

GENERAL FUND REVENUE BUDGET - MEDIUM TERM FINANCIAL PLAN (MTFP) (2011/12 TO 2014/15)

INTRODUCTION

This paper focuses on the impact of the 2010 Spending Review on the development of Council's Medium Term Financial Plan (MTFP) for the General Fund Revenue Account. In terms of the national context, whilst it highlights issues that also impact on the Housing Revenue Account and the Council's Capital Strategy, these are not considered in detail at this time.

Accordingly, the plan will be reviewed and updated after the publication of the provisional grant settlement for this Council, expected to be in early December. At that time, the MTFP will bring together the Council's financial position for both the General Fund and the Housing Revenue Account and seek to demonstrate how revenue and capital financial resources are organised in order to deliver the Council's overall plans and priorities.

In particular, this plan looks at the next 4 years that falls within the remit of the Government's Spending Review that was announced on 20th October 2010. At which point the Government published further details on how they are going to reduce the UK's structural £109bn budget deficit over the next four years and specifically, their plans for funding local government.

The Plan is important for residents, stakeholders and partners because it provides them with an overview and understanding of the Council's financial position over the short to medium term. In addition, it provides important information on the Council's approach to delivering the required savings, efficiencies and budget reductions as a consequence of significant reductions in Government grant funding and the new arrangements for dealing with increases in Council Tax, including a one year freeze in 2011/12.

NATIONAL CONTEXT – IMPACT OF THE SPENDING REVIEW ON THE COUNCIL'S MTFP

The Council faces the challenge of maintaining quality services with reduced funding. Currently, Government grant funds 62% of the Council's net budget requirement with the remainder from council tax income. It also needs to consider the impact of the new public services transparency framework that replaces the previous national performance framework and inspection regime. More details will be available once the Decentralisation & Localism Bill is published.

The following key aspects are relevant to the Council:

- The Government has already implemented plans to find £6.2bn of efficiencies in the current year (2010/11) through the removal of specific grants and funding streams although there is no reduction in Revenue Support Grant. As a result, South Kesteven has lost £18k in grant towards community cohesion work.
- There will be a significant cash and real terms reduction in government funding from 2011/12 in order to reduce the Government's budget deficit and reduce government and debt costs. Over 4 years, local authority budgets will need to reduce by 26% on average in real terms although the actual percentage will be lower once funding for the freeze in Council Tax is taken into account. The cuts in grant funding have been front loaded requiring councils to make significant savings and efficiencies in 2011/12. Full details of cash allocations to individual authorities will be published in the provisional finance settlement due early December. It is not yet known whether this will be a multi-year settlement covering the entire period of the Spending Review.
- Although overall grant funding will be reduced, a number of specific grants worth more than £4bn will be rolled into the Formula Grant mechanism and authorities will have greater control over how these are spent as ring-fencing in many areas has been removed. These grants include supporting people and concessionary travel (reduced by 28%). Some grants will remain separate and these include housing & council tax benefit, homelessness, "new homes bonus" and council tax freeze.
- The Government has announced that there will be no increase in Council Tax for 2011/12. Councils that agree to freeze or reduce Council Tax in 2011/12 will receive grant equivalent to a 2.5% increase. In the next 3 years, the Government will provide supplementary grant funding to compensate authorities for the council tax income that they would forego as a result of a reduced tax base.
- From 2012/13, authorities are able to increase council tax but if the proposed increase is greater than 2.5%, they will need to hold a referendum and consult with local residents. The precise details of this have not yet been published.
- The last 2-3 years have seen unprecedented times for the world financial markets and banking sector and this has impacted on the Council's Treasury Management Strategy. The TM strategy has been updated to reflect this uncertainty and promoting a more risk adverse approach. The strategy will be kept under constant review to ensure the Council optimises risk and reward. The Government has announced that the flexibility of prudential borrowing will be retained.

