BOROUGH COUNCIL OF WELLINGBOROUGH **AGENDA ITEM 7**

Resources Committee **30 October 2013**

Report of Head of Finance

Medium Term Financial Strategy projections – October 2013

1 Purpose of report

1.1 This is the second report on the medium term financial position and is intended to update members on the current financial challenges facing the borough council.

1.2 The report also covers some of the potential changes in both funding and services pressures for the medium term, although the funding methodology is still under consultation and preliminary settlements are not expected until mid-December 2013.

2 Executive summary

2.1 The report to Resources Committee in July outlined the pressures facing the council from both a funding position and financial sustainability for the medium term.

2.2 This report aims to build on that with updated figures and projections, taking in to account new information and developments since the July report. The refreshed figures are shown at Appendix 1.

2.3 The financial position for 2014-15 and gap between the available on going funding and projected spending has yet to be fully addressed. Conversations and idea generation has begun, with new solutions being pursued and developed.

2.4 The use of reserves to continue to support on-going spending cannot continue as the level of reserves diminish year on year.

2.5 Proposals to bridge the gap between the funding and spending will be included in the draft budget to be presented in December 2013. These proposals will then be subject to public consultation prior to the final budget prepared for agreement in February 2014.

3 Appendices

Appendix 1: Updated financial position for 2014-15 onwards
Appendix 2: Scope to develop potential solutions
Appendix 3: Reserves Position.

4 Proposed Action:

The Resources Committee is invited to RESOLVE to

4.1 **note the revised financial position and the content of the report**
4.2 **Endorse the approach proposed and give officers responsibility to generate ideas to bridge the budget gap**

5 Background

5.1 This committee received a report on the current financial position in July 2013. This report refreshes that position and proposes methods and strategies to help close the budget gap.

6 Funding

6.1 In the Chancellors budget he announced the intention to create a local growth fund, administered by the Local Enterprise Partnerships to help stimulate the economy and promote further growth. The fund would total £400m nationally and was a direct result of Lord Hesseltines report “No stone unturned in pursuit of growth”.

6.2 As a consequence of this the £400 m to fund this initiative has been found by top slicing the current allocation for New Homes Bonus. This will take effect in 2015-16. Consultation on the resources to be taken from each local authority has been undertaken but the outcome is not yet known. There were 2 potential methods of allocation:

1. Each council regardless of their tier, would contribute a pro-rata share of its new homes bonus

2. County Councils would contribute all of their New Homes Bonus and the remaining balance would be apportioned pro-rata across the lower tier authorities.

6.3 A consultation response was submitted to the Department for Communities and Local Government, stating a preference for option 2. However, the consultation response also stressed that the principle of taking new homes bonus funding for this purpose was in contradiction to its intended purpose of a growth incentive to local authorities when it was originally created.

6.4 Should the consultation result in the implementation of option 1 the Borough Council would lose approx £250k from its base New Homes Bonus funding in 2015-16. If option 2 is selected then this would be reduced potentially by 50% on current estimates.

6.5 For the purpose of this report option 1 has been assumed in the restated figures in Appendix 1.

6.6 In previous reports estimates of New Homes Bonus have been kept low for prudence, as the potential residential developments in the borough had not progressed substantially in recent years and the actual New Homes Bonus received was relatively low in comparison to neighbouring authorities.

6.7 However, as recent changes increase the likelihood of housing developments progressing in the near future and a substantial number of new houses being completed; revised projections based on estimates provided by the Planning department may be used in the future.

6.8 The growth in housing will also have a marginal effect on the level of Council Tax that can be collected and as such could be included in the estimates of Council Tax base for future years once there is more certainty over growth.

7 Council Tax

7.1 A revised local Council Tax scheme is now out for consultation, following a report to this committee in September 2013. Once the scheme is finalised in January 2014 any potential revenue pressures will be included in the final budget for February 2014. At this point it is assumed that a scheme will be agreed that is self-financing and as such no pressure has been assumed in this update.

7.2 An assumption of a 1.99% increase per annum in the level of Council Tax has been made. This keeps the borough below the current referendum level, but provides the much needed growth in the council tax base position.

7.3 The council tax base used for this report takes account of considerations used for the reductions due to the local council tax support scheme and also increases due to housing growth and changes to the discounts and exemptions applied on other properties.

8 Increasing the spending power

8.1 As central government further reduces the level of Revenue Support Grant that authorities receive the emphasis on generating income locally and increasing spending power of the borough council becomes more acute.

