

REPORT TO: Executive Board

DATE: 15th November 2007

REPORTING OFFICER: Operational Director – Financial Services

SUBJECT: Medium Term Financial Strategy
2008/09 to 2010/11

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To set out the findings of the Medium Term Financial Strategy.

2.0 RECOMMENDED: That

- (1) the Medium Term Financial Strategy be noted;**
- (2) the base budget be prepared on the basis of the underlying assumptions set out in the Forecast; and**
- (3) further reports be considered by the Executive Board on the areas for budget savings and spending pressures.**
- (4) the Strategic Director – Corporate and Policy be authorised to take the appropriate steps to engage a partner to help support the Council’s efficiency agenda.**

3.0 SUPPORTING INFORMATION

3.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of resources and spending. It has been based on information that is currently available but there is information yet to be received and revisions will need to be made as new information becomes available. As a result, the projections must be treated with a considerable degree of caution, but they do provide initial guidance to the Council on its revenue position into the medium term.

3.2 The Government remains committed to capping excessive council tax increases, expecting the overall Council Tax rise to be “well under 5%” in each of the next three years. Higher Council Tax increases will certainly result in budgets being capped by the Government.

3.3 The MTFS shows that the spending required to maintain existing policies and programmes is expected to increase at a faster rate than the resources available to support it. As a result, additional spending on new or improved services will have to be kept to a minimum. To balance the budget the forecast shows there is a requirement to make

significant efficiency savings and cost savings. Given the financial challenge the Council is likely to face over the coming years, it is considered prudent to review the way it does its business . It is proposed that external support be engaged to work alongside the Authority to assist that process. Any support engaged could be funded from the Invest to Save Fund.

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.

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 2007/08	Municipal Building	Nick Finnan
Comprehensive Spending Review 2007 (CSR2007)	”	”

MEDIUM TERM FINANCIAL STRATEGY

2008/09 TO 2010/11

**Financial Services
October 2007**

1.0 INTRODUCTION

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a three-year projection of resources and spending. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The Comprehensive Spending Review 2007 has provided an indication of the national level of formula grant funding for the next three years, however, further information and final allocations for individual authorities are yet to be received. Nevertheless the projections do provide initial guidance to the Council on its revenue position into the medium term.
- 1.3 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.

2.0 COMPREHENSIVE SPENDING REVIEW

- 2.1 The Comprehensive Spending Review 2007 (CSR2007) was announced on the 9th October 2007, setting out the Government's planned public sector spending for the three-year period to 2010/11.
- 2.2 CSR 2007 provided Local Government with one percent growth on top of inflation over the period of the CSR. The growth figure includes PFI credits and if these were stripped out, growth would remain at 1% for 2008/09 but it would result in no growth in both 2009/10 and 2010/11.
- 2.3 The Government have stated CSR 2007 to be a “fair and affordable settlement” for Local Government and in exchange, Local Government should not make “excessive” Council Tax increases or reduce service quality. Overall Council Tax increases should be “well under” 5%.
- 2.4 The increase in resources have been underpinned by an ambitious value for money programme, requiring Local Government to achieve 3% cashable efficiency savings releasing savings of £4.9 billion by 2010/11. The Council will be required to report the value of “cash releasing value for money gains” as part of the new national performance indicator framework.
- 2.5 CSR 2007 will try to deliver greater flexibility for Local Authorities to meet local priorities and improve local areas by removing ring-fencing and other controls from grants totalling £5 billion by 2010/11. Where possible, these will be mainstreamed into Formula Grant, and where this is not possible, through a specific grant delivered through an Area Based Grant – formerly LAA Grant.

3.0 FORECAST OF EXTERNAL SUPPORT

- 3.1 The Government published a consultation paper on 17th July 2007, providing the basis for a full consultation on the options for Local Government Formula Grant distribution over the next three years. The aim is to update and fine-tune the existing system; it does not propose any fundamental changes, or replace the current methodology. However, there are a number of options which have significant financial implications and the Council's response was circulated to Members in October. In addition, a joint response has been made with the Merseyside Authorities and with SIGOMA.
- 3.2 The results of the consultation will be known when the provisional Local Government Settlement is published, expected in early December, which will also provide the amount of formula grant to each Local Authority for the next three years. This will aid future medium term planning, giving a greater degree of certainty regarding forecast levels of grant to be received.
- 3.3 The Government uses Damping to protect Authorities from detrimental grant changes by setting a "floor", the minimum increase any Authority received in grant. To meet the cost of the floor, grant increases above the floor are scaled back.
- 3.4 Halton was below the floor in 2006/07, and slightly above the floor in 2007/08. The level, and continued existence, of the floor in future years is currently unknown, however the forecast assumes that the floor will continue but will be tapered out over the next three years, as indicated by one of the options included within the consultation paper. It is assumed that Halton will be at the floor over the period of the forecast, with levels set at 2% in 2008/09, 1% in 2009/10, and 0% in 2010/11.
- 3.5 CSR 2007 announced that Access & Systems Grant, Delayed Discharges Grant, Children's Services Grant, and part of the Waste Performance & Efficiency grant, which total £2.33m for Halton, would transfer into RSG from 2008/09.
- 3.6 The estimated increase in the level of external support for Halton based on these assumptions is shown in Table 1 below:

