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CABINET – 1 OCTOBER 2008 PORTFOLIO : ALL

MEDIUM TERM FINANCIAL PLAN 2008 – 2012

1. PURPOSE OF REPORT

1.1 In light of the Council's new Corporate Plan approved in May 2008, the Medium Term Financial Plan (MTFP) needs to be refreshed to enable resources to be allocated in accordance with the new priorities aims and targets agreed.

2. BACKGROUND

2.1 The purpose of the MTFP is to set out the broad financial framework that the Council will operate within during the forthcoming years. The plan will be reviewed on an annual basis to ensure it maintains its relevance. By adopting a medium term approach the Council will be able to ensure that it does not adopt short term policies without identifying what the medium term implications of those decisions are.

2.2 A four year period, including the current year has been adopted as the relevant timeframe for the Strategy as this permits reasonably robust financial forecasts to be produced. The longer the timeframe that is used the more speculative the forecasts become. The Government's Comprehensive Spending Review (CSR) process is undertaken every 3 years.

2.3 The MTFP covers the General Fund (Revenue & Capital). The Housing Revenue Account is covered by a separate Business Plan.

2.4 As a part of the MTFP a more detailed plan is developed for delivery of the 2009/10 Annual Budget.

3. ANNUAL BUDGET 2009/10

3.1 Cost Forecasts to Maintain Current Services

In order to maintain the current level of services ongoing financial provision needs to be made within the annual budget for cost and price increases. The assumptions for 2009/10 cost and price increases on the 2008/09 budget are as follows:

	£
Pay - 2.5% (2008 offer - 2.45%)	510,000
Employee Incremental progression	300,000
Prices General - 2.0%	480,000
Specific Prices – Fuel & Energy 18%	190,000
Total additional costs	1,480,000

It should be noted that 2008 Pay Award has not yet been agreed.

3.2 **Interest on cash balances**

The Council has in recent years generated higher levels of interest due to a higher level of reserves and cash balances being held. This has provided the Council increased financial flexibility and enabled additional resources to be generated through interest returns. The assumption for 2009/10 is that Interest rates will be around 5%. This together with the higher level of reserves is anticipated to generate an additional £300,000 in interest, providing £1,450,000 in total (2007/08 - £1,535,000).

3.3 **Base Budget Adjustments & Known Commitments**

The base budget ("starting position") has been adjusted to reflect agreed and known variations.

3.4 **Fees and Charges**

The Council currently generates approximately £15m for charges for services which is nearly 20% of the Council's gross expenditure on services (2006/07 District Council average was 19%). Charging for local services not only makes a significant contribution to council finances it also influences individual choices and behaviours, to bring other benefits to local communities. In choosing which users should pay for which services and which services should be subsidised by local taxpayers is a key policy decision and has been recently highlighted by the Audit Commission in a paper entitled "Positively Charged – Maximising the benefits of local public service charges".

An increase in yield of 3% in 2009/10 is estimated to generate approximately £480,000 of additional income. However, the current economic conditions indicate that this overall increase may not be achievable. Indications are that planning fees and land charges maybe as much as £380,000 below 2008/09 budget expectations. In addition leisure and other activities may also see a fall off in levels of income by as much as £100,000.

As a consequence, the overall net increase in income from fees and charges anticipated corporately maybe offset by the impact of the economic downturn.

3.5 **Capital Programme**

The Council's Capital Financial Strategy is based around capital funds being generated from a number of sources, including capital receipts from asset sales, government grants, developer contributions, limited internal borrowings from surplus cash and a corporate revenue contribution.

Currently the most significant impact on the General Fund Revenue budget of capital expenditure is the annual revenue contribution to capital of £811,000.

The Council is currently considering three major capital projects. These being:

- One Site Administration
- Totton College Health & Leisure major extension
- Ringwood Town Centre

Development of these projects is in the early stages, but it is noted that £2m of uncommitted capital reserves is held.

This action will impact on the current planned programme as resources will not be available to support some of the capital plans for 2009/10 and future years. However, given experience of previous year's spending patterns it is considered that this situation can be managed without over committing the Council's capital resources.

The role of the Asset Management Strategy is central to the development of the Capital Programme Strategy. The Council's approach to developing its Capital Strategy is to request the Asset Management Group to prioritise the programme presented by Portfolios against the resources made available from the agreed Capital Financial Strategy.

3.6 **Government Grant - General**

The Government has already notified the Council of its Revenue Support Grant settlement for 2009/10 as part of a two year settlement. The level of support available is £11,467,000, an increase of £75,000 (0.7%) on 2008/09.

3.7 **Government Grant – Specific**

The Council in recent years has received a number of specific grants. Whilst some of these are not ring fenced they are intended to support the provision of specific activities. The Council is aware of a reduction in Housing Benefit Administration Grant (£65,000) and Planning Delivery Grant (£78,000) in 2009/10.

In addition to these service specific grants the Council has benefited over the last 3 years from Local Authority Business Growth Incentive grant. Over the 3 years the total grant received by the Council was approximately £1.3m, including £700,000 in 2007/08. In the latest CSR 2007 the government reduced the funds they would be making available to 10% of that seen in the previous scheme. In addition a recent announcement on how the government intends to distribute this "new" LABGI indicates that District Council's will receive a much lower proportion than they did from the previous scheme.

3.8 **Council Tax**

The Council has always attempted to balance an affordable council tax with the retention of quality services. In 2008/09 the Council's element of Council Tax increased by 3.5%. The impact and nature of Council Tax means that it affects those taxpayers on fixed incomes most significantly.