- The economy returned to an inflationary position during the early part of 2010 and interest rates are likely to rise in 2011. As at September 2010, the year on year increase in RPI and CPI was 4.6% and 3.1% respectively. The Government's target for inflation measured as CPI is still 2%.
- Public sector pay – the Government has announced a 2 year pay freeze (2011/12 & 2012/13) although those earning less than £21k per annum (in the civil service) will get a flat pay-rise worth £250 in both years. Pay for 2010/11 has already been frozen.
- Forecast interest rates for borrowing and investment – interest rates are of particular importance to the Council, in that they affect its performance on investments and borrowing. As at November 2010, the Bank Rate remained at 0.5%; the lowest level on record. This is likely to increase during 2011 to help ensure that inflation remains within the Government's 2% target. With regard to borrowing, interest rates on loans from the Public Works Loan Board have been increased to 1% above the rate for British Government gilts. It is not clear what the real motive behind this is other it will have a direct impact on the affordability of Council's ability to borrow to finance capital schemes. The Government expects capital expenditure by local authorities to fall by 30% by 2014/15.
- The Government has announced a review of public sector pensions that will include reviewing the levels of contributions from both employers and employees in order to contribute towards reducing the growing funding deficit. The Government has announced that the state retirement age will reach 66 in 2020 – four years earlier than planned.
- The Government has announced that it will review the housing finance system to give councils more freedom and provide more cash to achieve decent homes and invest in the backlog of repairs. From April 2012, this will bring an end to negative subsidy in the HRA and the Council will be able to keep all the money from housing rents and housing sales. In exchange for this freedom to manage its own resources, the Council will have to "buy out" of the current system by agreeing to take on a share of historic housing debt.
- It is too early to speculate on the outcome of this review but the financial implications will need to be incorporated into the budget setting process and the HRA business plan. The provision for disabled facilities grants will rise with inflation.
- The Government has abolished Comprehensive Area Assessments (CAA) and this includes the annual Use of Resources (UoR) and Managing Performance Assessments. No plans have been announced for any replacement inspection regime but this is likely to result in a "lighter touch" and more self-regulation and "higher" peer reviews.

- In October, the Government announced changes to local authority performance management arrangements by abolishing Local Area Agreements and the National Indicator Set. A new, but significantly reduced set of performance data that authorities will be required to provide will be published in early 2011 and will take effect from April 2011.
- The Government has announced plans to abolish the Audit Commission (the Council's external auditor) from 2012/13. Councils will be free to appoint their own external auditors (statutory requirement) probably from the private sector. It is expected that audit and inspection fees will be lower due to the abolition of CAA & UoR but fees for individual elements may increase. However, the policy has encountered some difficulty, and it may be that the Audit Commission could continue providing a narrower and focussed role.
- The Spending Review focuses on the "Big Society" with the new Office for Civil Society funded to provide support to the Government. There will be a rise in "localism", decentralisation and self-assessment – "armchair auditors" (local people holding Councils to account for the way money is spent and whether it is achieving value for money)
- Accordingly, the Council is committed to giving people more say over their lives and in doing so give more power to local people and communities. In particular and in response to future budget reductions, the Council is actively consulting with the community about plans and priorities for the future to find out from local people where savings and efficiencies can be made.
- In addition to all the other budget pressures, the Council will face continuing pressure on those income and expenditure budget headings that are driven by external economic factors, including:
 - Utility and fuel costs
 - Fees and charges income
 - External contracts
 - Business and drainage rates payable by the Authority
 - Borrowing costs
 - Investment income
 - Pay and price inflation
- The current economic and financial climate is still impacting on some front line services (e.g. housing and council tax benefits) where residents continue to be affected by unemployment, repossessions and changes in their personal levels of income. Along with changes to the benefits system, the Government has announced plans to reduce spending on council tax benefit by 10% from 2013/14 and is considering measures to give authorities more flexibility to manage

pressures on council tax income as some residents may be unable to pay their bills in full.

