

STROUD DISTRICT COUNCIL

AGENDA
ITEM NO

CABINET

2 October 2008

6

Report Title	MEDIUM TERM FINANCIAL PLAN
Purpose of Report	To inform Members of the current financial position indicated in the Council's Medium Term Financial Plan.
Decision(s)	The Cabinet RESOLVES to: (a) note the Council's financial position as estimated in the revision of the Medium Term Financial Plan for the general fund; (b) agree the budget arrangements, as set out in this report, which should be followed in the preparation of the general fund revenue estimates; (c) note the level of reserves held by the Council shown at Appendix B.
Consultation and Feedback	None at this stage.
Financial Implications	As set out in the report. Sandra Cowley, Head of Finance Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Legal Implications	Section 32 of the Local Government Finance Act 1992 as amended places a duty on the Council, as Billing Authority, to calculate before 11 March 2009 its budget requirement for 2009/10. Richard Maslen, Principal Solicitor Tel: 01453 754367 Email: richard.maslen@stroud.gov.uk
Report Author	Sandra Cowley, Head of Finance Tel: 01453 754136 Email: sandra.cowley@stroud.gov.uk
Portfolio Holder	Councillor David Wride, Finance and Business Support Tel: 01454 260097 Email: cllr.david.wride@stroud.gov.uk
Options	Need to set plans in place to meet the estimated shortfall.
Performance Management Follow Up	Cabinet report in December 2008.
Background Papers	Appendix A - Medium Term Financial Plan Appendix B - Reserves.

Discussion

Background

1. The purpose of this report is to update the Council's Medium Term Financial Plan (MTFP) to provide an overview of the Council's financial position. This will assist Members in framing the budget and Council Tax level for the financial year 2009/10.
2. The MTFP covers a five year period up to 2012/13; it is an important aid to sound financial management in the Council and ensures that expenditure is kept in line with sources of revenue which may be available in future years.
3. The Council's General Fund balances stood at £3.397 million on 1 April 2008. This sum includes approved carry forward budgets of £453,000 and the additional LABGI grant received of £590,000. A report on the outturn position was made to Cabinet on 10 July 2008.

The Medium Term Financial Plan

4. The updated MTFP is shown in Appendix A. It includes known or estimated changes that will affect the Council's financial position but does not include revised revenue estimates for 2008/09 or estimates for 2009/10. Both of these items will be known and will be added to the report to Cabinet on 11 December 2008 when an updated Plan will be available.
5. The Council is likely to face a number of financial pressures in framing its 2009/10 budget and beyond. The most significant of these are likely to be:

a) **Economic Situation**

The current economic situation is having an impact on the Council's finances. Inflation is currently 5% and energy costs have increased. Council house sales have fallen significantly with only one sale so far this year. This not only affects the Council's ability to fund the capital programme, but if the balances are lower than expected, the investment income will also be lower.

On a brighter note, interest rates on our investments are ranging between 5.5% and 6.7% and we are currently achieving greater returns on our investments than the Sector model portfolio.

b) **Outcome of the Comprehensive Spending Review 2007 (CSR 07)**

The Government published its spending review in November 2007, which will have an impact on public spending levels over the next three years. This involves a tight settlement for Local Government with an increase in Revenue Support Grant of just 1.5% for 2009/10. Cashable efficiency savings of 3% per annum are to be achieved nationally.

c) **Concessionary Bus Travel**

National concessionary bus travel came into operation in April 2008. The Council is reimbursed for travel passes issued through the Formula Grant by the Government but no breakdown of the amount included is given in details of the grant that the Council receives. There will be continuing pressure on the 2008/09 revised and 2009/10 revenue budgets from the national scheme.

d) **Local Government Pension Scheme**

The Pension Fund is re-valued every three years by an actuary and the latest review was done in November 2007. This latest valuation increased employers' contributions and the increases are being phased in over a period of years. The employer's current year contribution on employees' gross salary is 19.8% rising to 24.5% in 2010/11. These rates include the national changes to the scheme effective from 1st April 2008.

The Council has a reserve which is used to finance these annual increases in employers contributions. This fund is showing a deficit of £413,000 in year 2012/13 on the MTFP.

e) **Main Sources of Income**

The Council relies on a substantial amount of income when setting its budget. The current economic climate has had a severe impact on this, and the result may well mean a substantial loss of income to the Council notably on Land Charges and Planning Applications. This is being closely monitored and the latest projections will be reported to Cabinet in the Budget Monitoring report.

f) **Local Authority Business Growth Incentive Scheme (LABGI)**

This scheme is currently under review, and no income will be forthcoming for the current financial year. A new scheme will come into place for 2009/10 but will be on a greatly reduced basis. No allowance for this grant has been included in the current MTFP. The additional LABGI grant received in 2007/08 is included in the Council's balances currently showing in the MTFP.

