

**REPORT TO:** Cabinet

**DATE:** 10 June 2010

**SUBJECT:** Medium Term Financial Plan 2011/12 – 2013/14

**WARDS AFFECTED:** All

**REPORT OF:** John Farrell  
Interim Head of Corporate Finance and Information Services

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**EXEMPT/CONFIDENTIAL:** No

**PURPOSE/SUMMARY:**

To update the Authority's Medium Term Financial Plan (MTFP) for 2011/12 to 2013/14.

**REASON WHY DECISION REQUIRED:**

The Council's MTFP for the period 2010/11- 2012/13 was approved at Cabinet / Council on 4 March 2010. The Authority now needs to consider the financial position of the Authority for the period 2011/12 – 2013/14. This report updates the MTFP to ensure that Members have the most up to date information; this will provide a basis for determining the level of savings that are required via the Transformation Programme for the next three financial years.

**RECOMMENDATION(S):**

**Cabinet is recommended to:**

1. Review and confirm the adoption of the planning assumptions for the MTFP;
2. Review and confirm the treatment of Formula Grant and Area Based Grant as a single item in the MTFP.
3. Note the indicative MTFP at Annex A, including the projected budget deficits for 2011/12 – 2013/14;
4. Note that the MTFP will need to be flexible to react to changes on Government funding and other planning assumptions.

**KEY DECISION:** No

**FORWARD PLAN:** No

**IMPLEMENTATION DATE:** Following the expiry of the call-in period for this meeting.

**ALTERNATIVE OPTIONS:** The Cabinet could choose not to approve an MTFP. Such a decision would be contrary to Corporate Objective 31 of the Council's Corporate Plan and could affect the Council's "Use of Resources" assessment under CAA (should this continue in future years).

**IMPLICATIONS:**

**Budget/Policy Framework:** The MTFP sets the policy framework for future years' financial planning.

**Financial:** The report presents budgetary information for 2011/12 – 2013/14. Cabinet will consider the items contained in the MTFP over the coming months to determine the actual Budget and Council Tax implications for future years.

| <b><u>CAPITAL EXPENDITURE</u></b>                  | <b>2010/<br/>2011<br/>£</b> | <b>2011/<br/>2012<br/>£</b> | <b>2012/<br/>2013<br/>£</b> | <b>2013/<br/>2014<br/>£</b> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Gross Increase in Capital Expenditure              | N/a                         | N/a                         | N/a                         | N/a                         |
| Funded by:   |                             |                             |                             |                             |
| Sefton Capital Resources                           | N/a                         | N/a                         | N/a                         | N/a                         |
| Specific Capital Resources                         | N/a                         | N/a                         | N/a                         | N/a                         |
| <b><u>REVENUE IMPLICATIONS</u></b>                 |                             |                             |                             |                             |
| Gross Increase in Revenue Expenditure              | N/a                         | N/a                         | N/a                         | N/a                         |
| Funded by:   |                             |                             |                             |                             |
| Sefton funded Resources                            | N/a                         | N/a                         | N/a                         | N/a                         |
| Funded from External Resources                     | N/a                         | N/a                         | N/a                         | N/a                         |
| Does the External Funding have an expiry date? Y/N | When?                       |                             |                             |                             |
| How will the service be funded post expiry?        |                             |                             |                             |                             |

**Legal:** None

**Risk Assessment:** A properly formulated MTFP will anticipate and seek to minimise operational and financial risk. It is acknowledged that the current central government context leads to greater risk that the planning assumptions will be inaccurate. The position will be kept under review and amended as appropriate