8.2 In creating growth, in both commercial and residential developments, the borough is increasing its local income from the Business Rates Retention Scheme (BRRS) and Council Tax.

8.3 The final way in which the borough can increase its spending power is by generating income either from the use of its assets and investments or from fees and charges.

8.4 The current cash investments return a relatively low yield as base rate has remained low for a number of years and the prospect of it rising is now linked to the level of unemployment. Further details on the current economy and its effect on the return on cash balances are given in the Mid-Year Treasury Management report elsewhere on this agenda.

8.5 With this in mind investment income for the future will primarily come from the use of the boroughs property assets held for investment purposes.

8.6 The current property portfolio is constantly being reviewed to generate further rent and maximise income. The estimates for the future are built into the updated figures at Appendix 1.

8.7 Further investment schemes, such as the potential use of Photovoltaic panels, are being looked into. The return on this particular scheme is forecast to be at least as equal to, if not greater, than the current property investments. This would also give a better balance to the investment portfolio. This does, however, depend on there being sufficient capital resources available.

8.8 Further analysis of the current fees and charges budgets is being undertaken by the finance section. More accurate fees and charges budgets will help to ensure a robust budget is set in February 2014. Some areas, such as planning fees, are heavily demand led and as such are subject to potentially large in year movements. However, as these fees are realised they are recognised in the budget monitoring for the year, but cannot be included in the forecasts due to their uncertain nature.

8.9 A refreshed fees and charges policy and schedule of proposed fees for 2014-15 will be included in the draft budget in December 2013. The borough council needs to consider both the need to keep fees in line with increasing costs, mainly from inflationary pressures, but also the effect on demand that an increase in fees may create.

9 Increasing pressures on the expenditure budget

9.1 The pressure on services arising from inflation is not separately identified as part of the Medium Term Financial Plan. Services are expected to absorb this pressure into their current budget. In real terms services are already making at least 2% efficiencies on the procurement of goods and services by doing this.

9.2 The main pressures facing the borough council are those that are unavoidable and are caused by external factors beyond the control of the council. These are mainly due to the changes in markets and the continuing economic climate and also those as a result of changes imposed by central government, such as welfare reform.

9.3 The market effects primarily the interest earned on cash balances, and as previously discussed, this is estimated to continue at a low level for the immediate future. A pressure on the interest receivable budget has therefore been included in this forecast.

9.4 The other area the market effects is the valuation of the pension fund deficit and the amount of employers contribution the borough council must make each year.

9.5 The actuaries are currently concluding a new tri-annual valuation, the results of which will be known in March 2014. However, early indications on the level of employer contributions show that the level of contributions needed over the next 3 years will be approximately equal to an increase of 2% of total payroll each year. This is approx £100k per annum. The valuations will not be received in time for an accurate budget to be set for 2014-15 but the figures will be revised constantly as new information is received to assist the estimates.

9.6 The pension fund position could change dramatically over the next 3 years as the market recovers, but as the actuary sets a 3 year valuation the current market conditions will prevail and as such an estimate of £100k per annum has been included in this forecast.

9.7 Pay inflation has been estimated at 1% for 2014-15 and 2%, in line with inflation targets, for future years.

9.8 Although not influenced by the market directly, the insurance premium has seen significant increases in the last year. A market testing exercise was undertaken, and a full procurement exercise will be undertaken for a new contract to start in September 2014. However, the market testing showed that the premium quoted by our current insurers was good value for money. A pressure of £60k has been included in this forecast for 2014-15 and will be updated with the results of the procurement exercise once completed.

10 Welfare Reform

10.1 In 2013-14 a welfare reform pressure of £250k was added to the budget. Recent monitoring has shown that not all of this budget will potentially be needed in future years and as such £100k of the original budget could potentially be removed in 2014-15. As further information and estimates of the true effects of welfare reform on the borough are known these future forecasts will be updated and the budgets adjusted accordingly.

11 National insurance pressure

11.1 The government have proposed a change in the rules of opting out of national insurance on pensions contributions for 2016-17. This change, if implemented, creates a pressure on the employer's contribution of approx £90k and has been included under the relevant years.

12 The refreshed financial position

12.1 Once all of the previously discussed changes have been included in the future years forecast as shown in Appendix 1, the budget gap for 2014-15 is £2.4m.

12.2 There have already been some efficiencies and savings proposals included in the figures, such as the recent management restructure and the increased rental income from investment property.

