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<b>REPORT TO:</b>	<b>FINANCE &amp; MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>27th JULY 2006</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (595811)</b>	<b>DOC:</b> u/ks/mtfp/july2006update
<b>SUBJECT:</b>	<b>REVIEW of the MEDIUM TERM FINANCIAL PLAN</b>	<b>REF:</b>
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

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## **1.0 Recommendations**

- 1.1 That the revised financial projection on the General Fund to 2010 is approved.
- 1.2 That the revised financial projection on the Housing Revenue Account to 2017 is approved.
- 1.3 That the revised capital investment and financing programme to 2012 is approved.
- 1.4 That the financial risks associated with the Council's financial plans and proposed actions are noted.

## **2.0 Purpose of Report**

- 2.1 In accordance with the Council's financial strategy, the report reviews and updates the Council's Medium Term Financial Plan (MTFP) and associated budget projections.
- 2.2 It considers both revenue spending and capital investment on the General and Housing Revenue Accounts.
- 2.3 The report effectively updates the Council's medium term financial position following the out-turn from 2005/06, together with setting an indicative position ahead of the 2007/08 budget round.

## **3.0 Executive Summary**

- 3.1 The Council's medium term financial forecast on its General Fund Revenue Account, continues to show a fairly sound position to March 2010. Projected general reserves at the end of 2010 are just under £1.9m. This is above the minimum level required by the Council's financial strategy of £1m.

- 3.2 Clearly in undertaking medium-term financial projections, certain assumptions need to be built into the calculations that could be subject to change. The Council continues to face many financial risks and uncertainties and these are considered in detail.
- 3.3 Given this, the Council should continue to plan its finances prudently and be in a position to address any adverse variances without jeopardising the medium-term financial position.
- 3.4 The longer-term financial projection on the HRA continues to improve, although it shows a projected reserve balance of approximately £300,000 by 2017. This will be below the minimum requirement of £1/2m.
- 3.5 Although this is not yet considered significant given the overall level of spending in the HRA, at some stage, the HRA's base budget may need to be reviewed again, to ensure the minimum balance by 2017.
- 3.6 A review of some of the management function is infact currently underway.
- 3.7 Similar to the General Fund, there are risks and uncertainties that will affect the HRA and the position will continue to be monitored.
- 3.8 The Council's capital investment programme has also been updated to 2012. This shows a shortfall in financing projected expenditure of approximately £450,000.
- 3.9 However, this does not include any general government financing beyond 2006/07 and any additional asset sales over and above those known.
- 3.10 Clearly, additional money stemming from these sources will help reduce the pressure on financing planned investment.

#### **4.0 Detail**

- 4.1 A key factor within the Council's overall financial strategy is medium term financial planning in order to achieve a sound and sustainable financial position. This includes setting a minimum level of general reserves that are required at the end of every service and financial planning period.
- 4.2 This helps the council to focus on the resources that it will have available at the end of each planning period. In addition, it helps to identify where resources and spending are changing in the medium term to enable action to be taken at an early stage to prevent any loss of financial stability.

#### **GENERAL FUND – MEDIUM TERM FINANCIAL PROJECTION**

- 4.3 The latest approved financial projection (February 2006) is summarised in the following table.

## General Fund Projection to 2009 (as at February 2006)

	Probable Out-turn 2005/06 £	Base Budget 2006/07 £	Projection 2007/08 £	Projection 2008/09 £
<b>Net Revenue Expenditure</b>	10,004,520	11,304,420	11,485,330	11,789,380
<b>Less Financing</b>	9,745,780	10,546,455	11,023,169	11,401,299
<b>Contribution from Reserves</b>	258,740	757,965	462,161	388,081
<b>General Reserves</b>				
Balance as at 1 <sup>st</sup> April	2,974,660	2,715,920	1,957,955	1,495,794
Less Contribution (as above)	-258,740	-757,965	-462,161	-388,081
<b>Balance at 31<sup>st</sup> March</b>	<b>2,715,920</b>	<b>1,957,955</b>	<b>1,495,794</b>	<b>1,107,713</b>

4.4 Following the 2006/07 budget round, the level of reserves pointed to a relatively sound financial position. However, it was noted that there were still underlying budget pressures within Council budgets and that demands being placed on spending were increasing.

4.5 The Council's strategy is to maintain a minimum level of general reserves of £1m at the end of every planning period. The projected balance in the above table of approximately £1.1m is above this level.

### Updated Projection

4.6 This projection has now been updated and revised to take account, in particular, of the 2005/06 final out-turn as reported to Committee in June. As the 2007/08 budget-round is now effectively starting, it also extends to 2009/10, the updated planning period.

### Basis of the Financial Projection

4.7 The projection takes into account inflationary projections and a number of known variations based on information currently available. These figures will change when actual information becomes available.

4.8 The main focus of the projection is to estimate the Council's future financial position. It will also form the basis for building the detailed budget plans for 2007/08 and beyond.