Assumptions made in the MTFP

6. The following assumptions have been made and included in the MTFP

- a) An estimate of unavoidable inflationary increases that will affect the Council in 2009/10 has been made. This has been included at the level of £460,000. The main components are a provision for a national pay award and a sum for index linked contracts to which the Council is committed. No general allowance has been made for inflation on service budgets, except for increased energy prices and software licensing.
- b) The effect that interest rates will have on the MTFP over the next four-year period is based on an estimated base rate level of between 4% - 5%. These figures are derived from independent forecasts.
- c) Budget holders are revising the current year's estimates and estimates for 2009/10 on a standstill basis and preparing controllable income budgets on the basis of an increase in charges of at least 4%. Budget holders are being asked to identify savings of 3% on their controllable budgets.
- d) The MTFP does not contain any funding to support debt that might be considered to finance a capital programme in the future. Sales of council houses have remained at a low level and these have provided a reduced source of funding for the existing programme. The major scheme being considered by Council is the Canal Redevelopment but no allowances for this have been made in the plan. Members will need to consider building a provision of £200,000 into years 3 and 4 of the MTFP to support the costs of borrowing £2.3 million.
- e) No change in the level of Council Tax has been assumed in the MTFP. The following figures show the effects that various tax increases would have on balances at the end of 2012/13. The capping limit is 5%.

Increase %	Balances in 2012/13 £m	Band D £
0.0		177.24
1.0	0.288	179.01
2.0	0.591	180.78
2.5	0.743	181.67
3.0	0.896	182.56
3.5	1.046	183.44
4.0	1.199	184.33
4.5	1.351	185.22
5.0	1.502	186.10

7. The MTFP in Appendix A, shows that at the end of its term, balances stand at £9,600. This is £990,400 below the target figure of £1 million that the Council aims to have in hand in the final year of the MTFP.
8. The downturn in income projected for the current year in the Budget Monitoring report to this meeting, has not been reflected in the MTFP at this stage. It is anticipated that measures will be taken to offset the income losses and the outcome will be reported in the detailed estimates to Cabinet in December. The financial consequences of recent developments with the Councils refuse and recycling contract have also not been included.
9. It should also be noted that the Pension Reserve, used to finance the increases to the employers contributions, is depleted by the end of 20011/12 and has a shortfall of £413,000 in 2012/13.

Reserve Balances

10. The Council should periodically review its reserve balances to ensure they are adequate. The outturn position on the reserves was reported to Cabinet in July including movements to and from reserves during the year. Appendix B details all the reserves held by the Council and some narrative describing how the reserve is used.
11. Whilst the narrative includes comment on the adequacy of the reserves and that some reductions or reallocations are possible, it would be prudent just to note the position at this stage. A decision to make any changes to reserves should be taken in light of the overall revised budget position which will be presented to Cabinet in December.



General Fund Medium Term Financial Plan October 2008

Ref	EXPENDITURE AND INCOME	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
1	Service revenue expenditure	15,728	15,728	15,728	15,728	15,728
1a	Prior year slippage	453	-	-	-	-
2	Transfers to / from (-) reserves	274	59	- 118	- 318	- 318
3	Service changes	250	189	214	274	211
4	Contingency	50	50	50	50	50
5	ADJUSTED SERVICE EXPENDITURE	16,755	16,026	15,874	15,734	15,671
	<u>Other Operating Income & Expenditure</u>					
6	Drainage Board	78	81	83	85	88
7	Interest payable & similar charges	1,410	470	440	410	410
8	Interest & investment income	- 1,180	- 1,060	- 960	- 860	- 840
9	Reversal of depreciation charge	- 827	- 827	- 827	- 827	- 827
10	Inflation	-	460	460	460	460
11	NET EXPENDITURE	16,236	15,150	15,070	15,002	14,962
12	Special items (Parishes)	2,210	2,276	2,345	2,415	2,487
13	NET EXPENDITURE INCLUDING PARISHES	18,446	17,426	17,415	17,417	17,449

Ref	FUNDING (EXCLUDING PARISHES)	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
14	Net Expenditure (line 11)	16,236	15,150	15,070	15,002	14,962
	<u>Funded by:</u>					
15	Precept on Collection Fund	7,531	7,554	7,576	7,599	7,622
16	Government revenue support	6,954	7,060	7,060	7,060	7,060
17	Collection Fund surplus	- 43	-	-	-	-
18	Use of / addition to (-) working balances	1,794	536	434	343	280
19	TOTAL FUNDING	16,236	15,150	15,070	15,002	14,962
20	BUDGET REQUIREMENT (19 less 18)	14,442	14,614	14,636	14,659	14,682

		2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
11	NET EXPENDITURE	16,236	15,150	15,070	15,002	14,962
21	Working balances brought forward	3,397	1,603	1,067	633	290
22	Change in balances	- 1,794	- 536	- 434	- 343	- 280
23	Balance carried forward	1,603	1,067	633	290	10
24	Reductions in expenditure, or increases in income, to maintain balances at £1m	-	-	367	710	990

Notes:

- The tax base for 2009/10 has been calculated as 42,618.07
- Future years are shown at 2009/10 prices
- Based on Council Tax increase in 2009/10 0.00%
- Band D Council Tax in 2009/10 £177.24

		2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
	Pension Fund Reserve					
	Balance brought forward	1,086	1,041	810	402	- 5
	To Pension Reserve	365	365	365	365	365
	From Pension Reserve	- 411	- 595	- 773	- 773	- 773
	Balance carried forward	1,041	810	402	- 5	- 413

