REPORT TO: Executive Board

DATE: 18th November 2010

REPORTING OFFICER: Operational Director- Finance

SUBJECT: Medium Term Financial Strategy

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To establish the Medium Term Financial Strategy for 2011/12 to 2013/14.

2.0 RECOMMENDED: That

(1) the Medium Term Financial Forecast be noted;

(2) the base budget be prepared on the basis of the underlying assumptions set out in the Forecast;

(3) the Budget Strategy and Capital Strategy be approved;

(4) the Reserves and Balances Strategy be approved; and

(5) further reports be considered by the Executive Board on the budget.

3.0 SUPPORTING INFORMATION

3.1 The Medium Term Financial Forecast (MTFF) sets out a three-year projection of resources and spending. It has been based on information that is currently available following the Comprehensive Spending Review but there is information yet to be received and revisions will need to be made as new information becomes available.

3.2 Although the projections in the forecast must be treated with a considerable degree of caution, they clearly show there is need to make a significant level of savings over the next 3 years. As such, they provide initial guidance to the Council on its financial position into the medium term.

3.3 Revenue savings of up to £20m, £16m and £12m are required over the next 3 years. As a result a total of £48m will need to be cut from the council's budget. This represents 37%, or more than one third, of the current budget and consequently no area of Council spending can be unaffected.

3.4 The Council's current financial position is sound. The District Auditor has found the Council manages its finances well. Even so, savings of this magnitude are unprecedented and it is a significant challenge to find sufficient savings over the next 3 years to balance the budget.

3.5 In setting its revenue and capital budgets, the Council will need to have regard to its priority areas, namely:
• Healthy Halton
• Halton's Urban Renewal
• Children and Young People in Halton
• Employment Learning and Skills in Halton; and
• Safer Halton

3.6 These priorities are set out in more detail in the Council's Corporate Plan and in Halton's Sustainable Community Strategy. The latest draft Sustainable Community Strategy is currently out for consultation.

3.7 In summary, the Council's Medium Term Financial Strategy has the following objectives:

- To deliver a balanced and sustainable budget.
- To prioritise spending towards the Council's five priority areas.
- To avoid excessive Council Tax increase.
- To achieve significant cashable efficiency gains.
- To protect front line services as far as possible.

Budget Strategy

3.8 The MTFF shows that in order to balance the budget there is a requirement to make significant cost savings of up to £20m in 2011/12 and £16m and £12m for the following two years respectively. In making these savings the Council will need to have in mind the objectives of the Medium Term Financial Strategy set out above.

3.9 The Council will identify savings by:

- Progressing Waves 2 and 3 of the Efficiency Programme.
- Reviewing the portfolio of land and other assets, including its use of buildings in accordance with the Accommodation Strategy.
- Better procurement.
- Reviewing (subject to negotiations) the terms and conditions of staff.
- Offering staff voluntary early retirement and voluntary redundancy under the terms of the Staffing Protocol.
- Reducing the cost of services either by reducing spend or increasing income.
- Stopping some lower priority services.

3.10 Over the years the Council has prided itself that compulsory redundancies have been avoided. Given the scale of the savings facing the Council this is extremely unlikely to be the case over the next 3 years. It is recognised that this problem is not of the Council's making but one the Council has to deal with.

Capital Strategy

3.11 The Asset Management Strategy sets out how the land and buildings that are in Council ownership or occupation are structured to support the Council's priorities. The capital programme is a major part of the strategy.

3.12 The MTFF shows that there is sufficient resource to cover the cost of the current Capital Programme. However, in the current economic climate it is unlikely that the Council will receive significant levels of capital receipts. As such the opportunity for additional capital spending is severely limited and therefore, new spending can only take place for schemes that come with funding.

3.13 Prudential borrowing remains an option but the financing costs as a result of the borrowing will need to be found from savings within the revenue budget. Supported capital expenditure allocations will be passported to the relevant service.

4.0 POLICY IMPLICATIONS

4.1 The MTFS represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints that the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan and Service Plans and Strategies.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 There are no direct implications on the Council's priorities. However, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities and reductions of the magnitude identified are bound to have a negative impact on those priorities.

