may also increasingly show a lack of sustainability in their capacity to deliver services. West Somerset Council, also a small district council, is already facing the risk of no longer being financially sustainable with the Local Government Association (LGA) concluding the council is not viable over the longer term.
- 9.3 Councils need to evaluate the things they have traditionally done, radically look at the business models for service delivery and cease services they are not required to deliver. The Borough Council will address these issues as part of its planning process for the 2014-15 budgets. There will be some tough decisions to

be made and frank and open discussions on the future ambitions and priorities of the Borough will be needed to ensure that the available resources are focussed on the delivery of these.

- 9.4 The decision making process on the allocation of resources should be supported by the availability of information both on performance and spending. This is a key element of the business planning framework, and will ensure that all services are delivered efficiently and effectively, providing value for money.
- 9.5 The accountability and responsibility arrangements for the delivery of the council's plans and proposals to ensure a balanced financial position need to be supported by a robust monitoring framework, which further links both performance and finance, but also looks at risk management.
- 9.6 The Borough Council must have clear and transparent information and standards on performance to support the difficult decisions it faces and provide assurance that value for money is being delivered.
- 9.7 The LGA is developing a sector-led benchmarking system that should provide comparative data on local authority performance, called LG Inform, and should be available in the summer of 2013. Where possible, this information will be included to support the decisions made on the 2014-15 budget setting process.
- 9.8 The Borough Needs to build on its previous good work on developing solutions to its financial pressures, but also better evaluate the impact of its decisions on both its level of funding and service delivery, both before the decision is made, and then again after its implementation.
- 9.9 All members should understand the full impact of both the changes in the funding arrangements and how the decisions they make effect the level of funding for the future.
- 9.10 AS part of its approach to using the business planning framework the Borough Council should also consider:
 - (a) Its information needs to support decision making, which may impact on both the services provided and the financial position on funding and income for the authority.
 - (b) That decisions on the allocation of resources are made with a full understanding of their service obligations, and in particular the statutory element of these.
 - (c) That assurances on the accountability and responsibility of both members and officers on the delivery of the councils plans and financial benefits are robust enough for the challenging times ahead.

10 Legal powers

Local Government Acts 1992 & 2003
Local Government Finance Act 2012

11 Financial and value for money implications

- 11.1 The medium term financial projections outline significant savings needed over the next 5 years to match spending levels with estimated funding levels. The budget strategy for this period is to reach a position where the revenue budget is sustainable and not supported by reserves.
- 11.2 However, it is recognised that it will take time to develop and implement suitable proposals to address this strategy.

11.3 The more robust and integrated planning framework to be used should ensure that this position is kept under constant review, with the progress on delivery of the strategy regularly reported to this committee.

12 Risk analysis

Nature of risk	Consequences if realised	Likelihood of occurrence	Control measures
Inaccuracies in the assumptions made	Further pull on the reserves to maintain a balanced position Further savings and efficiencies need to be identified	Medium in the longer term as it is difficult to predict these pressures	Robust financial practices
Changes in activity levels and new burdens	Further pull on the reserves to maintain a balanced position Further savings and efficiencies need to be identified	Probable in the short term until more robust budget forecasting in place	Further improvements to forecasting arrangements
Assumptions in the report are unrealistic	Further adjustments to service delivery methods and savings targets in medium term and use of reserves in the short term	Possible	Robust monitoring of the variables and periodic refreshing of data
Failure to meet the financial strategy in the medium term	Further adjustments to service delivery methods and savings targets in medium term and decreased levels of reserves	Possible	Robust financial planning and budgetary processes, including the monitoring of the implementation of proposals
Failure to meet the savings required/efficiencies in a	Further adjustments to service delivery	Possible	Management actions and member

managed way	methods and savings targets in medium term and use of reserves in the short term		monitoring. Compensating/ alternative proposals developed
The potential of not being Financially Sustainable for the future	The reserves are insufficient to continue to support the budget and the council can not balance its budget. The S151 officer has to use his statutory powers to intervene in the financial management of the authority	Unlikely	Robust Financial planning and use of resources
Changes in future funding driven by government	Further adjustments to service delivery methods and savings targets in medium term and use of reserves in the short term	Possible	Close monitoring of potential changes and early reporting of impacts

13 Implications for resources

There will inevitably be significant resource implications across all service areas on staffing, finance and property resources arising from the budget process.