**Asset Management:** None

**CONSULTATION UNDERTAKEN/VIEWS**

Chief Executive and Strategic Directors

**CORPORATE OBJECTIVE MONITORING:**

| <b><u>Corporate Objective</u></b> |   | <b><u>Positive Impact</u></b> | <b><u>Neutral Impact</u></b> | <b><u>Negative Impact</u></b> |
|-----------------------------------|---|-------------------------------|------------------------------|-------------------------------|
| 1                                 | Creating a Learning Community   | √                             |                              |                               |
| 2                                 | Jobs and Prosperity   | √                             |                              |                               |
| 3                                 | Environmental Sustainability  | √                             |                              |                               |
| 4                                 | Health and Well-Being   | √                             |                              |                               |
| 5                                 | Children and Young People   | √                             |                              |                               |
| 6                                 | Creating Safe Communities   | √                             |                              |                               |
| 7                                 | Creating Inclusive Communities  | √                             |                              |                               |
| 8                                 | Improving the Quality of Council Services and Strengthening local Democracy | √                             |                              |                               |

**LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT**

Approved Revenue Budget / Medium Term Financial Plan for 2010/11- 2012/13.

## 1. **Introduction and Context**

- 1.1. Council approved the Medium Term Financial Plan (MTFP) for 2010/11 - 2012/13, and Budget for 2010/11, at the meeting held on 4 March 2010. This report moves the MTFP forward one year to include the financial year 2013/14. It also provides Members with an update of the information that is currently available and highlights other issues that need to be borne in mind when determining the overall financial position of the Authority.
- 1.2. The updated MTFP also identifies the level of savings that are required via the Transformation Programme for the next three financial years.
- 1.3. The report is produced at a time of continuing uncertainty in relation to public finances. However, the expectation is for Central Government resources made available to Local Government to be severely restricted. This is considered further below.
- 1.4. The report also considers the announcement of the Chancellor of the Exchequer's statement on 24 May regarding the anticipated savings required for the 2010/11 Budget.

## 2. **The Chancellor of the Exchequer's statement on 24 May**

- 2.1. The Chancellor of the Exchequer made a statement on 24 May regarding the anticipated savings the Government are planning for the financial year 2010/11. The impact on local government is a reduction in Government grant funding of £1.165bn. The statement indicates that Formula Grant will not be affected, however, which grants are to be reduced has not been made clear. The Government have stated that they will help local government to deliver these savings by removing the ring fences on over £1.7bn of grants to local authorities in 2010/11.
- 2.2. The ring fences around schools, 16-19 Participation and Sure Start funding will **not** be removed this year, hence they have been protected from grant reductions for 2010/11.
- 2.3. As a result of the uncertainty as to which grants will be reduced the impact upon Sefton's resources cannot be ascertained. Further information will be provided at Cabinet if details are made available in the mean time.
- 2.4. The date for the Emergency Budget has now been set for 22 June 2010.
- 2.5. At this stage it is difficult to assess the impact of the proposed reductions. As an indication, if the total savings were spread proportionally across all councils Sefton's share could be £6-7m. Should this level of in-year savings be required the Council will have to consider all options including those that are currently contractually committed.

## 3. **Agreement of Planning Assumptions for 2011/12 – 2013/14**

- 3.1. The draft planning assumptions contained in the draft Medium Term Financial Plan (MTFP) for 2011/12 - 2013/14 are largely based upon those used in preparing the position approved by Council on 4 March 2010. The assumptions are set out below; where there has been an amendment to previous figures this has been clearly identified: -