6.0 RISK ANALYSIS

6.1 The MTFS is a key part of the Council's financial planning process, and as such minimises the risk that the Council fails to achieve a balanced budget.

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 There are no direct equality and diversity issues.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	**Place of Inspection**	**Contact Officer**
Formula Grant 2010/11	Kingsway House	Steve Baker
Formula Grant Consultation 2011/12	”	”
Comprehensive Spending Review 2010 (CSR2010)	”	”

MEDIUM TERM FINANCIAL FORECAST

2011/12 TO 2013/14

Finance Department
November 2010

1.0 INTRODUCTION

1.1 The Medium Term Financial Forecast (MTFF) sets out a three-year projection of resources and spending covering the period 2011/12 to 2013/14 and forms the background for the delivery of the Council's Medium Term Financial Strategy. The projections made within the MTFF must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.

1.2 The Medium Term Financial Strategy represents the "finance guidelines" that form part of the medium term corporate planning process. These guidelines identify the financial constraints that the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan and Service Plans and Strategies.

2.0 COMPREHENSIVE SPENDING REVIEW

2.1 The financial year 2011/12 is the first year covered by the Government's Comprehensive Spending Review (CSR 10) which was announced on the 20th October 2010, setting out the Government's planned public sector spending for the four-year period up to 2014/15.

2.2 The CSR 10 sets out how the coalition government will carry out the deficit reduction plan. Overall government departments will face a loss of funding of an average of 19% over the four years of the review in order to save £83 billion. This is in keeping with the Governments policy to wipe out the structural deficit by 2014/15. Local Government will face above average cuts of 7.25% in real terms, in each of the next four years. Each government department will set out a business plan in November 2010 to set out how the savings will be achieved.

2.3 The cuts for Local Government funding are front loaded meaning that the greatest percentage will happen in the first year of the review (2011/12). Table 1 below shows the formula grant in cash terms available to Local Government over the four years of the review.

Table 1 – National Formula Grant 2010/11 to 2014/15

£billion	2010-11	2011-12	2012-13	2013-14	2014-15
Annual Funding	28.0	25.0	23.4	23.2	21.9
Year on Year Cut		3.0(10.7%)	1.6 (6.4%)	0.2 (.09%)	1.3 (5.6%)

2.4 The provisional figures for the Local Government Finance Settlement are due to be announced in early December. It is only then when the Council will know how it has been affected. Included in the Settlement will be the removal of ringfencing of most revenue grants. The intention of this is to provide greater financial control to authorities. The number of separate core grants will be reduced from 90 to fewer than 10, with more than £4 billion of core grants rolled into formula grant or school grant. More information is required to identify the complete list of grants which will roll into formula or schools grants, those that will remain and those which will disappear altogether. The Dedicated Schools Grant will be simplified and there will be a new Public Health Grant to reflect the new responsibilities for local authorities.

2.5 Department of Communities and Local Government have confirmed as part of the CSR10 they will make a grant available to local authorities to freeze council tax in 2011/12 at their 2010/11 levels. The scheme will be voluntary and will also apply to police and fire and rescue authorities but not to Parish Councils. The funding available will be equivalent to a 2.5% increase on 2010/11 council tax levels and will be paid in each of the four years of the spending review to compensate for council tax income foregone during this period.

2.6 An additional 2 billion will be made available over the next four years to support social care; £1.35 billion will be available in the 2011/12. £1 billion of this will come from the NHS to promote joint working and the additional £1 billion will be additional personal social services grant.

2.7 The Government announced in the spending review their intention to abolish Council Tax Benefit in 2013/14 and replace it with a new rebate scheme. The new scheme will be localised to local authorities with the Government considering providing greater flexibilities to authorities to manage pressures on Council Tax. The scheme will reduce spending on Council Tax Benefit by 10% from April 2013.

2.8 Capital funding from all departments to local authorities will fall by an average of 30% over the period of the spending review. Further details will be published later this year on the Tax Increment Financing programme (TIF). New powers will allow local authorities to borrow against predicted growth in their locally raised business rates, the cash would be used to fund local regeneration schemes. TIF's are likely to be implemented in 2013/14 and the Treasury will look at a number of key tests to be met before a scheme is approved.