14 Implications for stronger and safer communities

Any implications will be considered as part of the budget setting process.

15 Implications for equalities

Equalities impact screening will be carried out as part of the budget setting process and any adjustments deemed necessary will be included in the final budget presented in February 2013.

16 Author and contact officer

Liz Elliott – Head of Finance.

17 Consultees

Richard Micklewright – Director of Resources
John Campbell – Chief Executive

18 Background papers

Medium Term Financial Strategy Report – Resources Committee Feb 2013.
National Audit Office report – Financial Sustainability of Local Authorities
House of Commons Committee on Public Accounts Report on Financial
Sustainability of Local authorities
Spending Round 2013 – HM Treasury report June 2013

Appendix 1: Medium Term Financial Projections	2013/14	2014/15	2015/16	2016/17	2017/18
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Current/revISED spending levels B/F	9,889	10,532	10,697	10,697	10,897
Inescapable pressures:					
Inflation: Pay	-	50	100	100	100
Property Changes to rental income	236				
Additional Contributions to offset Pension Strain	415	125	100	100	100
Income increases:					
Fees and Charges income	-50				
Investment Income	-50	270			
Norse Dividend increases TBC					
Investment property income		-75	-100		
Reduction to Training Budget		-30			
Forecast other budget changes:					
District Law Partnership savings	-27				
Crematorium			-100		
Technical changes to depreciation budget	-142				
Changes to Waste recycling costs	100				
Establishment savings	-89	-235			
Changes in welfare reform demand pressures	250				
Insurance premiums		60			
<i>Identified savings proposals</i>	0	0	0	0	0
Total Changes to Base spending levels	643	165	0	200	200
Revised spending levels C/F	10,532	10,697	10,697	10,897	11,097
Financed by: :					
Previous use of reserves or savings to be identified:	-1,081	-1,890	-2,651	-3,017	-3,396
Central government Total Funding	-5,293	-4,608	-4,147	-4,579	-4,121
Council Tax (assumed 1.99% inc pa)	-3,195	-3,288	-3,383	-3,480	-3,580
Council tax freeze Grant				32	
New Homes Bonus	-154	-150	-150	915	
Total Funding including the use of reserves from previous years	-9,723	-9,936	-10,331	-10,129	-11,097
Additional savings needed to balance budget or additional use of reserves	809	761	366	768	0
Cumulative Total Savings needed:					
	1,890	2,651	3,017	3,785	3,785

	2013/14	2014/15	2015/16	2016/17	2017/18
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Current/Brought Forwards balance of General Fund reserves	-4,097	-4,097	-1,556	1,461	5,247
Less used to fund annual base budget shortfalls	1,890	2,651	3,017	3,785	3,785
Creation of Budget Implementation reserve					
Use of Budget Implementation reserve	-1,890	-110			
Contribution to Reserves					
Total revised General Fund Balance	-4,097	-1,556	1,461	5,247	9,032

NB: In 2014-15 the current minimum level of Reserves will have been breached.