12.3 The current level of general reserves will not sustain another year where no further proposals to meet the budget gap are presented. The graph at Appendix 3 shows the extent to which the gap widens each year if no efficiencies or savings are made. Over the medium term this is cumulatively a total of £11m. The current level of general fund reserves is £4m, with a minimum level of £1.75m. This means only £2.250m is available to use.

13 Options to deliver efficiencies, savings and further increase spending power.

13.1 Rather than 'salami' slice each budget and set cash targets for services to achieve, ideas to change the way services are delivered are being investigated and developed. These proposals are being drawn up with the following considerations in mind:

- Identify new efficiency savings in current service delivery and also identify opportunities to further reduce expenditure where possible.
- Challenge current methods of service delivery and identify alternative delivery models where possible that are more cost effective.
- Challenge current policies and service levels to identify where efficiencies and reductions may be made.
- Consider the statutory requirements to provide services and at what minimum level, and whether all or part of the service is discretionary. Potential charges for discretionary services to be explored.
- Consider the opportunities to work closer with other local authorities and partners in a more collaborative and collegiate way to produce efficiencies for all parties.
- To challenge the contractual arrangements in place and identify where further efficiencies or savings may be generated.
- Proactively look for opportunities to further increase the spending power via investment in assets that produce a significant revenue return.

13.2 Officers will continue to develop proposals in consultation with members. Appendix 2 illustrates some areas where these principles can be applied to generate budget proposals to be included in the draft budget for public consultation in December 2013.

14 Legal powers

Local Government Acts 1992 & 2003
Local Government Finance Act 2012

15 Financial and value for money implications

15.1 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.

15.2 However, it is recognised that it will take time to develop and implement suitable proposals to address this strategy.

15.3 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.

16 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 managed way	Further adjustments to service delivery methods and savings targets in medium term and use of reserves in the short term	Possible	Management actions and member 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

17 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.

18 Implications for stronger and safer communities

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

19 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.

20 Author and contact officer

Liz Elliott – Head of Finance.

21 Consultees

Richard Micklewright – Director of Resources
John Campbell – Chief Executive

22 Background papers

Medium Term Financial Strategy Report – Resources Committee July 2013
Medium Term Financial Strategy Report – Resources Committee Feb 2013.

Appendix 1

	2014/15	2015/16	2016/17	2017/18
	£ 000's	*£ 000's*	£ 000's	£ 000's
Current/revised spending levels B/F	**10,532**	**10,637**	**10,637**	**10,927**
Inescapable pressures:				
Inflation: Pay	50	100	100	100
Property Changes to rental income				
Additional Contributions to offset Pension Strain	125	100	100	100
Income increases:				
Fees and Charges income				
Investment Income	270			
Norse Dividend increases TBC				
Investment property income	-75	-100		
Reduction to Training Budget	-30			
Forecast other budget changes:				
District Law Partnership savings				
Crematorium		-100		
Technical changes to depreciation budget				
Changes to Waste recycling costs				
Audit fee reduction	-60			
Establishment savings	-235			
Changes in welfare reform demand pressures				
Insurance premiums	60			
NI pressures from contracting out changes			90	
Identified savings proposals	0	0	0	0
Total Changes to Base spending levels	**105**	**0**	**290**	**200**
Revised spending levels C/F	**10,637**	**10,637**	**10,927**	**11,127**
Financed by: :				
Previous use of reserves or savings to be identified:	-1,890	-2,367	-2,493	-2,867
Central government Total Funding (incl growth in BRRS)	-4,608	-4,502	-4133	-3,870
Council Tax (assumed 1.99% inc pa)	-3,308	-3,423	-3,542	-3,666
Council tax freeze Grant			32	
New Homes Bonus income above current budget £461k	-354	-219	-416	-252
Total Funding including the use of reserves from previous years	**-10,160**	**-10,511**	**-10,553**	**-10,655**
Additional savings needed to balance budget or additional use of reserves	477	126	374	472
Cummulative Total Savings needed:	**2,367**	**2,493**	**2,867**	**3,339**
`	**-4,097**	**-1,730**	**763**	**3,631**
Less used to fund annual base shortfalls	2,367	2,493	2,867	3,339
Creation of Budget Implementation reserve				
Use of Budget Implementation reserve				
Contribution to Reserves				
Total revised General Fund Balance	**-1,730**	**763**	**3,631**	**6,970**
Min level of Reserves is currently £1.75m	Reserves min breached			

Appendix 2: Scope to apply the principles in section 13 to generate proposals

- Promote further shared services/collaborative working with other local authorities and partners to create a shared revenue benefit.