2.9 The CSR10 reported the Carbon Reduction Scheme will be simplified. Revenues from allowance sales will be used to support the public finances, including spending on the environment, rather than recycled to participants.

2.10 Sixteen pilots of pooled community budgets will be introduced from April 2011, which will bring together government spending that is aimed at families with complex needs. It will require authorities to commission some local health, police, criminal justice, education, transport and benefits services, with a view to improving outcomes within their area. It is expected that the scheme will be rolled out nationally form 2013/14.

3.0 EXTERNAL SUPPORT

3.1 The 2011/12 Local Government Finance Settlement is the first year of the CSR10 and as such it brings considerable uncertainty. The provisional settlement is expected to be announced in early December providing local authorities with proposed figures for consultation. It is only in January 2011 that firm and final figures are expected to be confirmed.

3.2 Although the forthcoming settlement will be based on the details announced in the CSR10 there is a great deal of uncertainty on the level of the settlement for Halton. This has made forecasting the level of grant funding included in the forecast very difficult, therefore, the projections must be treated with a considerable degree of caution. As most core grants will roll into formula grant in 2011/12 this may result in an asymmetric impact across local authorities and therefore, unless protection is given, deprived authorities such as Halton will lose out disproportionately.

Formula Grant and Area Based Grant

3.3 The main source of Government funding to local authorities is through Formula Grant, which comprises Revenue Support Grant (RSG) and redistributed National Non-Domestic Rates (NNDR). Distribution of the grant to local authorities is based on what is known as the “four block model”. It distributes grant split over three blocks with the amount allocated to each block, at the national level, based on Ministerial judgement. The system is not transparent making it difficult to identify the amount of grant received by individual authorities for new functions or grant transfers.

3.4 The fourth block is the damping mechanism to ensure that all authorities receive at least the minimum increase or maximum decrease in grant, known as the floor. In this way Authorities are protected from significant detrimental grant changes. The floor levels for the next three years of the settlement are unknown, for forecasting purposes the floor has been assumed to be 12.5%, 10% and 5% over the three years. Without the floor Halton’s grant could be reduced by a further £5m in 2011/12.

3.5 The expectation when the provisional Local Government Finance Settlement is announced in December is that it will provide settlement amounts for the next two years which will aid financial planning certainty to 2012/13. For the period beyond then a review of Local Government Finance is anticipated. Its impact may have possible adverse affects on Halton’s future settlements caused by changes to the methodology used to distribute formula grant.

3.6 The level of specific grants received by Halton in 2010/11 is £108m, including the Dedicated School Grant of £81m. The Department of Communities and Local Government have announced that specific grants totalling £0.8m will be rolled into formula grant in 2011/12. It is envisaged that most other specific grants will also be rolled into formula or schools grant.

3.7 Area Based Grant (ABG) is a non ringed fenced general grant allocated directly to local authorities as additional revenue funding and has been allocated to specific policy areas rather than general formulae. The allocation of ABG's to Halton for 2010/11 is £19.9m. The Working Neighbourhoods Fund grant is an ABG and the CSR10 has made it clear that this grant will cease at the end of this financial year.

3.8 As with specific grants it is expected that most ABG's will be rolled into formula and schools grant in 2011/12. For forecast purposes we have assumed a decrease to the 2010/11 ABG levels in line with the floor levels set for formula grant.

3.9 Following on from the Emergency Budget delivered by the Government in June 2010 cuts were made to various Area Based Grants and Specific Grants. As a result savings were made to the 2010/11 revenue budget totalling £3.174m, this was split between ABG savings of £2.017m and specific grant savings of £1.127m.

3.10 The decrease in the level of Formula and Area Based Grant for Halton is shown in Table 2 below:

Table 2 – Formula Grant and Area Based Grant Forecast 2011/12 to 2013/14

	2010/11 £000's	**2011/12 £000's**	**2012/13 £000's**	**2013/14 £000's**
Formula Grant and Area Based Grant	85,878	83,831	74,062	66,656
2010/11 In Year Grant Cut	- 2,047			
Specific Grants Rolled Into RSG		812		
Formula Grant Decrease		**- 8,098**	**- 5,668**	**- 2,551**
Area Based Grant Decrease		**- 2,483**	**- 1,738**	**- 782**
Formula Grant and Area Based Grant	83,831	**74,062**	**66,656**	**63,323**
In Year Reduction	2.4%	**11.7%**	**10.0%**	**5%**
Cumulated Reduction	2.4%	**13.8%**	**22.3%**	**26.3%**

3.11 The table shows that the MTFF is showing a loss of over £22m in grants, which represents a cut of over 26%.

4.0 COUNCIL TAX FORECAST

4.1 For 2010/11 the Council Tax for a Band D property in Halton is £1,137.91 (excluding police, fire and parish precepts), which will generate income of £43.5m. Each 1% increase in Council Tax generates approximately £435,000 in spending power.

