

Committee: Finance and Administration

Date: 25th September 2008

Title: Medium Term Financial Strategy Update

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Agenda Item

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Item for decision

Summary

1. This report provides an update on the overall financial position regarding the Council's Medium Term Financial Strategy (MTFS). It provides:
 - An update on the issues affecting the current Medium Term Financial Strategy approved at Finance and Administration Committee on 27th March 2008.
 - Identifies uncertainties which will impact on future budgets
 - Options for achieving budget consultation with interested stakeholders.

Recommendations

2. It is recommended that this Committee:
 - Notes the pressures affecting the current Medium Term Financial Strategy,
 - Notes the uncertainties that will impact on the Budgets for 2009/10 and beyond.
 - Determines the preferred methods for consultation with stakeholders.

Background Papers

3. Background papers
Medium Term Financial Strategy, 2008/09 to 2010/11.

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 Council's General Fund Budget for the next 3 years.
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, together with the requirement to consult on Budget proposals.
Ward-specific impacts	No direct implications, subject to any specific issues which arise during the budget process.
Workforce/Workplace	Consultations with staff and unions on Budget proposals will be part of the budget process.

Situation

Budget 2008/09 update

4. The MTFS was approved at the Finance and Administration Committee on 27th March 2008.
5. Members should be aware of the following issues which have yet to be determined or costed, and which 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 2008/09, due in April 2008 is yet to be settled. The unions have turned down an offer of 2.45%. Although an estimated 2.5% pay award has been included in the MTFS for all 3 years, any additional cost over and above 2.5% in 2008/09 will have a direct impact on future year's employee costs, together with additional employer's National Insurance and Pension Costs.
 - There are a number of income budgets which Heads of Division are indicating that they are unlikely to meet their targets during the current financial year, mainly due to the effects of the "credit crunch". These include Planning Fees, Land Charges fees and collection of bulky waste. In addition, early indications are that there may be a loss of up to £35k from a previously received recycling grant from LAA.
 - Members should be aware that despite rising inflation rates forecasters are saying interest rates may be at, or near the top of their cycle, and may start to fall during the period of the MTFS. Although the Bank of England Base Rate reduced to 5.0% in April 2008 there have been no further changes since then. The Bank of England Monetary Policy Committee has the difficult job of balancing an increasing rate of inflation with possible low growth or even recession. In addition, the Council's reserves are reducing and, together with lower Council House sales, will all have a negative impact on levels of interest income earned. A revision to the budget for investment interest income will be completed during the budget cycle.

- Levels of Housing and Planning Delivery Grant (HPDG) under the new system for future years have yet to be determined. The current MTFS includes £200,000 grant income from 2008/09 with an additional sum of £100,000 from 2009/10 onwards. For 2008/09 the DCLG have notified the Council that it will receive £247,152. There is a condition that 33% (up from 25%) will have to be spent on capital expenditure. This leaves around £165k for revenue support, which is £35k less than was originally budgeted for in the current financial year. In addition the allocation of HPDG for 2009/10 is expected to be substantially less than the 2008/09 allocation.
- The Consumer Price Index (CPI) inflation rate (July) is currently 4.4% and the Retail Price Index is at 5.0%. The MTFS assumed an inflation rate across all years of 2.5% for contracted services, but no other allowance was made for inflation other than for payroll.
- As referred to above, the national pay award from April 2008 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. Fuel costs have increased substantially this year as a result of oil prices and indications are that fuel on waste/recycling are costing an extra £5k per month. It is anticipated that gas and electric costs will increase by around 25% from September 2008 as a result of new contracts currently being negotiated. Above inflation increases have been recently announced for water charges but the MTFS only includes 2.5% inflation increases for the next 3 years. There are likely to be significant pressures on contracted services budgets for all years across the MTFS.
- Members will recall that, within the 2008/09 Budget, there is a vacancy/savings deduction of around £500,000. Although Strategic Management Board (SMB) is monitoring all recruitment and spending, it is too early to say whether this reduction in the Council's Budget will be achieved this financial year. This sum is retained as a deduction within the remainder of the period of the MTFS and it is the view of your officers that a 5% savings factor deduction is now too high to be achievable each year. It is essential that the Council moves towards reducing the savings factor to a more manageable % over the life of the next MTFS. This will involve finding further savings elsewhere.
- There is no budget provision for any potential costs awarded as a result of an appeal by British Airports Authority on Stansted G1. The Council believes it can defend the request but should it be unsuccessful it is unlikely that the level of award could be met from available reserves. No notification is expected before November 2008.

2009/10 onwards

- The Council approved a 4.979% Council tax increase for 2008/09, and the MTFS includes a 5% increase for 2009/10 and 3.5% for 2010/11. Each 1% increase yields approximately an additional £40,000 per

annum. Guidance on maximum levels of increase to avoid capping from the Government is unlikely until late November/early December. This matter will need to be reviewed in January 2009 in the light of levels of savings required as a result of the Council's budget pressures. The new year 3 of the MTFs will reflect the Council's wishes for any increase in Council Tax for 2011/12.