Table 1 – External Funding Forecast 2008/09 to 2010/11

	2007/08 £'000's	2008/09 £'000's	2009/10 £'000's	2010/11 £'000's
Formula Grant (RSG)	56,025	58,355	59,522	60,117
Grants into RSG	2,330			
RSG Floor Increase		1,167	595	0
Adj Formula Grant (RSG)	58,355	59,522	60,117	60,117

4.0 DEDICATED SCHOOLS GRANT

- 4.1 All schools related expenditure is now funded by Dedicated Schools Grant (DSG). In 2007/08 Halton received £75.6m DSG which, in addition to a £0.7m surplus brought forward from the 2006/07 DSG, is used to fund the Individual Schools Budgets (ISB) of £66.9m, and central school related expenditure of £9.4m. The ISB is allocated in accordance with the Local Management of Schools (LSM) Financial Scheme, and the central allocation in accordance with Department for Children, Schools and Families (DCSF) guidelines. The amount allocated to the central element is also controlled by the Central Expenditure Limited (CEL), which restricts the year-on-year increase to the same, or lower, level as the ISB.
- 4.2 The Schools Forum assess and consider current and future arrangements and changes to Schools funding, agreeing any formula changes. A review of the scope and functions of the Forum has commenced nationally to consider how they relate to the developing arrangements for the Children's Trust and Every Child Matters Agenda.
- 4.3 CSR 2007 announced that education spend in England will rise by 2.8% per year in real terms until 2010/11. Funding will continue to be received on a "spend plus" model plus a basic per pupil increase each year throughout the period. However, it is the Government's intention to eventually move to a single formula distribution method for DSG by April 2011. The Minimum Funding Guarantee (MFG) guarantees a minimum level for funding for all schools, regardless of the calculation for the schools within the formula, with schools receiving the higher of the MFG or ISB aiding the budget planning process. This is expected to continue for the next three years, however the funding for cost pressures will be reduced as schools are now expected to make substantial efficiencies.

5.0 COUNCIL TAX FORECAST

- 5.1 The Government retains the right to control "excessive" Council tax increases and has used these powers in 2004/05 to 2006/07. The Government reiterated its expectation of Council Tax increases of below 5% in the CSR 2007.
- 5.2 For 2007/08 the Council Tax for a Band D property is £1,043.45 (excluding police, fire and parish precepts), which will generate income of £39.0m. Each 1% increase in Council Tax generates £390,000 in spending power.
- 5.3 When setting Council Tax levels it is clear that higher increases enable more growth in spending and/or reduce the requirement to make savings. However, there are a wide number of 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 29th lowest in England,
- Halton's Council Tax is £99.80 (7.5%) below the average Council Tax set by Local Authorities in England.
- Halton's increase in Council Tax of 4.1% in 2007/08 was in line with the national average increase in Council Tax for 2007/08.
- Halton's taxbase has increased by 1% each year over the past few years.

5.4 Table 2 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, along with a 1% increase in taxbase.

Table 2 – Council Tax Income for 2008 to 2011

Projected Increases in Council Tax Income (£'000)	2008/09	2009/10	2010/11
3.0%	1,572	1,636	1,702
4.0%	1,966	2,070	2,178
5.0%	2,360	2,503	2,655

6.0 BALANCES

6.1 The Council has balances of £7.1m at the beginning of the year. This includes the balance of the £1.1m relating to the commutation adjustment and the Council has agreed to release at £350,000 each year for five years to 2009/10.

6.2 The level of balances and reserves will be reviewed as part of the budget process. At the moment they appear reasonable, however there are a number of uncertainties including the cost of the job evaluation exercise and any equal pay claims are still not clear.