4.2 Included within the CSR10 the Government have confirmed a grant will be paid for each of the four years of the spending review for those authorities who implement a council tax freeze for 2011/12. The grant would be equivalent to a 2.5% increase to 2010/11 council tax levels or approximately £1m. It should be noted that when the grant ends this will have to be found from either savings or increasing the Council Tax.

4.3 The Government intend to introduce legislation at the earliest opportunity which would result in referendums taking place of all registered local electors for those authorities who set excessive council tax increases. The government have reserved the right to use existing capping powers for council tax increases until the legislation has been introduced.

4.4 When setting Council Tax levels it is clear that higher increases reduce the requirement to make savings. However, there are other factors that need to be considered when determining the appropriate increase in Council Tax. These factors include:

- Halton has the 3rd lowest Council Tax level in the North West and the 34th lowest in England,

- Halton's Council Tax is £89.18 (6.2%) below the average Council Tax set by Local Authorities in England.

- Halton's increase in Council Tax in 2010/11 was 2.0% which was slightly above the national average of 1.8%.

- Inflation - the Consumer Price Index (CPI) as at September 2010 is currently at 3.1% and the Retails Price Index (RPI) at 4.6%.

- The spending review, welfare reform, the slow housing market and risk of increasing unemployment.

4.5 Table 3 below estimates the net amount of Council Tax income that will be produced for a given % increase in Halton's Band D Council Tax for the next 3 years and assumes no change in taxbase.

Table 3 – Council Tax Income for 2011/12 to 2013/14

Projected Increases in Council Tax Income (£'000)	2011/12	2012/13	2013/14
0%	0	0	0
1%	435	439	443
2%	869	887	904
3%	1,304	1,343	1,383
4%	1,739	1,808	1,881

5.0 OTHER RESOURCES

5.1 As part of the Emergency Budget in June 2010 the Chancellor announced that the LPSA Reward Grant and the Local Authority Business Growth Incentive Grant (LABG1) had ceased. Furthermore, the Government have also announced that the Local Area Agreement Performance Grant had also ceased.

5.2 In the recent Governance Report the District Auditor has commended the Council's financial management The Council has a history of spending within budget and has a reasonable level of reserves and balances. Balances may be used to balance the budget as a one year only solution and additional savings will therefore be necessary in the following year. Yet more savings will be needed in future years as balances are replenished.

5.3 As part of the half year monitoring of the 2010/11 budget it has been agreed that each Directorate will underspend its budget. This will generate approximately £2m which will provide added flexibility in managing next year's budget.

5.4 A potential source of resources is additional income. One of the responses from the budget survey last year with Halton 2000 was that increasing charges was more preferable than increasing the Council Tax. Additional income could be generated either by increasing existing charges, identifying new charges, sharing services or even providing services for other Authorities.

6.0 SPENDING FORECAST

6.1 The spending forecast provides an estimate of the increase in revenue expenditure that will be required over the next three years in order to maintain existing policies and programmes. In effect this represents an early estimate of the standstill budget requirement using the information that is currently available.

6.2 The scope of the Forecast covers General Fund revenue activities that are financed through Formula Grant, Area Based Grant and the Council Tax. Schools budgets are considered in Section 10.

6.3 The Forecast includes the budgetary consequences of previous budget decisions, including one-off savings used to balance the 2010/11 budget, this adds £0.391m to the forecast for 2011/12. It also includes further increases to the Revenue Priorities Fund of £0.5m in each year.