- (a) An increase in Council Tax of 3% for all financial years. The Government has however, announced their intention for local authorities to set a 0% increase for 2011/12. It is as yet unclear whether this means that additional resources will be provided by Central Government to allow this to happen, or if savings will need to be made to achieve this. For information, for Sefton each 1% of Council Tax raises approximately £1.2m.
- (b) Annual Provision for Pay Awards was initially assumed at 1% for 2011/12 and 2012/13. Taking into consideration the latest forecasts for the recovery of the economy, the figure for 2011/12 has been reduced to 0.5%. With regard to the final year of the MTFP, a provisional increase of 2.25% has been assumed.
- (c) The definition of Priority Services remains unchanged i.e. personal care packages within Children's Services and Adult Social Care. The annual provision for price Inflation for priority services has been included at 2% for the period of the MTFP. For all other services, a 1% increase has been included. The latest annual inflation figures (April 2010) showed the Consumer Price Index at 3.7%; consequently the MTFP provision assumes that savings will need to be achieved to remain within the anticipated budgets.
- (d) With regard to the costs of pensions, increases in the contribution rate of 1% have previously been included within the MTFP. The Merseyside Pension Fund's Actuaries will shortly complete the triennial review with effect from April 2010. Following discussions with the Treasurer to the Fund, an increase in the contribution rate by a further 0.5% per annum is deemed prudent. Further information on the likely contribution rates will be known in November 2010.
- (e) Provision for demand pressures of £6.51m and £3.85m was approved for 2011/12 and 2012/13 respectively. For the purposes of this report, the assumption has been made that a further £1m will be added in 2013/14. This has not been discussed with the relevant service directors and is only a prudent addition at this stage; further consideration will be needed over the coming months.
- (f) No provision for any new developments was included in the previous MTFP; this position has been continued in the attached Plan.
- (g) An annual contribution to Balances of £0.5m has been continued in line with the strategy previously agreed with the District Auditor. This approach will be the subject of review over the Summer
- (h) £1.0m of Capitalisation assumed in the MTFP has been continued.
- (i) The use of the Insurance Fund to support the budget for an additional year (£1.5m) in 2013/14 been assumed. This will need to be reviewed when the actuarial valuation is completed.
- (j) The capital financing impact of the ongoing Capital Programme has been included in the indicative MTFP. However, no provisions for new capital projects have been included in the plan at this stage.

- (k) Council Tax Base. Once again, this is an area that will be affected by the current economic situation and collection rates and the impact on new developments will need to be kept under review in the coming months.
- (l) Collection Fund Deficit. Members will recall that it was estimated that there would be a deficit on the Collection Fund of £430,000 for 2010/11. This has been built into the approved MTFP. A fundamental review of the collection fund is being carried out and there may be a need in the future for a significantly higher provision for doubtful debts, and a consequent increase in Collection Fund deficit
- (m) The Local Government Finance Settlement for 2010/11 included an increase in external funding of 2.43%. The new Government has not yet identified what resources will be provided for the period 2011/12 to 2013/14. The Emergency Budget on 22 June may give some indication of the impact on local government for the forthcoming years (although the direct effect on Sefton is unlikely to be known for some months). In the past the Council has separately managed and accounted for ABG and Formula Grant. This has often led to confusion and a position where savings from each were treated on different bases. It should also be recognised that the majority of ABG is actually funding core council services. Given the above and the likely constraints on public spending going forward, it is proposed that these two grant regimes are merged and managed as a total budget. This will ensure that reductions across the range of Council services are treated equitably and any savings are made based on relative priority and not funding source.

The previous MTFP assumed the continuation of both Formula and Area Based Grants at the 2010/11 level, i.e. a 0% increase. However, in the light of the Government's recent statements about public expenditure there is merit in merging both of these elements of external funding and planning for a 2.5% reduction in each year of the latest MTFP. This position will need to be kept under close review as the new government's position becomes clearer.

- 3.2. Members are asked to review and confirm the above planning assumptions for inclusion in the preparation of the updated MTFP. There will be opportunities to revise these assumptions in future updates of the MTFP.

**Recommendation (1): Review and confirm the adoption of planning assumptions for the MTFP.**

**Recommendation (2): Review and confirm the treatment of Formula Grant and Area Based Grant as a single item in the MTFP.**

#### 4. **Revised MTFP 2011/12 – 2013/14**

- 4.1. Based on the above assumptions, an indicative MTFP has been produced which revises the forecasts for 2011/12 and 2012/13 and includes information for 2013/14 for the first time. As in previous years, the MTFP has been prepared for Sefton services only. The detailed indicative MTFP is attached at **Annex A.**
- 4.2. The revised funding gap to deliver a 3% Council Tax for Sefton Services only, in 2011/12 to 2013/14 can be summarised as follows: -

**MTFP – Forecast – June 2010**

**Additional  
Annual  
Funding Gap  
to deliver 3%  
Council Tax  
£m**

|                      |        |
|----------------------|--------|
| MTFP Year 1: 2011/12 | 13.847 |
| MTFP Year 2: 2012/13 | 8.490  |
| MTFP Year 3: 2013/14 | 7.166  |