7.0 SPENDING FORECAST

7.1 The Spending Forecast estimates the increases 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.

7.2 The scope of the Forecast covers General Fund revenue activities that are financed through Revenue Support Grant, Non Domestic Rates and the Council Tax. The Forecast does not directly consider schools funding as this now operates under a separate system and is funded by ring-fenced Dedicated Schools Grant (DSG).

- 7.3 The Forecast includes the budgetary consequences of previous budget decisions. It also includes further increases to the Revenue Priorities Fund of £0.5m in each year.
- 7.4 Pay and price inflation is the single most costly factor in the Forecast, and is projected to increase the spending requirement by £2.1m in 2008/09. It has been assumed that pay awards will be 2.5% for each year of the forecast. In addition, the MTFS has provided £0.75m in each year for the cost of increments.
- 7.5 Inflation continues at historically low levels, the MTFS assumes that many items of supplies and services expenditure will be cash limited. However, it would not be prudent to cash limit certain types of expenditure. Where appropriate a rate will be used in the budget that more accurately reflects the true picture of future prices. For example, utilities and fuel oil have been inflated to take account of the large worldwide increases in oil prices. The Forecast assumes that income from fees and charges and other sources will increase by 2.5% per year.
- 7.6 Job Evaluation and Equal Pay are difficult areas on which to be precise, but all the evidence from those Authorities that have dealt with this issue is that additional costs will be incurred. The forecast has allocated a further £0.5m in 2008/09 to cover these.
- 7.7 There is no change to the employer's national insurance contributions for 2008/09, however, the employer's superannuation contributions to the Cheshire Superannuation Fund will increase to 19% from 1 April 2008. The next revaluation of the Superannuation Fund will take place in April. No further changes were expected, although this was before the recent "credit crunch", which may have an impact on the Fund.
- 7.8 The disposal of waste using a landfill site is subject to Landfill Tax paid on top of landfill fees. The Budget 2007 announced that from 1st April 2008 the standard rate for Landfill Tax will increase by £8 per tonne per year. In addition, the Government have set targets for both recycling waste and limits to biodegradable municipal waste. Failure to meet these targets will result in financial penalties and to respond to these targets will require considerable investment. The estimated costs of the Waste Action Plan and the procurement of waste treatment services are expected to double from the current £3.1m within five years, and rise to £11m over 25 years. There is still considerable uncertainty about the scale of the additional costs facing the Authority, however, the MTFS provides £0.7m in 2008/09, £1.0m in 2009/10, and £1.9m in 2010/11.
- 7.9 To meet the extra demands placed on the Council by an increasing number of elderly people, particularly those aged over 85 years of age, an extra £0.2m has been included in each year of the forecast.

- 7.10 The Council has a significant capital programme and the forecast includes the financing costs of the existing programme.
- 7.11 The forecast includes the loss of grant income for those grants that will transfer into Formula Grant from 2008/09. There is also a possibility of a reduction in the remaining Specific Grants, therefore, the MTFS has assumed that at least 10% of the current amount received will be lost.
- 7.12 A new Supporting People Grant allocation methodology is to be introduced from 2009/10, however what option will be used and how the revisions will work are still unclear. The MTFS assumes that Halton will lose at least 10% of the current allocation of £7.8m.
- 7.13 CSR 2007 confirmed that NRF will be replaced by the Working Neighbourhoods Fund (WNF), which will be distributed as part of Area Base Grant. Its quantum, eligibility criteria or distribution are not known so the forecast assumes that Halton's share of 2008/09 grant will reduce to 75% of the current grant level of £5.4m, and that 75% of the loss will be made up from the Council's budget.
- 7.14 Changes to the minimum bus concession in England, announced in the 2006 Budget, guaranteeing free off-peak local bus travel anywhere in England for people aged 60 or over and eligible disabled people, will place an increased cost burden on Halton. Government is making new funding of £212m available for extra costs in 2008/09 which will be distributed by a non-ring fenced special grant. For the purposes of the forecast, it is assumed that the new concession will be cost-neutral.
- 7.15 A key assumption that has been used in constructing the MTFS is that total spending in 2007/08 is kept within the overall budget. In other words it is anticipated that there will be no issues arising in the current year that will have a budgetary impact in later years. 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 the growth process.
- 7.16 In this context it is important to consider the contingency for uncertain and unexpected items. Due to the considerable uncertainty, the forecast includes a contingency of £1.0m in 2008/09, and £1.25m for 2009/10 and 2010/11.
- 7.17 Table 3 outlines the Spending Forecast, which highlights likely increases of 12.4% in 2008/09, 7.1% in 2009/10, and 6.6% in 2010/11.

