

Committee: Finance and Administration
Date: 20th September 2007
Title: Medium Term Financial Strategy Update
Author: Philip O' Dell, Director of Resources
01799 510670

Agenda Item

10

Item for
decision

Summary

1. This report provides an update on the overall financial position regarding the Council's Medium Term Financial Strategy (M.T.F.S.). It provides:
 - An update to the Medium Term Financial Strategy previously reported to Operations Committee on 28th June 2007.
 - Identifies uncertainties which will impact on future budgets
 - Options for achieving budget consultation with interested stakeholders.

Recommendations

2. It is recommended that this Committee:
 - Approves the updated position with regard to the Medium Term Financial Strategy,
 - Notes the uncertainties that will impact on the Budgets for 2008/09 and beyond.
 - Determines the preferred methods for consultation with stakeholders.

Background Papers

3. Background papers
Medium Term Financial Strategy, 2007/08 to 2011/12.
Report to Operations Committee, 28th June 2007, (Minute OP 11).

Impact

Communication/Consultation	The Council's budget process will include both external and internal consultation.
Community Safety	No direct implications, subject to any specific issues which arise during the budget process.
Equalities	No direct implications, subject to any specific issues which arise during the budget process.
Finance	This report considers the whole of the

Medium Term Financial Strategy Update

Finance and Administration

	General Fund Budget.
Human Rights	No direct implications.
Legal implications	No direct implications, subject to any specific issues which arise during the budget process.
Sustainability	No direct implications, subject to any specific issues which arise during the budget process.
Ward-specific impacts	No direct implications, subject to any specific issues which arise during the budget process.
Workforce/Workplace	Consultations with staff and unions will be part of the budget process.

Situation

Supplementary Budget exercise 2007/08.

4. The report elsewhere on this agenda addresses issues relating to the supplementary budget exercise for the 2007/08 Budget. Any ongoing new commitments that will affect the 2008/09 budget will be referred to separately in this report.

Medium Term Financial Strategy 2008/09 to 2011/12 Update.

5. The Medium Term Financial Strategy (MTFS) was approved at the Full Council on 15th February 2007.
6. An updated position on the MTFS was approved by Operations Committee at its meeting on 28th June 2007.
7. Since the MTFS was updated in June 2007 a number of changes have been found necessary as a result of the exercise reviewing the base budget for 2007/08 reported separately on this agenda.
8. In addition members should be aware of the following issues which have yet to be determined, and will impact directly on the Council's MTFS and General Fund Budget from 2008/09 onwards:
 - The national pay award for the Council's employees for 2007/08, due in April 2007 is yet to be settled. Although a 2.5% pay award has been included in the MTFS for both 2007/08 and 2008/09, any additional cost over and above 2.5% in 2007/08 will have a direct impact on future year's employee costs.
 - As reported to the June Committee of Operations Committee, there are 2 significant changes to the Local Government Pension

Scheme with effect from 1st April 2008. The first relates to the changes to employee contribution levels to improve the position of the Fund, together with changes to the scheme benefits. The second significant financial impact is the implementation of the Actuary's triennial review of the Essex County Council Local Government Pension Scheme, currently being carried out. The outcome of this review will identify the Council's deficit funding contributions to the Fund for the next 3 financial years from 2008/09. The County Council has indicated that the results will be issued for consultation at the end of October 2007, and the Council will have to determine its contribution options by mid-December.

- It is clear from the earlier Budget report for 2007/08 that the Council's budget is now under severe pressure for future financial years. Within the MTFs are two sums of £100k per annum each year for One-off Spending Pressures and also for Annual Budget Growth Items. Members should consider whether these can continue to be included in the MTFs or should be replaced by allowing only Growth Items which are as a direct result of implementing new legislation, or those items that can prove to be self-financing or, better still provide a surplus.
- The Reserve replenishment provisional sum of £200k in 2008/09 will need to be reviewed as part of the budget process. The proposed use of reserves in the Revised Estimate for 2007/08 and other spending pressures will have a direct impact on decisions regarding available funds for replenishment from 2008/09 onwards.
- Any potential borrowing decisions will be determined once the Capital Programme has been revised and other forms of funding identified. It should be noted that there has been a significant reduction in income from the sale of Council houses, which has left lower capital receipts for reinvestment in funding the Council's Capital Programme. The MTFs includes a provisional sum for the Council to borrow during 2007/08 which is currently being reviewed as part of update of the capital programme for the budget process.
- A revision to the estimated interest earned on balances will be completed during the budget cycle. Members should be aware that despite rising interest rates since August 2006, forecasters are saying that these may be at, or near the top of their cycle, and may start to fall during the period of the MTFs. In addition the Council's reserves are reducing and, together with lower Council House sales, will all have an impact on levels of interest income earned.
- The MTFs has assumed that all discretionary Fees and Charges will increase, as a minimum, in line with inflation over the period. It is essential that the Council reviews all its Fees and Charges at an early stage in the Budget cycle. This review should include considering what the market will bear, what competitors charge and also review the charges made by other local authorities in the area.