Appendix 2 : Revenue Reserves and the effect of savings profiles

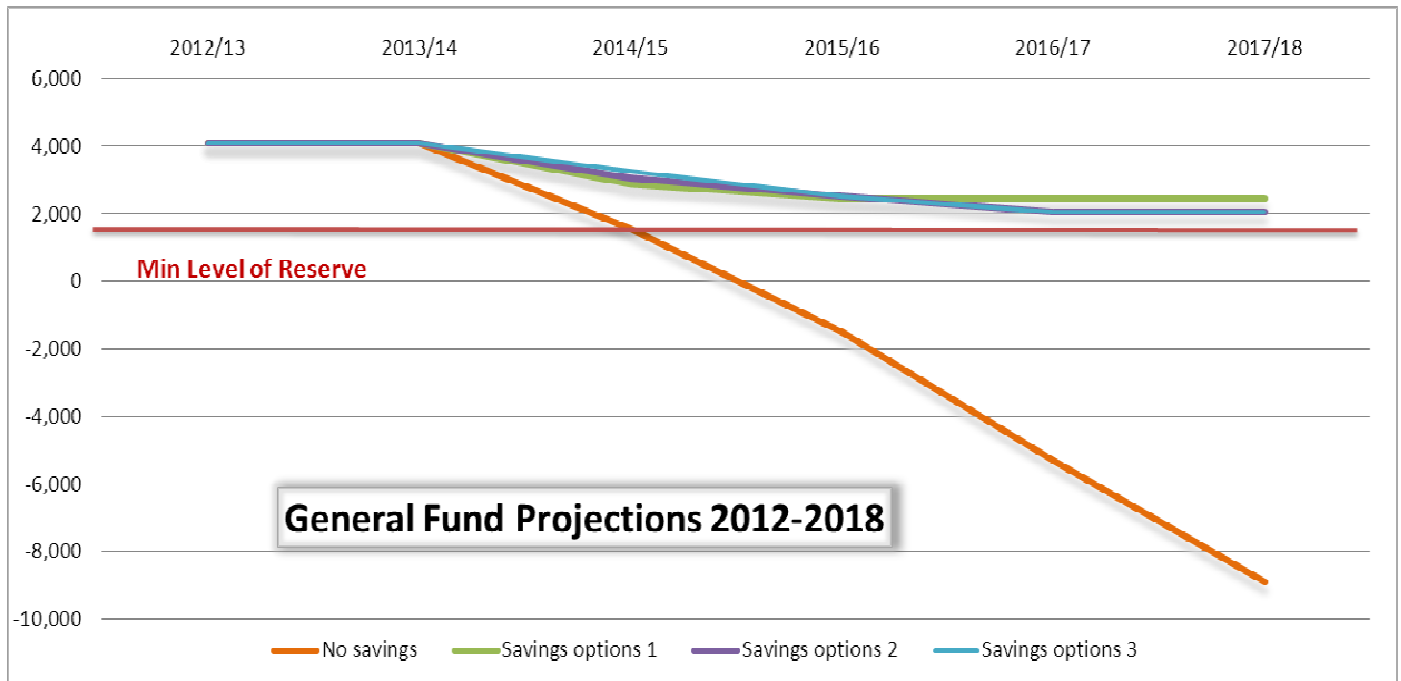
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Additional savings needed to balance budget or additional use of reserves	1,081	809	761	366	768	-
Effect of No Savings delivered						
Cumulative Total Savings needed:	1,081	1,890	2,651	3,017	3,785	3,785
General Fund balance Projections	-7,028	-4,097	-4,097	-1,542	1,512	5,114
Less used to fund annual base shortfalls	1,081	1,890	2,651	3,017	3,785	3,785
Creation of Budget Implementation reserve	2,000					
Use of Budget Implementation reserve		-1,890	-110			
Contribution to Reserves	-150					
General Fund Balance	-4,097	-4,097	-1,556	1,475	5,297	8,899

Savings profile option 1			- 1,300	- 1,300	- 1,185	-
General Fund balance Projections	-7,028	-4,097	-4,097	-2,856	-2,439	-2,438
Less used to fund annual base shortfalls	1,081	1,890	1,351	417	0	0
Creation of Budget Implementation reserve	2,000					
Use of Budget Implementation reserve		-1,890	-110			
Contribution to Reserves	-150					
Total revised General Fund Balance	-4,097	-4,097	-2,856	-2,439	-2,438	-2,438

Savings profile option 2			- 1,500	- 1,000	- 800	- 485
General Fund balance Projections	-7,028	-4,097	-4,097	-3,056	-2,539	-2,053
Less used to fund annual base shortfalls	1,081	1,890	1,151	517	485	0
Creation of Budget Implementation reserve	2,000					
Use of Budget Implementation reserve		-1,890	-110			
Contribution to Reserves	-150					
Total revised General Fund Balance	-4,097	-4,097	-3,056	-2,539	-2,053	-2,053