- With regard to economic growth, a White Paper will be published in 2011 with details on incentives for encouraging growth in local areas, including the reform of the planning system and introducing a “new homes bonus” to support economic growth and increase the number of new affordable homes by 150,000. It will also focus on the development of Local Enterprise Partnerships. A consultation paper was issued in mid-November and this is being considered by officers.
- In 2011/12, a £200m capitalisation fund will be available to support authorities committed to delivering savings through internal restructuring.

LOCAL CONTEXT – HOW THE COUNCIL WILL RESPOND POSITIVELY TO THE SPENDING REVIEW

At the present time the Council is in a relatively sound financial position and has good financial management arrangements in place. However, these will need to be strengthened in order to respond positively to the challenges presented by the UK’s budget deficit and significant cuts in Government funding. Against this background, the Council will ensure that revenue and capital resources are carefully targeted at Council priorities by:

- Continuing to improve and strengthen its financial planning and budgeting processes to ensure that the authority is prepared for the very significant reduction, in real terms, of Government funding.
- Consulting with local people about future plans, priorities and options for delivering savings and efficiencies. It will also consult with local people about future increases in Council Tax and where appropriate, this will be achieved through a local referendum.
- Developing and maintaining sustainable revenue and capital budgets over the period covered by this plan.
- Actively managing aspects of the budget that consists of large amounts of uncontrollable costs in order to ensure the Council can deliver savings, efficiencies and maintain a balanced budget.
- Ensuring that our budget setting and monitoring processes incorporate effective and robust challenge elements along with and supported by priority based budgeting and invest to save initiatives. We will endeavour to use techniques such as, sensitivity analysis of high/low spending areas and benchmarking/use of comparatives. We will also monitor our transaction/unit costs for high spending and priority areas.
- Undertaking a risk based programme of service reviews supported by working with partners and the local community

- Giving careful consideration to the impact on employer and employee contributions of the Government's review of pensions and the most recent actuarial review.
- Amending its treasury management strategy in order to respond positively to the changing economic climate and the increase in the cost of borrowing from the PWLB.
- Keeping under constant review the level of reserves and balances to ensure that they are sufficient to meet the Council's needs and priorities over the period covered by the spending review – particularly important as the reduction in government grant is front loaded.
- Continuing to review the approach to setting fees and charges in order to ascertain the true cost of providing services and to meet income targets.
- The abolition of the current National Indicator set provides an excellent opportunity for the Council to review its performance indicators and focus on those which it feels is relevant and meaningful. This will be addressed during the business planning process for 2011/12.
- Regularly reviewing the Council's asset portfolio in order to ensure that the assets we hold reflect our key priorities and that we maximise usage where possible. These assets should be properly maintained, Both aspects should be reflected in the Council's Asset Management Plan.
- Strengthening the way the authority operates through partnerships, shared and collaborative working. In particular, developing a programme of sharing our capacity to support and deliver shared service outcomes thus receiving contributions towards our fixed overheads.
- Ensuring that any future investment in key services is balanced and clear demonstration of customer improvements is identified.
- Capitalising on new incentives and funding streams to promote growth and investment in key improvement projects across the authority.

The MTFP supports and underpins a number of key financial strategies the Council has adopted and these form the key framework principles of the plan. Specifically these are the Treasury Management and Investment Strategy, Fees and Charges Strategy and the approved policies in respect of Council reserves. The Council maintains a working balance of maintaining the General Fund balance, at between 4% to 5% of gross turnover, or at between 10% to 15% of net expenditure, to provide adequate cover for any unanticipated expenditure or loss of income that may occur over the course of the financial year. The MTFP maintains this policy and is built within adherence to current financial policies.

The MTFP will be updated and presented to members in March 2011 as part of the budget framework proposals and will need to

recognise that the Council will be facing borrowing in the medium term in order to meet its capital and investment aspirations. Inevitably this will result in revenue financial pressures that will be need to be affordable and within the prudential borrowing limits set by the Council.

