

## **CABINET – 9th JULY 2009**

### **Report of the Deputy Chief Executive**

ITEM 12 Financial Strategy 2009/10 to 2011/12 - Review

#### Purpose of Report

To update the current Financial Strategy in the light of major changes that have occurred since February 2009 so as to provide a basis for future consideration of service reviews and the Council's finances in general.

#### Recommendation

That Cabinet note the contents of this report.

#### Reason

To ensure that Cabinet and members generally have a suitable base to consider decisions for the Council's use of resources.

#### Policy Context

The provision of adequate financial resources is a fundamental part of all the Council's activities.

#### Background

This review has been carried out following the draft Outturn figures for 2008/09 being available and to reflect both actual and possible changes to services/costs/income that we are now aware of.

It should be noted that this is a 'desk top' exercise and is not a full Financial Strategy and only covers the General Fund position. The sources of the Housing Revenue Account's income and expenditure are relatively fixed and have not been subject to any major changes since the start of the Financial Year. The proposed reduction in council dwelling rents will be matched by increased subsidy from Central Government. Notwithstanding this it is important that rental income is maintained and the loss of rent from empty properties is in line with budget.

Changes to the Capital Plan are monitored through the Capital Plan Amendment Report and this is next scheduled for Cabinet on August 6<sup>th</sup> 2009.

A complete Financial Strategy for the years 2010/11 to 2012/13 will be prepared for the Cabinet meeting on 3 September 2009 and will be used as the base for the 2010/11 Budget. It should be noted that there will be no Revised Budget in 2009/10 or future years as its usefulness is limited, especially in relation to the resources required to produce and review it. There is no extra funding available during the year and differences from the original budget will be explained through the current budget monitoring process and action will be taken to deal with any potential problems as the year progresses.

This review of the Financial Strategy has been prepared using the 2009/10 Original Budget as approved by Council on 2 March 2009 as the base, adjusted for budget changes such as the Managed Savings Programme. For years 2010/11 and 2011/12 one-off pressures/savings have been removed and inflation has been added as deemed appropriate, in the light of current and forecast economic conditions. This is a judgement made by the Head of Financial Services and certain inflation assumptions, such as a significant rise in utility costs, have been altered to reflect current expectations.

Appendix I sets out the assumptions made in the February strategy and compare those with the revised ones, whilst Table I below reflects the financial effect of these changes between the two strategies.

As can be seen from Appendix I the anticipated increases in salaries have been reduced to reflect current expectations and the employer's offer of 0.5%. In common with all local government pension schemes, it is expected that contribution rates will increase following the triennial valuation due in March 2010. This will be impacted by the fall in asset values as well as anticipated increases in the longevity of retirees. The net effect of these two changes is shown in Table I.

Since February 2009 the Environmental Services contract has been renegotiated as has the Council's arrangements for the sale of recyclates. The net effect of these contracts amounts to an improvement of over £4.7m for the three years of the Strategic Plan. Income from Development Control, Building Control and Land Charges is directly impacted by the property market and these forecasts have been altered to reflect the current trends.

Concessionary Travel costs continue to increase and, as this is a demand led activity, there is little action that the Council can take directly to limit them. It is anticipated that this activity will be transferred to Leicestershire County Council from April 2011. However, the funding arrangements have not been agreed and therefore it has been assumed that the net cost to the Council will not fall.

The previous strategy included the assumption that several services would be transferred to Capita. This is now likely to be just the Benefits and Revenues services and so the savings are lower. Those services remaining in Charnwood's direct control will be, or are, being reviewed to obtain savings and improve efficiencies. The first of these, a review of Financial Services, will be submitted to Cabinet in August 2009.

During the first three months of 2009/10 various actions have been instigated to reduce costs this year and in future years. A variety of measures reduced on-going costs by £321k per annum providing a saving over the three years of £963k. As well as this there are various one-off savings but these have been offset by higher one-off costs leaving a net one-off increase of £181k.

The assumptions for interest and inflation rates, across a wide range of activities, have also been reviewed creating a further improvement of £382k.

Table I – Effect of Major changes since February 2009

<b>Effect of Major Changes from February 2009 Strategy over 3 Years</b>		
	<b>£'000</b>	<b>£'000</b>
<u>Extra Savings required in February Strategy</u>		<u>4,615</u>
<u>Major Additional (Savings)/Expenditure</u>		
Environmental Services Contracts - Net Costs	(4,714)	
Lower Salary Increase estimates and Pension increases	(239)	
Lower Income forecasts	226	
Higher Concessionary Travel estimate	1,105	
Lower Capita savings	400	
Other net one-off Savings/Costs	181	
Other ongoing Managed savings	(963)	
Higher interest receivable assumption	(134)	
Higher use of balances	(229)	
Change in various inflation assumptions	(248)	<u>(4,615)</u>

As can be seen from Table I there is still a requirement to use more of the council's revenue balances than originally assumed. However, the Outturn position for 2008/09 was better than predicted and revenue balances improved by £1.4m allowing more headway for their use during these difficult economic times.

Table 2 below shows a summary of the Financial Strategy Review. These figures use the 2009/10 Budget as their base and are then adjusted for future inflation and the various changes mentioned above. Table 3 shows the effect on the Revenue Balances.

The figures are more positive than those produced in February mainly due to cost saving initiatives, lower anticipated pay rises and much more positive impact from the new Environmental Services contracts.

The use of reserves in this review is £229k higher than in the February Strategy. Whilst this is manageable over the period of the review it is not sustainable in the longer term.