- Build to rent housing – either the building of new private sector rental properties or the conversion of current assets in to rentable properties at private market rates

- Expand the capacity of the crematorium to increase the amount of surplus revenue created

- Contractual negotiations and procurement savings – such as the current leisure contract and insurance premiums

- Review of current community grants policy and awards

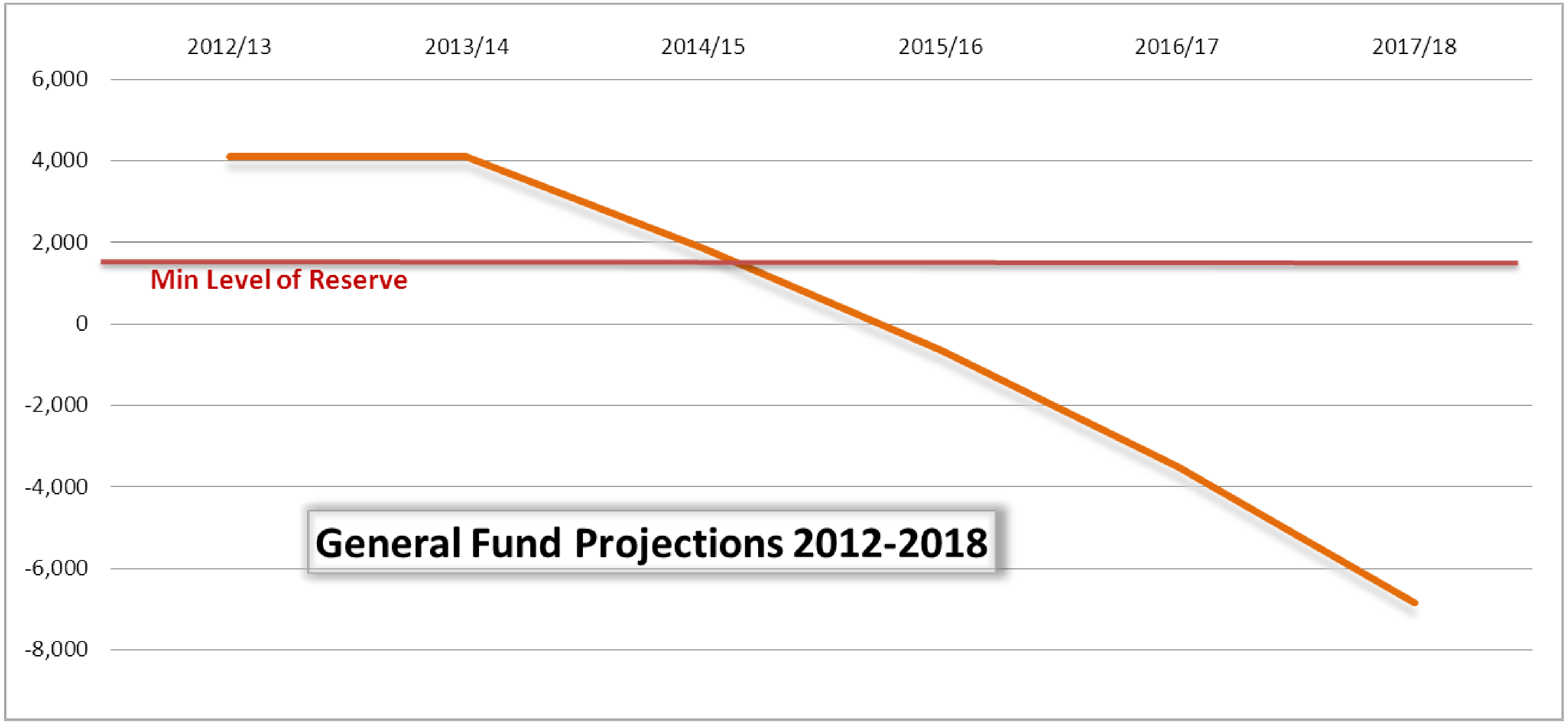
- Review of current discretionary rate relief policy and awards

- Disposal of assets that require high revenue costs, such as repairs and maintenance. Reinvest in services or assets that return higher values or are net nil on the revenue budget e.g. Photovoltaic panels on investment properties and/or land holdings.

- Disposal of surplus land assets for market value/best consideration to generate funds for further investments that create benefits for the revenue budget

- Review of current service delivery models to explore whether an alternative model would produce a revenue saving.

Appendix 3


General Fund Projections 2012-2018
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
6,000
4,000
2,000
0
-2,000
-4,000
-6,000
-8,000
Min Level of Reserve