Earmarked Reserves

(figures in £'000s)	balance 31 Mar 07	to	from	balance 31 Mar 08
building control	-46	79	-33	-
capital	753	354	-204	903
closed circuit television	86	4	-	90
comprehensive performance assessment	14	-	-14	-
concessionary fares	200	-	-	200
Dursley pool	8	-	-	8
economic development	17	61	-	78
housing	244	-	-	244
hydro power	14	-	-	14
information communication technology	1,018	-	-544	474
large-scale voluntary transfer costs	7	-	-7	-
legal counsel	25	79	-60	44
local plan preparation	82	-	-	82
miscellaneous General Fund	34	-	-13	21
opportunity land purchase	100	-	-	100
pension fund	1,084	240	-238	1,086
planning appeal costs	163	25	-55	133
planning delivery grant	243	-	-4	239
property maintenance	549	35	-5	579
redundancy	132	-	-	132
risk management / insurance	208	-	-12	196
Stratford Park leisure centre "sinking fund"	162	30	-3	189
town centre regeneration	19	-	-19	-
total earmarked reserves	5,116	907	-1,211	4,812

The purpose for which each reserve is held is described below:

Building Control - the Council's building control service is required to operate at break-even over a number of years. Temporary surpluses must be separately recorded in the Council's accounts and carried forward for use by this service. This reserve has been extinguished having to fund deficits on the trading account for 3 years running. It is estimated that the account will breakeven in 2008/09

Capital - for the financing of capital schemes. Established to maximise the Council's capital funding position and is built up from General Fund contributions. This is fully committed to funding the current capital programme.

Closed Circuit Television - to fund operating expenses and equipment replacement for closed circuit television (CCTV) cameras throughout the district and the police control room in Stroud. This is fully committed to the replacement of cameras.

Comprehensive Performance Assessment - set up to finance costs in preparing for the Council's comprehensive performance assessment and use of resources assessments. This reserve was closed in 2007/08.

Concessionary Fares – the requirement to provide free bus passes has increased the potential cost of the scheme to the Council. This reserve is for the uncertainty of the budgetary provision in future years.

Dursley Pool - to replace equipment and for minor improvements. This will be used to finance a Leisure Booking system for Dursley Pool and Sports Centre in 2008/09.

Economic Development - to assist in 'pump-priming' the local economy with the award of grants to small businesses.

Housing - created from a Secretary of State's direction requiring the HRA to compensate the General Fund for the transfer of rent rebates. The only commitment currently on the reserve is to fund the consultancy costs associated with the Woolaways project. The balance could therefore be reduced.

Hydro Power - to fund a feasibility study into generating electricity from river flows currently being undertaken and nearing completion.

Information Communication Technology - for the introduction of new technology throughout the Council, often in partnership with other organisations, to deliver improved and more accessible services to the public under the Citizen First agenda. This reserve is committed to funding the Council's new Payroll/HR system and the IT costs associated with the Business Continuity Plan. It is possible that this reserve could be reduced although developments in Technology particularly around data security and generally keeping up to date needs to be provided for.

Large Scale Voluntary Transfer Costs - This reserve was closed in 2007/08.

Legal Counsel - for obtaining specialist legal opinion that may be required to defend the Council or obtain prosecution on the Council's behalf. The activity on this reserve in recent years would suggest the balance should be increased.

Local Plan Preparation – this reserve should be renamed Local Development Framework. It is needed to progress work in this area.

Miscellaneous General Fund - for miscellaneous items that arise for which the annual contingency budget may be insufficient. This reserve could be closed.

Opportunity Land Purchase - to provide a budget for opportune purchases of land that assist with the Council's regeneration or housing objectives.

Pension Fund – This reserve is funding a number of stepped increases in the employers contribution to the Pension Fund. The last actuarial review showed a significant deficit on the Fund and therefore, an increase in contributions is necessary. Appendix A to this report shows that this reserve is depleted in 2010/11 and so provision will need to be made to increase the balance on this reserve.

Planning Appeal Costs - to cover costs that may be awarded against the Council by HM Inspectorate in respect of planning appeals.

Planning Delivery Grant – the Council has been given Government funding to improve the planning service. The reserve is committed to funding a number of schemes within Planning. Any unallocated sums could be used to fund variations in the Planning income and expenditure budgets.

Property Maintenance - for works to Council-owned buildings, now including the multi-storey car park, such as the removal of asbestos and large one-off repairs and improvements.

Redundancy - to cover payments that could arise from the effects of changes in service delivery on staffing.

Risk Management/Insurance - formerly known as the insurance reserve. The Council self-insures a number of risks and is responsible for an 'excess' on most policies. This fund is to cover such payments, as well as being used to pump-prime risk management initiatives.

Stratford Park Leisure Centre Sinking Fund - for the ongoing replacement of worn out plant and equipment during the contract period.

Town Centre Regeneration - to provide grants for schemes to improve the built environment of the District's town centres. This reserve was closed in 2007/08 and the balance transferred to the Economic Development reserve