Savings profile option 3			- 1,700	- 600	- 1,000	- 485
General Fund balance Projections	-7,028	-4,097	-4,097	-3,256	-2,539	-2,053
Less used to fund annual base shortfalls	1,081	1,890	951	717	485	0
Creation of Budget Implementation reserve	2,000					
Use of Budget Implementation reserve		-1,890	-110			
Contribution to Reserves	-150					
Total revised General Fund Balance	-4,097	-4,097	-3,256	-2,539	-2,053	-2,053

Appendix 2 : Revenue Reserves and the effect of savings profiles



Appendix 3: The Spending Round 2013- A Brief Summary View

With the Chancellor having already announced that there will be spending cuts of £11.5bn made in the financial year 2015/16. Mr Osborne revealed as part of his spending review where those cuts would hit. The Review did not change the outlook that the UK faces a prolonged period of Government spending cuts, and, in fact, only revealed a part of the austerity that we still face.

The main points of the statement were:

Overall Spending:

Government spending will total £745bn with a further savings of £11.5bn required.

Pay and employment:

Public sector pay increases will be capped at 1% and the automatic progressions pay that has existed in the civil service, schools, hospitals, prisons and the police will end, but will be retained in the armed forces.

Local Government and Communities:

The Chancellor said that the Government will fund councils to freeze council tax in England for the next two years; that is 2014/15 and 2015/16. There will be a 10% cut in the CLG budget but there will be £3bn of capital spending on new houses and £200m extra for a troubled family's initiative.

Welfare:

The Work and Pensions Department budget is to be cut by 9.5%. Some areas of welfare spending will be subjected to new caps from the start of the 15/16 financial year, with the cap set in cash terms every four years. This will include housing benefits, tax credits, disability living allowance but the state pension is excluded. Jobseekers must wait seven days before they can claim benefits.

Overseas resident pensioners will no longer receive winter fuel allowance under a "temperature test".

Culture, Media and Sport:

The budget will be cut by 7% but elite sport will be protected. Community museums and arts funding will be pruned by 5%.

Defence:

The Chancellor left the resource budget unchanged at £24bn with a 1% real term increase in the military equipment budget. There will be cuts in civilian staff but armed forces personnel numbers will not change and there will be permanent funding for military covenant to support UK troops and their families.

Procurement and Private Finance Initiative (PFI) contracts will be renegotiated.

Policing, Justice and Counter-terrorism:

The Home Office budget will be cut by 6% but the police budget will be cut by less than 6%. The counter-terrorism budget will be protected as part of a 3.4% rise in a joint budget with the intelligence agencies. The justice budget will be harder hit, cut by 10% whilst prison costs will be reduced by £180m and court related costs by £200m.

Transport

The Department budget will be 9% lower, which will include cutting the running costs of Transport for London and Network Rail. The capital budget will, however, increase to £9.5bn.

Business, Skills and Universities

The budget will be cut by 6% but student maintenance grants will be frozen. There will be more money available for apprenticeships and exports and capital investment will be increased by 9%. The science budget will be increased to £4.6bn and £2bn will be made available for a growth fund for local enterprise partnerships.

Education

The budget will be increased to £53bn with the budget for English schools will be protected and funding will be made available for 180 new free schools. To ensure a fairer distribution of funding a new National Funding Formula will be established.

Health

The NHS budget for England will increase by just 0.01%, to total of £110bn, with capital spending to be increased to £4.7bn. A £3bn joint commissioning plan between the NHS and councils will be available for social care.

Environment, Food and Rural Affairs

There will be a 10% cut in departmental spending but more funds will be made available for flood defences.

Energy

The budget will be cut by 8% but guarantees will be put in place for new nuclear plants, while tax incentives will be offered for shale gas drilling.

Foreign Office and International Aid

The FO budget will be cut by 8% but there will be more money available for new embassies. The international development budget of £11.1bn has been safeguarded.

Infrastructure

New projects will have access to a £50bn investment pool, the details of which the Government will announce tomorrow.

Scotland, Northern Ireland and Wales

The three regional offices will see funding cut by 10% and there will be a 2% cut in grants to devolved administrations.

Cabinet Office

Funding will be cut by 10% but the Government will provide extra support for the National Citizenship Service.