- In order to ensure an identified link with the Corporate Plan and other corporate strategies the MTFs needs to set out and fund the Council's priorities for the next 3 years. The Audit Commission, in its annual Use of Resources evaluation for the Council will be looking for a clear link between corporate/service priorities and the Budget setting process as good practice. This will then need to feed in to improving the Council's overall score for Use of Resources.
- The reserves replenishment provisional sum of £50k in 2009/10 will need to be reviewed as part of the budget process. The proposed £59k use of reserves in the Revised Estimate for 2008/09 and other spending pressures will have a direct impact on decisions regarding available funds for replenishment from 2009/10 onwards. In addition there have been 2 years (7/8 and 8/9) without contributions to the PFI Reserve, and no contribution to the Elections Reserve in 2008/09. The MTFs assumes contributions will recommence in 2009/10, but these will have to be recalculated in order to ensure the level of the PFI Reserve has an adequate balance when required to be used after 2020/21.
- Any potential long term 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 does not include any revenue costs of the Council undertaking borrowing during the current 3 year period, but borrowing is likely to be necessary from 2011/12.
- The MTFs has assumed that all discretionary Fees and Charges will increase, as a minimum, in line with inflation over the period. 2.5% was included across the whole 3 year period in the MTFs for those services where the Council has the discretion to set its own charges. With the inflation rate running at over 4% a review is necessary to determine whether 2.5% is sufficient. It is essential that the Council reviews all its Fees and Charges at an early stage in the Budget cycle and this is programmed for consideration at the November cycle of committee meetings. 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. In addition the Scrutiny Committee is reviewing Fees and Charges concessions over the next few weeks.
- New rules recently introduced by DEFRA on the basis of charges relating to food inspections at the airport may mean that the current

budget of £99,500 may have to reduce by 80% in 2009/10. The income budget for 2008/09 has already been achieved, but is not expected to produce further income this financial year. Discussions are ongoing with DEFRA regarding this issue.

- Within the 2008/09 and 2009/10 budgets in the MTFS are maximum contributions of £250,000 in each year in respect of this Council's costs for the G2 runway at Stansted. No provision is included from 2010/11 onwards. It has been recently indicated that any Public Enquiry is not likely to take place before April 2009.
 - The Government's Comprehensive Spending Review 2007(CSR07) settlement was announced last December. The local government finance settlement contained formula changes and proposed formula grant for 2008/09, 2009/10 and 2010/11. A 1% increase has been included in the MTFS for 2008/09 and 0.5% each year for 2009/10 and 2010/11. No additional funding is expected. The next CSR will affect the new year 3 of the MTFS in 2011/12 but is not expected to bring additional grant income to the Council.
 - The new year 3 of the MTFS will include the next Triennial review of the Essex County Council Pension Fund, which is likely to be affected by the current "worldwide credit crunch" and the effects of interest rates and the stock market. This may mean the Council's employer contribution to fund any forecast Pension Fund deficit may increase.
6. The council continues to maximise income where possible and implement efficiency and service quality improvements as opportunities arise. Current examples include:
- Investment income is currently higher than forecast. Current difficulties for financial institutions mean that we as investors are receiving preferential rates for investing our available funds. As the market steadies this rate is likely to reduce back towards the amount forecast in the MTFS.
 - Partnership working in areas such as car parking which whilst producing only relatively small savings will have a significant service quality improvement (the service has been operating without a manager for 12 months).
 - Procurement review. An independent review, paid for from a successful Improvement East funding bid, is currently being undertaken into procurement procedures and the use by the council of the Essex Procurement Hub.
 - Document storage and use review. An independent review, paid for from a successful Improvement East funding bid, is currently being undertaken into the use of electronic document and records management. The aim will be to ascertain where we are now and to move the project forward to achieve an identified goal. The successful bid includes a sum for project management.

- Senior Management Board reviewing all large spends to ensure that it is both necessary and that procurement opportunities are maximised.
 - Existing contracts are being reviewed. Examples of this include:
 - i. Insurances, whilst the council is tied in to a contract until 2010 levels and risks are being reviewed. In addition, discussions are being held around extending the contract as per the terms but with reduced premiums.
 - ii. Lease cars, which do not appear to have been reviewed for a number years. Procurement changes mean we should be able to achieve significant market advantages compared to our current contract.
7. The 2008/09 revised budget process has now started and the full financial impacts of all of the above items, along with any reductions in budgets following other efficiency savings will be reported to Members in the next cycle of Committee meetings.

Consultation with Council taxpayers and other stakeholders.

8. 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.
9. There may be a number of different organisations who would be interested in being consulted on the Council's strategic priorities. These may include the following:
- Council taxpayers
 - Local business ratepayers and their representatives
 - Parish Councils
 - Strategic Partners
 - Local staff representatives
 - Voluntary or Community Groups

Consulting the above targeted groups may have to involve different methods in order to ensure that there is a greater understanding of the options.

10. 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 2009/10.
11. The suggested forms that the Council could carry out consultation would be in some of the following ways:
- Budget Questionnaires to Community Forums
 - Letters to Parish Councils for views to be forwarded to Community Forums.
 - Presentations to Community Forums

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- A questionnaire in Uttlesford Life
- Work with the County Council on shared Consultation meetings
- Completion of an on-line survey

12. Members are asked to consider which of the methods set out in paragraph 10 above are likely to be most successful in achieving their aims for consultation on strategic priorities. Officers will then produce a programme for consultation in the preferred format.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The Council does not identify its priorities	1	4	In the next few weeks the Council will be considering what its priorities are, for consideration at Council in late October.
Failure to identify costs of all spending pressures.	2	4	Continuing analysis of the budget needs for each service up to the end of January 2009.
Significant damage to services delivery from looking for savings, particularly in discretionary services	2	4	The Council's MTFS for 2009/10 already identifies the need for savings to be found. The Strategic Management Board (SMB) is monitoring the impact of savings targets on service delivery
Budget monitoring does not identify pressures	1	4	Both Members and Heads of Division receive regular monthly monitoring reports. SMB and the political leadership receive monthly reports on the high profile budgets