General Fund Revenue Budget from 2011/12

The approved budget for 2010/11 and indicative budgets for 2011/12 and 2012/13 formed part of the Annual Budget & Council Tax Report to Council in March 2010. This includes the last year (2010/11) of the Government's current 3 year grant settlement contained within CSR07.

The Spending Review included information on the average reduction in grant over the 4 year period from 2011/12. The provisional financial settlement for individual authorities for the next 4 years has yet to be announced so figures published by CIPFA and the Local Government Association have been used to show the impact of the reduced level of Government funding from 2011/12 and how this may be phased.

Within the revenue budget there are a number of income and expenditure headings which are influenced by external factors which will have a direct impact on the budget provision. In light of the current financial climate (moving from deflationary to inflationary position) and recent forecasts of Government borrowing and spending, some of the assumptions included in the March Budget report have been revised. In particular, in June 2010, Council approved the establishment of a revenue provision of £150K to fund and support growth and development related services to maintain the focus on service quality and delivery of the priority actions.

The following is a summary of the key areas and new/revised assumptions that impact over the 4 year period covered by the Spending Review:

Concessionary Fares

The Government is pushing ahead with its plans to transfer the responsibility to Single Tier Authorities from April 2011, together with the funding streams.

There are concerns about the lack of clarity with the options for lower tier authorities which all seem to suggest that this Council will have to transfer more money than it is spending on the service. In our financial modelling and after taking into account the cost of the service, we have assumed that there will be a net reduction in grant funding of £700k which is just below mid-way between the best case scenario (£300k) and the worse case scenario of (£1.2m).

Government Grants

In January 2008 the Government confirmed the amount of formula grant for SKDC for the 3 year period 2008/09 to 2010/11. The assessment from 2011/12 is based on an interpretation of the figures published in the Spending Review, having regard to the views of various professional bodies and associations.

	CURRENT YEAR	2010 SPENDING REVIEW			
	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Formula Grant	10.1	10.1	8.4	7.9	7.8
Less: Concessionary fares element of grant	-	0.7	-	-	-
Net grant	10.1	9.4	8.4	7.9	7.8
Phased reduction		1.0	0.5	0.1	0.4
Net grant after reduction		8.4	7.9	7.8	7.4
% reduction		10.7%	6.4%	0.9%	5.6%

As the above table illustrates, from 2011/12 and after removing the concessionary fares element of the grant, the Council is anticipating a very significant reduction in Government funding - £2.0m (21%) over the next 4 years. The above table will be amended once the details of the provisional financial settlement are published in early December.

Council Tax

Council tax will be frozen for 2011/12 and because of the compounded effect on the tax base authorities will have the resultant loss funded at a rate of 2.5% in each year of the period covered by the spending review. For South Kesteven this is expected to be in the region of £140K per annum. The MTFP is based on the assumption that council tax increases over the period will not exceed the published capping levels.

A maximum increase of 2.5% per annum in council tax income has been assumed from 2012/13 plus an annual increase of 1.0% in the council tax base, i.e. net increase in the number of properties. As a guide and using 2010/11, every 1% increase in council tax generates an additional £62k for the Council. Accordingly, the table below sets out an indicative budget requirement to be funded from Council Tax (excluding Parish Precepts).

2010/11 Actual £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
6.226	6.293	6.514	6.744	6.982
Assumed annual Increase	0%	2.5%	2.5%	2.5%
increase in CT base	1%	1%	1%	1%

Fees and Charges

The current Fees and Charges Strategy was updated and approved in 2009/10. In terms of the MTFP and longer term financial planning, whilst prudent assumptions about demand have been made, this is a risky and volatile area that will need to be kept under close scrutiny.

Fees and charges represent a significant and important income stream for the Council. There are potentially new emerging opportunities for income generation including the de-centralisation of development control fees (effective from 1 October 2011) and the new homes bonus scheme (currently under consultation).