4.9 The following factors are included in the analysis:

- The base budget assumes the continuation of current service provision
- The effects of annual pay awards, increments and pension increases
- Inflation
- Annual increase in overall fees and charges
- Annual increases in the level of council tax
- Increase in the level of Government support
- Revenue implications of capital investment

4.10 The updated projection is detailed in **Appendix 1**, and is summarised in the following table.

#### **Revised General Fund Projection to 2010**

	<b>Approved Estimate 2006/07 £</b>	<b>Projection 2007/08 £</b>	<b>Projection 2008/09 £</b>	<b>Projection 2009/10 £</b>
<b>Net Revenue Expenditure</b>	11,489,790	11,413,610	11,749,690	12,041,370
<b>Less Financing</b>	10,872,075	11,023,169	11,401,299	11,799,246
<b>Contribution from Reserves</b>	617,715	390,441	348,391	242,124
<b>General Reserves</b>				
Balance as at 1 <sup>st</sup> April	3,465,959	2,848,244	2,457,803	2,109,412
Less Contribution (as above)	-617,715	-390,441	-348,391	-242,124
<b>Balance at 31<sup>st</sup> March</b>	<b>2,848,244</b>	<b>2,457,803</b>	<b>2,109,412</b>	<b>1,867,288</b>

4.11 The above table shows that general reserves are projected to be around £1.9m by 2010. This is above the minimum level required by the Council's financial strategy of £1m.

#### **The Main Changes since February 2006**

4.12 This is an improved position compared to the last review at the 2006/07 budget round. Clearly, the better out-turn from 2005/06 has helped to strengthen the overall position.

4.13 In addition, the on-going consequences from 2005/06, in particular additional income from benefit subsidy, planning fees and short term investments have also had a positive effect. The base budget for these income streams have been updated following last year's out-turn.

4.14 This has helped to more than contain additional spending approved since February. For example, to address recruitment issues in Environmental Health and the additional resources provided for Policy, Leisure and Economic Regeneration.

4.15 Furthermore, a further year has been added to the rolling projection and this shows a projected contribution from general reserves of approximately £1/4m in 2009/10. The other main change is the potential loss of income on the Council's industrial sites.

4.16 This is due to a contractual agreement whereby one of the sites will be sold in November 2008. This still may be subject to negotiation, but the projection prudently builds in a loss of income of approximately £220,000 over this planning period.

## The Financial Strategy

- 4.17 One of the main principles of medium-term financial planning is that it helps the Council to focus on the resources that it will have available at the end of a 3-year planning period. More importantly it helps to identify where its resources are falling over this period and take action at an early stage to prevent any loss of financial stability.
- 4.18 Clearly, any projection should be viewed with a certain degree of caution. Although every effort has been made to take into account known spending pressures, some are less predictable, for example, the impact of the next revaluation of the Pension Fund and the outcome of the pay and grading review.
- 4.19 In recent years, the Council has budgeted prudently and the accounts have shown that net expenditure has been less than its income from council tax and government grant.
- 4.20 The updated projection, on paper, shows that the Council will require an annual contribution from its general reserves to meet expenditure, although this does reduce over the planning period. The current level of reserves helps to sustain this.
- 4.21 There are also a number of key factors which will affect this projection:
- **New spending pressures** and priorities that the council may wish to focus on over the next few years in accordance with its new Corporate Plan.
  - **Inflation** – net spending in committee base budgets (after fees and charges) is projected to rise on average by 2% per year.
  - **Growth in Council Tax Base** – in line with the continuing growth of the District, it has been assumed that the number of properties subject to council tax will increase by 1.5% in 2007/08, reducing to 1.25% in 2009/10.
  - **Council Tax Increase** – assumes an annual increase of 2.9% for 2006/07 and 4.5% for the following 2 years.
  - **Government Grants** – this has already been fixed for 2007/08 and the projection then assumes a 2% increase in 2008/09 and 2009/10.
  - **The Comprehensive Spending Review** – the Government are to undertake a review of public spending during 2007. Together with the Lyon's review of local government finance, this could change the amount of future resources for local authorities.

## Financial Risk Analysis

- 4.22 In addition, there is a range of factors that will have an impact on the above projection and these are detailed in **Appendix 4**. This is basically the financial risk register and is the basis of calculating the minimum level of general reserves.
- 4.23 These risks need to be balanced against other factors, which could have a potentially positive impact on council finances.

## **Future Government Grant**

- 4.24 For example, the Council currently receives a general grant settlement around £140,000 per year less than the Government's own formula assessment. If this were addressed in anyway, it would result in a higher grant settlement for the Council.
- 4.25 In addition, it is likely that the Council will benefit from the new Business Improvement Grant in 2007/08. This will be awarded to authorities to recognise the growth in new businesses and economic regeneration as measured by the increase in an area's rateable value. An amount should be known in November 2006.

## **Efficiency Gains**

- 4.26 The Committee will be aware that there is a requirement on all authorities to make efficiency gains of 2.5% per year. A report to the June Committee set out the Council's performance against its target, which showed that the Council's gains were above its target.
- 4.27 In addition, plans and other actions already in place should ensure that the Council would meet its overall 3-year cumulative target by 2007/08. Some of the cashable gains achieved to-date has already been redirected to other areas.
- 4.28 Based on the Council's strategy, efficiency gains are only brought into the financial projection when they have actually been made. Planned savings from areas such as procurement will also help to improve the Council's overall financial position, not least in that they will free up money that can be re-directed to Council priorities.