In summary the changes from the previous forecast approved in March is as follows

|   | <b>2011/12</b> | <b>2012/13</b> | <b>2013/14</b> |
|---|----------------|----------------|----------------|
|   | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      |
| Previously approved gap                                     | <b>7.490</b>   | <b>4.221</b>   | <b>0.000</b>   |
| Increased Pension Costs                                     | 0.270          | 0.273          | 0.917          |
| Recycling Collection Service - Future Service Specification | 1.900          | 0.000          | 0.000          |
| Unavoidable Pressures on Demand Led Services                | 0.000          | 0.000          | 1.000          |
| Reduced External Funding (including ABG)                    | 3.867          | 3.771          | 3.675          |
| Additional Council Tax Income                               | 0.000          | 0.000          | -3.751         |
| Non-School Pay Inflation                                    | 0.000          | 0.000          | 1.944          |
| Non-School Price Inflation                                  | 0.000          | 0.000          | 2.220          |
| Contract Inflation  | 0.000          | 0.000          | 0.811          |
| Other Miscellaneous Changes                                 | 0.320          | 0.225          | 0.350          |
|   |                |                |                |
| <b>Current Budget Gap</b>                                   | <b>13.847</b>  | <b>8.490</b>   | <b>7.166</b>   |

- 4.3. As Members are aware, external levies impact on the overall level of Council Tax for Sefton and consequently can influence the increase for Sefton's services. It is too early to determine the actual demands from the levying authorities for the next three years. Further information will be provided when it is available, however, Members are asked to bear the issue in mind when considering the overall Council Tax level for Sefton. The above figures have not assumed any changes for the costs of levying authorities (or Government resources to finance the additional cost) at this stage. However, a potential further gap of up to £2m could be added to the above figures; this is based on annual increases in levies as follows: -

|   |     |
|---|-----|
|   | %   |
| Environment Agency                        | 1.9 |
| Merseyside Integrated Transport Authority | 3.0 |
| Port Health                               | 1.9 |
| Sea Fisheries                             | 1.9 |
| Merseyside Waste Disposal Authority       | 9.0 |

- 4.4. Assuming that Members agree to continue the existing policy of adding £0.5m per annum to General Fund Balances, over the period of the MTFP non-school General Fund Balances are forecast as follows:

| <b><u>Financial Year</u></b> | <b>Projected<br/>Balances<br/>at end of<br/>year<br/>£m</b> |     |
|------------------------------|---|-----|
| 2009/10                      | 3.64  | (*) |
| 2010/11                      | 4.14  |     |
| 2011/12                      | 4.64  |     |
| 2012/13                      | 5.14  |     |

(\*) Assumes no budget under / overspend in 2009/10.

**Recommendation (3): Note the indicative MTFP at Annex A, including the projected budget deficits for 2011/12 – 2013/14.**

4.5. This update of the MTFP is based upon known or expected changes to the budget. However, there are a number of other emerging issues that will, or are likely to, have a financial impact on the Council. The following items have not been incorporated into the indicative MTFP at this stage and is not intended to be exhaustive but illustrates the financial issues facing the Council in the coming years:

- (a) The impact of increments following the implementation of the pay and grading review;
- (b) Inclusion of a provision for doubtful debts within the Budget;
- (c) The impact of the capital and revenue consequences of Building Schools for the Future;
- (d) The impact of meeting the cost/saving incurred on any capital schemes cancelled as a result of the Government's reduction in public expenditure;

As usual, the management of these items will be considered further during the course of year, as more detailed information becomes available.

**5. Sensitivity Analysis**

5.1. The uncertainty of current economic conditions, in conjunction with the new Government means that a simple forecast of the MTFP is not appropriate. Key elements of the Council's Budget are potentially subject to significant change. Whilst the assumptions in this report provide a general guide to the level of savings that are likely to be needed to balance the budget, it is only one possibility. Consequently, in order to provide Members with more information, a series of options should be considered.

5.2. The initial work of the Transformation Team in identifying service efficiency options can proceed on the basis of the draft MTFP. However, it is important that the potential need to find significant additional savings also requires consideration.