Net Investment Income

This has been an important source of income for supporting the Council's service expenditure. The Council will continue to maximise income from investments, having regard to the use of reserves, asset sales, capital programme commitments and the latest economic projections. It is expected that low returns will continue well into 2011 with only a modest increase forecast to 0.75% base rate in the third quarter of 2011.

Salaries

The MTFP takes account of the Government's announcement of a 2 year pay freeze (2011/12 & 2012/13) although it is anticipated that employees earning less than £21k per annum will receive a flat pay-rise worth £250 in both years. A financial provision has been incorporated from 2013/14 in order to meet any future pay increases.

Utilities and Fuel

The price of oil continues to be volatile which makes budgeting for this expenditure heading extremely difficult. Projections have been based on an increase of 10% for each year of the budget.

Pensions

Following a 'Triennial' Review of the Pension Fund as at March 2007, the contribution rate in 2010/11 remained at 21.2% of payroll. The

next triennial review is due for publication shortly and any changes to contribution rates will be effective from April 2011. Should there be any changes to employer contribution rates then it is anticipated that the pension reserve will be used to financially contribute these in order to minimise the impact on council tax levels.

Planning and positive actions

Despite on-going cost pressures and lower than expected income from fees and charges, a balanced budget was achieved for the current year – 2010/11. It is clear that there are a number of challenges facing the Council and a comprehensive programme is being developed in order to ensure the Council is prepared to respond to these issues.

There are a number of difficult challenges facing the Council but it is well placed financially to prepare and implement plans in the context of open decision making having full regard to the impact on the customer and wider community. The programme will include the following categories of work and will be developed over the short to medium term in order to develop and maintain a sustainable financial position:

- New ways of working – this comprehensive work package will cover operational aspect of service delivery ranging from office accommodation, home working, shared office space and incorporate county and regional developments in respect of ICT and procurement
- Asset rationalisation programme – the development of an asset review in accordance with the Asset Management Plan in order to review options for future operational requirements of retaining the asset and exploration of options for alternative asset retention or disposal.
- Next steps – the continuation of reviewing operational service requirements and ensuring staffing resources are fully aligned to ensuring the delivery of priority actions.
- Income generation – fees and charges are the 3rd largest area of income for the Authority (following formula grant and Council tax) and are a key area that is reviewed on an annual basis. There is further scope to develop the strategy for fees and charges setting including the use of concessions and the emerging legislative changes in respect of the de-centralisation of planning fees. There are additional opportunities for income generation and retention with the recent publication of the new homes bonus that will financially reward local authorities that deliver sustainable housing development.
- Service review programme – the programme was introduced during this financial year and has concentrated on services that are both high cost and outward customer facing services.

The reviews follow a specific set of criteria and are designed to ensure that value for money is being delivered. The outcomes from the reviews are incorporated in the budget framework and the service business plan. The development of the programme is currently underway and will be an integral element of the transformational programme in 2011/12.

- Budget changes in response to customer feedback (SIMALTO) – during the summer of 2010 extensive consultation was undertaken with the residents of South Kesteven to determine the levels of importance in respect of a range of Council services. The importance was also measured with levels of satisfaction if changes to services were made. The outcome of this process was presented to Cabinet at their meeting on 1 November and a summary of the findings was included in the last edition of SKToday. The specific changes to services arising from this consultation will be developed over the period of the grant settlement and Council will be asked at the appropriate time to prepare for changes to services.
- Contract review – procurement. The Council is an active partner of Procurement Lincolnshire and recognises that joint and effective procurement delivers value for money and sustainable outcomes
- Sharing services and providing for others – exploration of opportunities to provide service support for other partners (including the 3rd sector) in order to maximise capacity and receive contributions towards fixed costs and overheads
- Budget reduction, centralisation and consolidation – continuation of ensuring the budgets are prepared from a corporate perspective based on service and priority outcomes.