6.4 Pay and price inflation is the biggest uncertainty and the single most costly factor in the forecast. As part of the 2010/11 forecast an estimate of 1% was included in the budget for the pay award, in actual terms no pay increase was implemented which has resulted in a saving of £0.651m against the budget. As part of the Emergency Budget the Government announced a two year pay freeze for public sector workers from 2011/12 with the exception of employees who earn less than £21,000 who would receive an increase of £250. This pay award has only initially been agreed for central government workers but to cover the eventuality of local government workers also being included an amount of £0.331m has been included for years 2011/12 and 2012/13. Pay inflation of 1% has been included for the final year of the forecast.

6.5 Over the three years of the forecast a 0.5% increase to cover the increasing costs of the superannuation scheme has been included.

This is estimated to add an additional £0.3m to each year of the forecast.

6.6 Inflation has increased since this time last year, currently the Consumer Price Index (CPI) – the index by which the Government measures inflation - stands at 3.1% which is above the Governments 2% target. The forecast assumes that many items of supplies and services expenditure will continue to be cash limited. In other cases the forecast assumes an appropriate rate that reflects the picture of current and future prices.

6.7 The impact of the recession continues to affect income levels, particularly market, commercial and industrial rents, building control and planning fees. It is anticipated that income levels will not revert to their previous levels and the forecast assumes an overall loss of income of £0.3m in 2011/12.

6.8 The Government have set targets for both recycling waste and limits to biodegradable municipal waste. Failure to meet these targets will result in significant financial penalties and to respond to these targets will require considerable investment. These penalties can be avoided in the short-term by buying allowances under the Local Authority Trading Scheme.

6.9 In addition, the disposal of waste using a landfill site is subject to Landfill Tax paid on top of landfill fees. The 2009 Budget announced that the standard rate for Landfill Tax would continue to increase annually by £8 per tonne rising from £48 per tonne to £72 by April 2013. Consequently £600,000 is included in each of the three years of the forecast to cover additional waste disposal costs from tax and LATS allowances.

6.10 There will be a new expense for the Carbon Reduction Commitment Energy Efficiency Scheme from 2011/12 onwards. The authority will need to buy allowances based on the anticipated level of CO_2 emissions. The intention was for the cost of the allowances to be refunded at the end of each year, plus or minus a bonus or penalty payment dependant on the performance compared to their similar organisations. CSR10 announced a fundamental change to the scheme confirming that revenue raised would be used to support public finances rather than recycled to participants. The cost to the authority is estimated at £0.2m.

6.11 A key assumption that has been used in constructing the MTFF is that total spending in 2010/11 is kept within the overall budget. In particular it can be difficult to control ‘demand led’ budgets such as children in care and care in the community. The Forecast assumes any budgetary pressures in the demand for services or match funding will be addressed through off-setting savings.

6.12 In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty over inflation, interest rates, demand led budgets, impact of spending cuts and loss of income, the forecast includes a contingency of £1.0m in 2011/12, £1.5m in 2012/13, and £2.0m in 2013/14.

6.13 In March 2009 the Bank of England base interest rate fell to a historical low of 0.5%. It has remained at this level which has resulted in a large fall in the level of interest it is possible to earn on investments. The forecast includes £0.2m lost investment interest income as a result of the continuing low interest rates.

6.14 The Council has a significant capital programme and the forecast includes the financing costs of the existing programme. It also includes the financing costs for early land acquisition relating to the Mersey Gateway Project. The financing costs for borrowing will increase from 2010/11 as interest rates on Public Works Loan Board (PWLB) loans have been increased to 1 per cent above UK government gilts. The revenue costs associated with the capital programme are included in the forecast at £1.2m in 2011/12, £1.4m in 2012/13, and £0.3m in 2013/14.

6.15 The CSR10 confirmed that Council Tax Benefit under its new identity will be localised from 2013/14. Local authorities will be given greater flexibilities to manage the pressures on Council Tax. The new scheme will reduce overall spending on the benefit by 10%, an estimate of £0.8m has been included in the forecast to allow for future pressures.

6.16 Over the course of the spending review period the majority of specific grants will rolled into formula grant and schools grant. It is assumed in the forecast that the 2010/11 funding baseline figures for specific grants will be cut in line with formula grant and Area Based Grants. The cost to maintain services funded by specific grants are £3.8m in 2011/12, £2.1m in 2012/13 and £1.4m in 2013/14.