5.3. The key areas of sensitivity that need to be included are: -

5.3.1. Council Tax Increases – Given the Government's recent announcements, a range of increases should be considered, for example 0%, 1%, 2% and 3%. For each option below 3%, the assumption has been made that further savings will be needed. It may be that Members may also wish to amend current options.



- 5.3.2. External Government Funding – The impact of variations in external funding over and above the 2.5% reduction assumed for each year in the revised MTFP.
- 5.4. The table below highlights the potential change in the budget gap for 2011/12 of a range of options compared to those assumed in the MTFP. To aid understanding of the table Members should note that the base position for the purposes of the revision of the MTFP is the second row of the table starting from a reduction of 2.5% in external Government funding with a 3% assumed increase in Council Tax for the year – the base position is highlighted in bold type.

| Govt.<br>Funding<br>% | Potential Council Tax Increase |               |               |               |
|-----------------------|--------------------------------|---------------|---------------|---------------|
|                       | 3%                             | 2%            | 1%            | 0%            |
| 0.0%                  | +3.867                         | +2.688        | +1.510        | +0.331        |
| <b>-2.5%</b>          | <b>0.000</b>                   | <b>-1.179</b> | <b>-2.358</b> | <b>-3.536</b> |
| -5.0%                 | -3.868                         | -5.046        | -6.225        | -7.403        |
| -7.0%                 | -6.961                         | -8.140        | -9.319        | -10.497       |

**N.B.** A negative figure in the above table indicates the need for further savings to be achieved. For example, if the scenario of a 0% increase in Council Tax was combined with a 7% reduction in External Government Funding, this would require a further £10.497m of savings to be identified – on top of the £13.847m savings target for 2011/12 (paragraph 4.2). There would be a similar impact if the options were applied to 2012/13 and 2013/14.

**Recommendation (4): Note that the MTFP will need to be flexible to react to changes on Government funding and other planning assumptions.**

## 6. Closing the Budget Gap (2011/12 – 2013/14)

Members should note that in merging the external Government funding sources, specific budgets (see 3.1 (m)) covering such examples as Connexions, Preserved Rights and Supporting People, will be passported to departments. However, as with services that have recently had their funding “un-ring-fenced” by the Government, they will not be protected from the need to find the necessary savings in bridging the budget gaps in the MTFP.

Members will see that the budget gaps are significant and it will be necessary to take timely decisions to identify where savings are to be made. This work is already underway with the Transformation programme progressing efficiency work covering all services. The specific proposal will be brought to the next meeting of Cabinet. In addition a prioritisation process has commenced which will look at areas where further savings can be made.

7. **Recommendations**

7.1. Cabinet is recommended to:

1. Review and confirm the adoption of the planning assumptions for the MTFP;
2. Review and confirm the treatment of Formula Grant and Area Based Grant as a single item in the MTFP.
3. Note the indicative MTFP at Annex A, including the projected budget deficits for 2011/12 – 2013/14;
4. Note that the MTFP will need to be flexible to react to changes on Government funding and other planning assumptions.

**Indicative Medium Term Financial Plan – 2011/12 – 2013/14**

|          |   |                |                |                |
|----------|---|----------------|----------------|----------------|
| <b>A</b> | <b>Indicative Council Tax increase for Sefton Services</b>              | <b>3.00%</b>   | <b>3.00%</b>   | <b>3.00%</b>   |
| <b>B</b> | <b>Net Sefton Expenditure at Proposed Council Tax Increase (£m)</b>     | <b>275.131</b> | <b>274.919</b> | <b>274.913</b> |
| <b>C</b> | <b>Remaining Accumulative Gap to Proposed Council Tax Increase (£m)</b> | <b>-13.847</b> | <b>-22.337</b> | <b>-29.503</b> |
| <b>D</b> | <b>Remaining Annual Gap to Proposed Council Tax Increase (£m)</b>       | <b>-13.847</b> | <b>-8.490</b>  | <b>-7.166</b>  |