For information the average Band D Council Tax across England in 2008/09 increased by 4%. This obviously varies between class of authorities and areas for example in the South East the average increase was 4.4%. A comparison of Band D Council Tax is set out as follows:

	New Forest	% increase	Average	% increase
District Council only	£149	3.5%	£158	3.5%
Including Parish precepts	£209	4.2%	£187	4.1%
District Area	£1402	4.8%	£1424	4.5%

(including Hampshire County, Police & Fire)

The Government remains committed to controlling Council Tax increases and set “Capping” Criteria for 2008/09 at a 5% increase in Budget and Council Tax. (NFDC budget increase was 2.6%)

In total 8 authorities were “caught” within this criteria including 7 police authorities (but not Hampshire as budget increase was only 4.3%).

The latest Consumer Price Index, the government’s preferred inflation measure is 4.7% (August 2008). This is higher than would have been anticipated 12 months ago due to the impact of higher worldwide prices.

The State Earnings Related Pension Scheme, is based on the September to September increase in the Retail Price Index (RPI). The August 2008 RPI was 4.8%.

Prior to this change in the economy the Council’s financial strategy had assumed an annual increase in Council Tax of 3% this is currently being used in the development of the Council’s MTFP.

3.9 **Summary of 2009/10 Annual Budget**

Based on the assumptions set out within this report the 2009/10 Annual Budget projections can be summarised as follows:

		£000’s
Current Cost Forecasts to Maintain Services		1,480
Interest on cash balances		- 300
Base Budget Adjustments & Known Commitments		- 60
Fees and Charges		
3% Yield	-480	
Impact of economic situation	480	0
		1,120
Government Grant		- 75

Council Tax @ 3%	- 345
	- 420
Potential shortfall	700

3.10 **Savings & Efficiency**

Savings and efficiencies are a key element of the Council's financial planning objective of delivering a balanced budget. In addition the government have built in to the grant system an ongoing 3% annual cashable efficiency assumption. This is a "blanket" approach and ignores the starting position of Council's like the New Forest which have for a number of years made and delivered high quality and efficient services, as recognised through the "Excellent" status achieved by the Council.

Savings and efficiencies are a "normal way of life" and are part of the Council's Corporate Aims. Based upon the Council's budget assumptions there is currently an estimated budget shortfall projected of approximately £700,000. This equates to 3% of the net budget requirement.

3.11 **Corporate Plan**

The Council's objectives and priorities have been established within the new Corporate Plan. Portfolios are established to support delivery of this plan and both the MTFP and Service Plans are aligned to ensure the priorities of the Corporate Plan are delivered. To further aid development resources need to be identified from within the overall budget to enable Portfolios to develop Council priorities. Given the overall financial position Portfolio's should in the first instance look to identify revenue developments in their responsibilities from within their own resources.

3.12 **Risk Management**

The assumptions that have been made in developing the MTFP are based upon all known information. However it is clear that over the next and future years there are a number of uncertainties that cannot be accurately predicted.

Current plans are to mitigate some of this uncertainty by the use of the Council's uncommitted reserves that provide for 10% of net expenditure during this period. The Council's General Fund Reserves as at April 2008 are £2,036,000.

The annual projections include no contingency provision other than through reserves.

4. YEARS BEYOND 2009/10

4.1 During the budget process projections will be developed for medium term years beyond 2009/10.

5. SUMMARY

5.1 The financial climate that the Council has experienced over the last 10 years is changing. The latest government spending review (CSR 2007) identifies a lower level of government funding being made available to local authorities over the next few years, than had been provided for more recently. The Council is already seeing this with lower levels of general grant and reductions in specific grants, like Housing Benefit Administration and Planning Delivery Grant.

5.2 At the same time after a period of inflation stability costs are increasing with general inflation measures indicating annual rises in the range of 4 to 5%. This includes Fuel and Energy costs rising by up to 20%.

5.3 The general economic downturn and "Credit Crunch" impact on the housing market is affecting the Council's fee and charging income with significant reductions in Planning and Land Charge income together with lower levels of Health and Leisure income being predicted.

5.4 In the short term the Council's financial position is robust to manage this without impacting directly on existing plans for service delivery. However, during this budget cycle the impact of these changes will need to be assessed and reflected within the medium term plans of the Council.

6. RECOMMENDATION

6.1 The Cabinet are asked to recommend that the Council agree the financial strategy for development of the 2009/10 annual budget and Medium Term Financial Plan as set out below:

(i) The Council will endeavour to set a Council Tax increase that is affordable with particular reference to those on fixed incomes;

(ii) The Council aims to set a balanced revenue budget retaining uncommitted reserves for the management of unforeseen risks at the current level of £2m, approximately 10% of net revenue expenditure;

(iii) The Council will endeavour to maintain and improve the current level and quality of services provided. It aims to achieve this by funding already identified commitments and forecast increases in pay and prices for all services;

(iv) The Council aims to maintain its existing approach to Charging. Although all Portfolio's are requested to consider this in light of the guidance provided by the Audit Commission document "Positively Charged – Maximising the benefits of local public service charges";

(v) All service expenditure plan proposals will be developed within Portfolio Plans, enabling the Corporate Plan to be linked to the service planning process;

(vi) Portfolio Plans will be considered by all Review Panels in draft form during November 2008, enabling feedback to Cabinet supporting final development of the Financial Strategy to be set out in January. Review Panels in January will have a further opportunity to review final detail plans in January 2009, prior to the Council determining the net budget requirement and Council Tax for 2009/10;

(vii) All Portfolios are asked to develop their delivery and financial plans within the context of financial assumptions set out within this financial strategy, both for 2009/10 and the medium term. This includes achieving a savings and efficiency budget reduction and containing any new development within the overall level of resources identified by the strategy; and

(viii) In accordance with the Council's Asset Management Strategy the Asset Management Group will recommend a capital and maintenance programme for consideration by Cabinet in January.

For Further Information Please Contact: **Background Papers:**

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