6.17 New public health responsibilities will transfer to the Council from April 2011. CSR10 identifies a new grant that is intended to fund these new responsibilities. The forecast assumes the grant to Halton will be sufficient to cover the cost of these new responsibilities.

6.18 Table 4 outlines the Spending Forecast, which highlights likely increases in the net budget of 8.1% in 2011/12 and 7.3% and 7.8% thereafter.

Table 4 – General Fund Medium Term Standstill Spending Forecast

Increase in Spending required to maintain existing policies and services	Year on year change (£'000)		
	2011/12	**2012/13**	**2013/14**
FYE of Previous Year Budget	391	-111	0
Pay Settlement below Budget 2010/11	-651	0	0
Priorities Fund	500	500	500
Pay and price inflation	1,407	1,344	1,638
Superannuation/NI	362	284	284
Pay Contingency	1,000	1,000	1,000
Waste Disposal	610	610	610
Carbon reduction Commitment	200	0	0
Contingency	1,000	1,500	2,000
Loss of Income	300	0	0
Localisation of Council Tax Benefits	0	0	800
Change of Interest Rates	183	-6	25
Capital Programme	1,227	1,354	322
Decrease in funding for Specific Grants	3,806	2,096	1,452
Other	35	52	69
TOTAL INCREASE	**10,370**	**8,623**	**8,700**
FORECAST INCREASE (%)	***8.1%***	***7.3%***	***7.8%***

7.0 THE FUNDING GAP

7.1 At this level of spending there is a funding gap with the forecast level of resources. Table 5 demonstrates the forecast gap between spending and forecast resources in at different levels of Council Tax increase.

Table 5: Funding Gap with a given % increase in Council Tax

Council Tax Increase of:	2011/12	2012/13	2013/14
0%	20,139	16,029	12,033
1%	19,704	15,590	11,589
2%	19,269	15,142	11,128
3%	18,835	14,686	10,649
4%	18,400	14,221	10,152

7.2 The table shows that savings of up to £20m are forecast to be needed to balance next year's budget with further savings of £16m in 2012/13 and £12m in 2013/14. The total funding gap is up to £48m and represents 37% of the Council's budget.

8.0 CAPITAL PROGRAMME

8.1 Each year the Government provides supported capital expenditure (SCE) allocations for the local transport programme, housing, social services and education. These allocations can either be in grants or borrowing approvals. The formula grant system is constructed so that the funding cost associated with the allocations results in additional grant. The Forecast therefore assumes that the allocations are passported to the relevant services. However, this approach would have to be reconsidered if the Council were to find itself below the grant floor for a prolonged period since, as in these circumstances, grant is not made available to fund the borrowing costs.

8.2 The current system of capital controls allows local authorities to supplement the SCE allocations by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

8.3 The Council has used prudential borrowing provided that the cost of borrowing has been covered by savings. The Forecast continues this approach.

8.4 In past years the Council has been extremely successful in attracting grants and contributions. In this way the Council has been able to undertake significant capital expenditure without financing costs falling on the budget. As a result of the comprehensive spending review capital expenditure across all government departments will be cut by an average of 30% and in addition regional development agencies will be phased out over the next few years. The impact of these measures will have a significant impact on the reduced level of funding available for the capital programme.

8.5 The Council's capital programme is updated each year incorporating new starts approved through the budget process. The current programme is dominated by the land acquisitions for the Mersey Gateway project and several major regeneration projects designed to promote economic growth and employment opportunities. In the near future the Building Schools for the Future Programme will be major components of the capital programme.

8.6 Committed spending on the capital programme over the next three years is:

	£m
2011/12	70.1
2012/12	24.3
2013/14	3.6

8.7 This spending is fully funded from a variety of sources, including capital receipts.

8.8 In recent years a major source of funding the capital programme has been capital receipts. However, the number and value of assets now held is much less than it was and therefore no major capital receipts are included within the Forecast. Following the transfer of the housing stock to HHT, capital receipts from right to buys and the VAT shelter arrangement are receivable and these are included within the forecast.