|   | <b>2011/12<br/>Potential<br/>Budget<br/>£m</b> | <b>2012/13<br/>Potential<br/>Budget<br/>£m</b> | <b>2013/14<br/>Potential<br/>Budget<br/>£m</b> |
|---|--|--|--|
| <b>1 Agreed Base Budget (Incl. Levies) – 2010/11</b>                                  | 275.548  | 275.548  | 275.548  |
| <b>2</b> Full Year effect of previous budget growth decisions                         | 1.500  | 1.532  | 1.532  |
| <b>3</b> Full Year effect of previous budget savings decisions from one-off resources | -0.061   | -0.061   | -0.061   |
| <b>4</b> Non-school Pay Inflation @ 0.5% (2011/12)                                    | 0.427  | 0.427  | 0.427  |
| <b>5</b> Non-school Pay Inflation @ 1.0% (2012/13)                                    | 0.000  | 0.855  | 0.855  |
| <b>6</b> Non-school Pay Inflation @ 2.25% (2013/14)                                   | 0.000  | 0.000  | 1.944  |
| <b>7</b> Non-school Price Inflation @ 2% / 1% (2011/12)                               | 2.146  | 2.146  | 2.146  |
| <b>8</b> Non-school Price Inflation @ 2% / 1% (2012/13)                               | 0.000  | 2.183  | 2.183  |
| <b>9</b> Non-school Price Inflation @ 2% / 1% (2013/14)                               | 0.000  | 0.000  | 2.220  |
| <b>10</b> Anticipated Unavoidable Costs - Future Years                                | 2.990  | 4.296  | 5.986  |
| <b>11</b> Demand pressures 2011/2012  | 6.508  | 6.508  | 6.508  |
| <b>12</b> Demand pressures 2012/2013  | 0.000  | 3.851  | 3.851  |
| <b>13</b> Demand pressures 2013/2014  | 0.000  | 0.000  | 1.000  |
| <b>15</b> Capital Financing   | 0.005  | 0.139  | 0.526  |
| <b>16 Proposed Base Budget - Net Expenditure</b>                                      | <b>289.064</b>                                 | <b>297.425</b>                                 | <b>304.666</b>                                 |
| <b>Less External Funding:</b>   |  |  |  |
| <b>17</b> External Funding (RSG, NNDR and ABG)  | -154.246                                       | -150.475                                       | -146.799                                       |
| <b>18</b> Collection Fund Deficit   | 0.430  | 0.430  | 0.430  |
| <b>19</b> Assumed External Funding Increase for Levies                                | 0.000  | 0.000  | 0.000  |
| <b>20 Requirement from Council Taxpayers</b>  | <b>135.248</b>                                 | <b>147.380</b>                                 | <b>158.298</b>                                 |
| <b>21</b> Council Tax Base (Band D Equivalent Units)                                  | <b>93.050</b>                                  | <b>93.050</b>                                  | <b>93.050</b>                                  |

|   |                 |                 |                 |
|---|-----------------|-----------------|-----------------|
| <b>22 Implied Sefton Council Tax (£ Band D)</b>       | <b>1,453.49</b> | <b>1,583.87</b> | <b>1,701.21</b> |
| <b>23 Sefton Council Tax Previous year (£ Band D)</b> | <b>1,266.68</b> | <b>1,453.49</b> | <b>1,583.87</b> |
| <b>24 Implied Sefton Council Tax Increase (%)</b>     | <b>14.75%</b>   | <b>8.97%</b>    | <b>7.41%</b>    |

**General Fund Balances assuming Budget Gap is Bridged**

|   | <b>2011/12<br/>£m</b> | <b>2012/13<br/>£m</b> | <b>2013/14<br/>£m</b> |
|---|-----------------------|-----------------------|-----------------------|
| Estimated Opening Balances                          | 4.140                 | 4.640                 | 5.140                 |
| Additional Contribution to Balances during the year | 0.500                 | 0.500                 | 0.500                 |
| <b>Estimated Balances at Year End</b>               | <b>4.640</b>          | <b>5.140</b>          | <b>5.640</b>          |