Table 3 – General Fund Medium Term Spending Forecast

Increase in Spending required to maintain existing policies and services	Year on year change (£'000)		
	2008/09	2009/10	2010/11
FYE of 2007/08 Budget	643	80	-
Priorities Fund	500	500	500
Pay and price inflation	2,076	2,137	2,190
Increments	750	750	750
Job Evaluation / Equal Pay	500	-	-
Superannuation	332	-	-
Waste Procurement	736	1,039	1,870
Ageing Population	220	220	220
Capital Programme	438	888	833
Reduction in Specific Grants	2,261	780	-
Transfer of Grants	2,331	-	-
Concessionary Fares (after Grant)	-	-	-
Contingency	1,000	1,250	1,250
TOTAL INCREASE	11,787	7,644	7,613
FORECAST INCREASE (%)	12.4%	7.1%	6.6%

8.0 CAPITAL PROGRAMME

8.1 The Council's capital programme is updated each year incorporating new starts approved through the budget process. The current programme is dominated by several major regeneration projects designed to promote economic growth and employment opportunities. The forecast also includes the annual contribution of £750,000 to the Capital Priorities Fund.

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

	£m
2008/09	22.7
2009/10	10.6
2010/11	5.4

This spending is fully funded from a variety of sources, including capital receipts and the Capital Reserve. 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 large scale voluntary transfer of housing stock, capital receipts from right to buys and VAT shelter are expected, but not yet received.

8.3 At the end of the period the balance on the Capital Reserve is expected to be around £3m, required as a contingency against

unknown events and also to earn interest to benefit the revenue account.

- 8.4 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, in these circumstances, grant is not made available to fund the borrowing costs.
- 8.5 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
- 8.6 The Council has used prudential borrowing provided that the cost of borrowing has been covered by savings. The forecast continues this approach.
- 8.7 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.
- 8.8 The major problem facing the current capital programme is accommodating the revenue consequences of the financing and ongoing costs such as maintenance of any assets.
- 8.9 The potential to fund a large part of the programme from capital receipts is going to be a major issue as the ability to generate new receipts diminishes. Borrowing prudentially will always be an option but only within the ability of the revenue cost to be accommodated. The deciding factor to the programme will be the effect on the Council's budget.

9.0 PARTNERSHIPS

- 9.1 The major partnership for the Council is the Halton Local Strategic Partnership (LSP). In conjunction with the Government Office North West, the LSP are responsible for setting local community priorities within Halton. These are delivered through a Local Area Agreement (LAA). The LSP's priorities have been funded through LAA Grant,

which includes the Neighbourhood Renewal Fund Grant of £5.3m in 2007/08, and HBC priorities funding of £2.4m.

- 9.2 Halton takes part in joint planning with Halton and St. Helens Primary Care Trust (H&SHPCT), and has several Pooled Budgets with H&SHPCT. The Adults with Learning Disabilities (ALD) Pooled Budget of £9.2m in 2007/08, is funded one-third by a contribution from the PCT with the remainder coming from HBC. The ALD Pool has an action plan aimed to bring its spending in line with its available resources. The Integrated Community Equipment Service Pooled Budget, £0.4m in 2007/08, is funded half by Halton and half by the PCT, and the Intermediate Care Pooled Budget, £0.9m 2007/08, is funded £0.2m by the PCT and £0.7m by Halton.
- 9.3 The Children with Disabilities (CWD) pooled budget with the PCT oversees the development and implementation of a multi-agency strategy regarding the provision of services to children with disabilities, their families and carers. The budget for 2007/08 is £2.26m with a 41% contribution from the PCT with the remainder funded by the Council. There are planned to be a large number of Pooled Budgets within Children and Young People in the coming years, all supporting the Children's Trust.

10.0 SUMMARY

- 10.1 There is a great deal of uncertainty in the Medium Term Financial Strategy regarding the outcome of the Settlement Consultation and the resulting changes to the formula, and the continued existence, and level of, the "Floor" over the period of the MTFs. The prospect of a three-year settlement should bring greater certainty regarding future levels of grant. However, it is clear that in 2008/09 and the following years, the spending required to maintain existing policies and programmes is expected to increase at a faster rate than the resources available to support it. Consequently there is a requirement to make significant budget savings across each of the next three years. There are also spending pressures, not included in the forecast, which will result in the need for further savings to keep the council tax increase to reasonable levels.
- 10.2 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 repeated that it will use its reserve capping powers to limit Council Tax increases in 2008/09.
- 10.3 The Medium Term Financial Strategy 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.