8.9 A further major problem facing the current capital programme is accommodating the financing costs as well as the ongoing revenue costs such as maintenance of any assets. CSR 10 confirmed that interest rates on Public Works Loan Board (PWLB) loans have been increased to 1 per cent above UK government gilts.

9.0 RESERVES & BALANCES

9.1 The Councils Reserves and Balances Strategy is attached in the Appendix. It sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

9.2 The level of balances and reserves will be reviewed as part of the budget and final accounts processes. At the moment they appear reasonable, however there are a number of uncertainties including the cost of equal pay claims which are still not clear.

9.3 The Capital Reserve currently totals £2.9m however, this is earmarked to meet the Mersey Gateway preparation costs.

10.0 SCHOOLS BUDGET

10.1 Schools are now fully funded by Government grants, primarily the Dedicated Schools Grant. The DSG is used to fund the Individual Schools Budget (ISB) which is allocated to schools by way of a formula, in accordance with the Local Management of Schools Financial Scheme (the formula), and the central allocation in accordance with Department for Children, Schools and Families (DCSF) guidelines.

10.2 The Schools Forum assesses and considers current and future arrangements and changes to Schools funding, agreeing any formula changes.

10.3 CSR10 announced that the 5-16s schools budget would increase by 0.1% for each year of the spending review; this is inclusive of a £2.5billion pupil premium which will support the educational development of the most disadvantaged. Further information on the new pupil premium funding and how it will be allocated to schools will be published in December. As a result of the distribution it is envisaged that some schools may face a cut in real terms funding compared to previous years. There will also be a decrease in funding for 16-19 year old.

10.4 Announced as part of CSR10 was that Sure Start funding would remain the same in cash terms over the four years of the spending review.

10.5 Halton High School transferred to academy status from September 2010. Funding for the school is now paid direct to the school from the Government rather than going through the authority. Included within the grant paid to the school will be funding that previously funded central services which the authority provides. There is an element of financial risk to the authority in future years of other schools choosing to become academies which will lead to a shortfall in income to fund the expenditure for the central services.

11.0 PARTNERSHIPS

11.1 Halton takes part in joint planning with Halton and St. Helens Primary Care Trust (H&SHPCT), and has several Pooled Budgets with H&SHPCT. Pooled budgets include the Integrated Community Equipment Service Pooled Budget and the Intermediate Care Pooled Budget.

11.2 April 2012 will see the start of changes to the partnerships with the Primary Care Trust. 2012/13 will see the development of GP commissioning consortia with whom local authorities will develop similar partnerships to those listed in 11.1. It is expected following the successful establishment of GP consortia PCTs will cease to exist from 2013.

11.3 A further pooled budget the authority has with the Halton and St Helens Primary Care Trust is the Adults with Learning Disabilities (ALD) Pooled Budget. Under Valuing People Now 2009 responsibility for the funding and commissioning of social care for adults with learning disabilities will be transferred to local government and the ALD Pool will end on 31 March 2011. The forecast assumes that the transfer of funding will be on a “net nil” basis. The partnership with H&SHPCT will still exist in terms of delivering the service.

12.0 EFFICIENCY STRATEGY

12.1 In order to maintain the level of performance and services the authority offers it needs to find new and innovative ways to deliver efficiency savings and service improvements. The Council is determined not to compromise on the quality of the services that are provided to the community. However, it recognises the need to look more radically at the way it does business in order to achieve the level of savings that will protect key services.

12.2 The Council has set in train the Efficiency Programme and Wave 1, which identified savings of £3.237m net (rising to £4.415m gross), has now been completed. The programme is now well into wave 2 with a number of workstreams established and others starting.

13.0 MONITORING

13.1 Spending against each Departments revenue budget and capital programme will be monitored and reported to the Policy and Performance Boards, alongside service outcomes within the quarterly performance management reports. The Council-wide position will also be reported to the Executive Board Sub Committee.

14.0 SUMMARY

14.1 As a result of the Comprehensive Spending Review there will be severe cuts to the funding streams of the authority. Consequently there is a requirement to make significant budget savings. There are also spending pressures, not included in the forecast, which will result in the need for further savings to keep future council tax increases to reasonable levels.

14.2 Future levels of growth and savings will therefore be directly influenced by the decisions made concerning Council Tax increases. Higher Council Tax increases will reduce the level of savings that are required although the Government has demonstrated that it will use its reserve capping powers to limit Council Tax increases which it deems to be excessive.