Medium Term Financial Strategy Update

Finance and Administration

- Levels of Planning Delivery Grant under the proposed new system for future years have yet to be determined so a sum of only £100,000 has been assumed from 2008/09 onwards.
- The Government are to introduce a new National Concessionary Fares Scheme from 1st April 2008. It is uncertain at this stage what, if any, the financial implications are of the new scheme, and it is likely to be at least November before further details are known.
- Inflation of 2.5% has been included within the MTFs for 2008/09. As referred to above, the national pay award from April 2007 has yet to be settled. In addition, inflationary increases will be included in the base budget for non pay budgets where the Council is contractually required to pay in respect of contracts, agreements or for the utilities of gas, electric and water plus fuel costs. As far as any discretionary budgets are concerned, a fundamental review is being carried out in order to justify their continuing inclusion. It will be necessary to also consider whether those included should be included in the 2008/09 base budget.
- The Local Authority Business Growth Incentive (LABGI) grant shortfall for 2007/08 is addressed separately in the earlier report.
- Work on the Government's Comprehensive Spending Review 2007(CSR07) is continuing in the run up to the settlement announcement, which is expected in mid-October. The local government finance settlement, which will contain proposals for formula changes and proposed formula grant for 2008/09, 2009/10 and 2010/11 is expected at the end of November or the beginning of December 2007. A1% increase has been included in the MTFs.
- The Council has approved a 3.5% Council tax increase for 2008/09. Each 1% increase yields approximately an additional £40,000 per annum. Guidance on acceptable levels of increase from the Government is unlikely before the grant settlement in late November/early December. This matter will need to be reviewed in January 2008 in the light of levels of savings required as a result of the Council's budget problems.

9. The following summarises the updated position on the MTFs :

	£
2008/09 savings required per June 2007 report	1,184,000
2007/08 Budget re-Statement Exercise- ongoing effect of staff turnover over-provision	191,400
Ongoing shortfall from reserves planned for future use (Golds Nursery deficit, Empty Homes partnership etc)	109,950
One off additional funding from County Council re Waste	(59,265)
Revised General Fund savings target 2008/09	1,426,085

10. This figure assumes that the 2007/08 budget re-statement exercise shortfall is dealt with within the current year and /or via use of Reserves and Balances and has no effect on the 2008/09 budget. Any shortfall from these sources will need to be added to the savings target for 2008/09. The figures also assume continuation of the 5% staff turnover target, achievement of Organisational Re-engineering savings and the expected savings from the officer restructure.
11. Assuming that the 2008/09 savings are achieved fully in year, the savings requirements for following three financial years are estimated as £279,000, £260,000 and £330,000.

Proposed action to achieve savings required

12. Work is already in hand to identify the savings required to balance the 2008/09 budget in line with the Council's stated priorities. A progress report will be brought to this Committee on 15th November which may include setting of targets for individual services.

Consultation with Council taxpayers and other stakeholders.

13. As part of the budget process, it is seen as good practice for the Council to use various alternative options for consulting the public and other interested parties.
14. There may be a number of different organisations who would be interested in being consulted on strategic budget proposals. These may include the following:
 - Council taxpayers
 - Local business ratepayers and their representatives
 - Parish Councils
 - Strategic Partners
 - Local staff representatives
 - Voluntary or Community Groups
15. Consulting the above targeted groups may have to involve different methods in order to ensure that there is a greater understanding of the options, on what is a difficult technical subject.
16. Set out below are the types of consultation processes most likely to produce the most positive response for Members to be able to make informed decisions on the Budget for 2008/09.
17. In earlier years the Council has carried out consultation in some of the following ways:
 - Budget Questionnaires to Area Panels

Medium Term Financial Strategy Update

Finance and Administration

- Letters to Parish Councils for views to be forwarded to Area Panels
- Presentations to Area Panels
- A questionnaire in Uttlesford Life
- Worked with the County Council on shared Consultation meetings
- Conducted a phone poll
- Completion of an on-line survey

18. Members are asked to consider which of the methods set out in paragraph 17 above are likely to be most successful in achieving their aims for consultation on strategic budget proposals. Officers will then produce a programme for consultation in the preferred format.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Failure to identify costs of all spending pressures.	Low, due to continuing analysis during the budget process	High if as a result of new legislation requirements	Continuing analysis of the budget needs for each service up to the end of January 2008.
Significant damage to services delivery from looking for savings, particularly in discretionary services	High, due to level of savings pressures identified from earlier report	High	The Council's MTFS already identifies the need for a high level of savings to be found.