Additional efficiencies or income, or a combination of both, are required to eliminate the use of reserves. At the present time various service reviews are being undertaken and this process will continue. In addition, an improvement in the UK economy will impact positively upon various income levels, as will any rise in interest rates. Another major factor is the clarification of the position regarding Concessionary Travel as the council cannot continue to fund this at current levels without it impacting on other services.

The next three year funding review is not expected from the Government until towards the end of 2010. The increases in central government funding assumed in this model are fairly modest at 1.8% and 1.0% for 2010/11 and 2011/12 respectively. However, with high central government borrowing levels requiring financing even these increases may be optimistic.

Table 2 - Financial Strategy Review

<b>General Fund</b>	<b>2009/10 £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
<b>Net service expenditure</b>	<b>25,112</b>	<b>25,339</b>	<b>25,965</b>
Less: Capital charges	(3,566)	(3,566)	(3,566)
	21,546	21,773	22,399
Net Budget Changes including Managed Savings	(173)	83	0
	21,373	21,856	22,399
Interest payable	237	237	237
Interest receivable	(407)	(720)	(878)
Other Interest receivable	(100)	0	0
	21,103	21,373	21,758
Amended Salary Projections	(212)	(196)	(196)
Net Income Shortfalls	163	152	152
Concessionary Travel costs	95	274	276
Environmental Services Net Improvement	(1,389)	(1,690)	(1,560)
Net Capita Savings	0	0	(350)
Potential Pension Increases	0	221	339
Sundry other changes, net	19	90	90
	19,779	20,223	20,509
Contribution to Capital Programmes	783	170	170
<b>Total net expenditure</b>	<b>20,562</b>	<b>20,393</b>	<b>20,679</b>
<b>Financing strategy</b>			
Council Tax	(5,372)	(5,468)	(5,641)
Loughborough Special Levy	(1,189)	(1,218)	(1,249)
Formula grants	(12,288)	(12,513)	(12,639)
Concessionary travel grant	(362)	(372)	(381)
<b>Total income</b>	<b>(19,211)</b>	<b>(19,571)</b>	<b>(19,910)</b>
Total net expenditure (from above)	20,562	20,393	20,679
<b>Funding shortfall</b>	<b>1,351</b>	<b>822</b>	<b>769</b>
<b>Financed by:</b>			
Planned use of balances at 26 Feb 2009	(2,767)	(67)	0
Deficit / (surplus) on collection fund	62	49	0
Change to use of balances	1,354	(804)	(769)
<b>Other (savings required)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
	<b>(1)</b>	<b>(0)</b>	<b>(0)</b>

Table 3 – Revenue Balances

<b><u>Revenue Balances</u></b>	<b><u>2009/10</u></b> <b><u>£000</u></b>	<b><u>2010/11</u></b> <b><u>£000</u></b>	<b><u>2011/12</u></b> <b><u>£000</u></b>
Per Budget/Financial Strategy	4,422	4,515	3,693
Adjusted for 2008/09 Draft Outturn	1,444	0	0
	<u>5,866</u>	<u>4,515</u>	<u>3,693</u>
Net use of balances as above	(1,351)	(822)	(769)
<b>Balances carried forward</b>	<b><u>4,515</u></b>	<b><u>3,693</u></b>	<b><u>2,924</u></b>
Working Balances	3,884	3,062	2,293
Reinvestment Reserve	268	268	268
LABGI	363	363	363
	<u>4,515</u>	<u>3,693</u>	<u>2,924</u>

### Financial Implications

There are no direct financial implications arising from this report.

### Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Risk Management Actions Planned
That the assumptions and underlying budgets are not sufficiently robust which may cause resources to be incorrectly allocated	L	M	This is a 'mid-term' review of the Financial Strategy and a full one will be produced in September and no budget changes are planned on the strength of this review. In addition, budget performance is monitored monthly and any actions required will be taken to ameliorate any deterioration in the council's finances.

Key Decision: No

Background Papers: Corporate Plan Cabinet Report 26 February 2009  
Working Papers in Finance

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**Summary of Assumptions - Base Financial Strategy and Review Version**

**Appendix 1**

<b>Summary of Assumptions - Central Case as used in Strategy on 26 February 2009 compared to 9 July 2009 Review Assumptions - Figures that are not percentages are in £'000s</b>	<b>2009/10 Base FS</b>	<b>2009/10 Review</b>	<b>2009/10 Budget</b>	<b>2010/11 Base FS</b>	<b>2010/11 Review</b>	<b>2011/12 Base FS</b>	<b>2011/12 Review</b>
Council Tax - % increase	3.50%	3.50%	3.50%	2.50%	2.50%	2.50%	2.50%
Loughborough Special Rate - % increase	2.80%	2.80%	2.80%	2.50%	2.50%	2.50%	2.50%
Inflation Rate Applied - Salaries % increase	3.00%	1.50%	3.00%	2.00%	1.50%	2.50%	2.00%
Development Control (income)	-699	-717	-717	-699	-724	-699	-739
Building Control (income)	-499	-450	-541	-499	-455	-499	-464
Land Charges (income)	-232	-160	-232	-232	-175	-232	-180
Concessionary Travel Costs	1,473	1,787	1,692	1,473	1,841	1,473	1,896
Environmental Services Contract Costs	5,200	4,094	5,346	5,600	4,057	5,800	4,351
Environmental Services Income Effects	0	-137	0	0	-241	0	-239
Net Impact of Reduction in Scope of CNH SLAs	397	315	344	407	420	417	420
Net Cost of Outsourcing of Services to Capita - Savings	0	0	0	-300	0	-400	-350
Increased Pension costs	0	0	0	0	221	0	339
Interest Rates - average for year	3.10%	1.47%	3.10%	3.10%	3.16%	4.00%	4.11%