14.3 The Medium Term Financial Forecast has been based on information that is currently available. Revisions will need to be made as new developments take place and new information becomes available.

APPENDIX

RESERVES AND BALANCES STRATEGY

1.0 INTRODUCTION

1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.

1.3 The Operational Director, Financial Services will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall strategy is achieved. The outcome of the reviews will be reported to Executive Board Sub Committee and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.

1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day to day operations.

2.0 GENERAL BALANCES

2.1 It has been the Council's policy since it gained unitary status to increase general balances. Close monitoring and control of budgets since then has meant this policy has been successfully achieved. It is considered prudent to maintain them at a reasonable level in order to provide for any major unforeseen future events.

2.2 The level of revenue budget savings currently indicated by the MTFS, provides increased uncertainty in terms of the Council's ability to deliver spending in line with its annual budget, which would result in a reduction in General Balances.

2.3 It is therefore considered prudent to maintain sufficient general balances in order to provide for such eventualities, as well as to minimise the financial impact of any major unforeseen future events.

3.0 BAD DEBT PROVISION

General Debtors

3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age. The bad debt provisions in respect of general debtors currently total £7.0m.

3.2 Past experience has shown that after 43 days the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. It is therefore considered prudent to make full provision for all sundry debts outstanding for more than 43 days.

3.3 In specific areas where historically there have been difficulties recovering sundry debts, such as with Adult Social Care, it is also considered prudent to make additional provision in order to ensure the risk of financial loss to the Council is minimised.

Council Tax / Business Rates (NNDR)

3.4 Bad debt provisions are also held in respect of Council Tax and National Non Domestic Rate (NNDR) debts and are based on an overall 99% collection rate. The bad debt provisions in respect of Council Tax and NNDR debtors currently total £2.7m.

3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts, but will continue to be reviewed annually and appropriate action taken in order to minimise the risk of financial loss to the Council.

4.0 INSURANCE RESERVE

4.1 The Council holds an Insurance Reserve in order to meet the cost of current and future insurance claims which exceed the level of cover provided by the Council's insurers.

4.2 In particular, this relates to claims for fire damage on school premises, where the Council's insurance policy has an excess of £100,000 and the Council also has to fund up to 20% of the cost of each claim (except where sprinkler systems are in existence). In addition, the cost of renewal of contents etc. following a fire often exceeds the insured costs. Past experience of major school fires in Halton has shown that the proportion of costs falling to be funded from the Insurance Reserve in these instances can be very significant.

4.3 The level of the Insurance Reserve is reviewed annually by comparison to the total outstanding claims and the potential cost of future major claims, particularly school fires. The Insurance Reserve currently totals £3.4m.

4.4 A separate Insurance Reserve exists to meet future claims in respect of the Council's previous housing stock, which was transferred to Halton Housing Trust in 2005. This reserve is primarily intended to minimise the financial risk to the Council of potential future environmental claims relating to the period prior to the transfer. This reserve currently totals £1.4m.

5.0 CAPITAL RESERVE

5.1 The Council holds a Capital Reserve to support the financing of the Council's capital programme and currently totals £2.9m. However, following the capitalisation direction received in respect of 2008/09 Mersey Gateway preparation costs, the Capital Reserve has been earmarked to meet the remaining Mersey Gateway preparation costs in 2010/11 and beyond.

6.0 SINGLE STATUS

6.1 The Council has set-aside funds totalling £4.1m to assist with meeting the costs of equal pay claims. The likely cost of meeting equal pay claims is as yet unknown and it is not clear whether the reserve will be sufficient to meet these costs.

7.0 INVEST TO SAVE FUND

7.1 In 2007/08 the Council created an Invest to Save Fund which currently totals £1.3m, in order to provide one-off funding for proposals which will generate efficiencies and thereby create significant, permanent, revenue budget savings, whilst also supporting the achievement of the Council's corporate objectives. In particular, the fund will meet the costs of the Efficiency Programme.

7.2 Applications for funding which meet specific criteria are considered by Executive Board Sub Committee and ultimately a proportion of the revenue budget savings achieved are returned in order to sustain the Fund.