## **HOUSING REVENUE ACCOUNT (HRA)**

- 4.29 In accordance with the business plan process for council housing, the long-term (10-year) financial projection on the HRA has also been updated. The previous projection was considered during the last budget round. This highlighted a balance on the HRA's general reserve of £521,000 by 2015, just above the target level of £1/2m.
- 4.30 The overall projections have also been updated, to include the 2005/06 budget out-turn. The updated projection is shown in **Appendix 2** that rolls the planning period onto 2017.
- 4.31 The more favourable out-turn position has been built in, together with the on-going effects from 2005/06. This mainly relates to the amount of grant for "Supporting People" which has been increased. Most other areas, in particular the base budget for management and repairs have not been changed.
- 4.32 The level of HRA balances is now projected to be approximately £300,000 by 2017. Although there have been gains since the last projection as highlighted above, in the longer-term, the HRA's expenditure is still projected to be more than its income.
- 4.33 With the planning period being rolled forward, the year on year deficits between 2015 and 2017 reduce balances below the minimum level of £1/2m.

- 4.34 Although this is not considered significant, at some stage, the HRA's base budget may need to be reviewed again, to ensure the minimum balance by 2017. A review of some of the management function is in fact currently underway.
- 4.35 However, similar to the General Fund, any projection should be viewed with a certain degree of caution, especially one spanning 10-years. Although every effort has been made to take into account known spending pressures, some are less predictable.

### **Housing Subsidy and Rent Increases**

- 4.36 There are a number of factors that will affect this projection, and in particular, future arrangements for housing subsidy and rent increases. The situation is very uncertain and can change from year to year which can make planning more difficult.
- 4.37 Similar to the General Fund, the HRA is not receiving its target management and maintenance allowances on the Government's formula. However, under the complexities of the subsidy system, any real terms increase in this area, may be offset by the subsidy system clawing back additional rent income over the rent-restructuring period to 2012.
- 4.38 This is due to the fact that the Council's actual rent is above the Government's guideline and formula rent.

### **Housing Repairs**

- 4.39 This budget is always subject to demand and actual expenditure over the last 2-years has exceeded that estimated. In accordance with inflation projections in the building industry, real terms increases year on year have been built into projections.
- 4.40 Given that a certain degree of control can be exercised over this budget, it is important that spending comes within that projected to ensure the overall financial viability of the HRA.

### **Financial Risk Analysis**

- 4.41 In addition, there is a full range of factors that will have an impact on the above projection and these are detailed in **Appendix 4**. This is basically the financial risk register for the HRA and is the basis of calculating the minimum level of its general reserve.
- 4.42 Issues such as the number of council house sales and the level of void (empty) properties will all have some impact on the projection. The longer-term position will continue to be monitored, as now, on a regular basis.

### **CAPITAL INVESTMENT and FINANCING**

- 4.43 The Council is guided under a Prudential Code to set a 5-year capital investment programme. Clearly, this has to be based on assumptions about likely resources to be available and potential commitments facing the Council over this period.

- 4.44 Similar to the revenue accounts, the planning period has been rolled forward for the next 5 years to 2012. The programme has been updated to include schemes carried forward from 2005/06. The full investment and financing plan is shown in **Appendix 3**.
- 4.45 In addition, since the budget round, the Council has been awarded a capital grant for housing schemes of £515,000 for 2006/07 only. Together with the additional monies generated in 2005/06 from asset sales, this has increased the overall resources available compared to the previous projection.
- 4.46 Consequently, the overall level of resources available is much improved since the previous projection. However, the investment programme for general schemes (including private sector housing) shows a projected shortfall in resources of approximately £455,000 over the 5-year plan.
- 4.47 However, this does not include any general government financing beyond 2006/07 and any additional asset sales generated through the disposals policy over and above those known. Clearly, additional money stemming from these sources will help reduce the pressure on financing planned investment.

### **Resources**

- 4.48 Apart from partnership funding and any specific government grants that may be available, the Council's resources are very much dependent upon generating capital receipts.
- 4.49 This is a risk in that their level from year to year can fluctuate (as seen) and cannot be accurately predicted, in particular council house sales. In addition, these resources are finite and once used, there is no guarantee that they will be replenished in the future.
- 4.50 Furthermore, it should be noted that the Council is committed until 2011/12 to the repayment of covenant financing at around £1/2m per year. This is effectively the "first call" on capital resources. Clearly, these need to be included in the 5-year programme.
- 4.51 Under the Prudential System for Capital Finance, the Council does have the option to borrow. However, it would need to demonstrate that the associated financing costs could be met and sustained on its revenue accounts.

### **5.0 Financial Implications**

- 5.1 As detailed in the report

### **6.0 Corporate Implications**

- 6.1 None directly

### **7.0 Community Implications**

- 7.1 None directly