

## **Copeland Borough Council – Medium Term Financial Strategy 2012/13 to 2015/16-Update Financial Projections**

**EXECUTIVE MEMBER:** Councillor Gilliam Troughton  
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### **WHY HAS THIS REPORT COME TO EXECUTIVE?**

The Medium Term Financial Strategy (MTFS) sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its four year financial projections.

Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers' money. It assists the Council in making the right financial decisions for the short, medium and longer term.

The Council's projections for the period 2012/13 to 2015/16, as at October 2012, are set out in Appendix A - High Level Financial Projections (adapted from the Medium Term Financial Strategy as agreed by Council in February 2012), attached to this report.

The projections and assumptions within the MTFS will be updated annually or as required.

This report provides Executive with a review of the assumptions that underpin the MTFS taking into account known changes to our financial position and the emergent risks.

### **Recommendation:**

That Executive note the assumptions that underpin the Medium Term Financial Strategy, the current known changes and the emergent risks. These will be reported on further as part of the 2013/14 budget process.

## **1. INTRODUCTION**

- 1.1. The Medium Term Financial Strategy (MTFS) sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its four year financial projections.
- 1.2. Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers' money. It assists the Council in making the right financial decisions for the short, medium and longer term.

- 1.3 The financial management arrangements of the Council express in monetary terms the planned use of resources to deliver Council services in accordance with its stated priorities within the Council Plan. The Council Plan was formally presented for approval to Council on 22nd February 2011.
- 1.4 The Councils projections for the period 2012/13 to 2015/16, as at October 2012, are set out in Appendix A - High Level Financial Projections (adapted from the Medium Term Financial Strategy as agreed by Council in February 2012) The MTFS approved by Council in February 2012 contained a series of planning assumptions:

**Inflation:**

- A 2% increase for inflation on general supplies and services from 2013/14 onwards.
- An increase on contracts from 2013/14 where the increase is required to meet contractual commitments.

**Salaries:**

A 1% increase for on each year from 2013/14 to 2015/16.

**Pensions Contributions:**

- Current contribution rate 20.1%.
- The next revaluation is effective from 2014/15. No increase has been assumed for now pending the Government's pension proposals being finalised.

**Treasury Management**

- A 1.25% interest rate on investments has been assumed for 2013/14 financial year and for the period of current MTFS.

**Council Tax Projections**

- An increase of 2.5% has been included in the budget proposals for financial years 2013/14 – 2015/16.

**Income**

- This assumption remains unchanged from February 2012 where increases in fees and charges were proposed on a service-by-service basis. The MTFS proposal is to include wherever feasible increases in fees and charges of 2.5% and more in areas that are not sensitive to demand. The current economic climate means that proposals to increase a large number of fees and charges are proving to be difficult to justify.

**Member's expenses**

- These remain cash limited and there has been no inflation provision included within the projected figures.

- 1.3 The principles underlying the MTFS 2013/14 to 2015/16 are also as stated in the MTFS strategy report approved by Council in February 2012 and are as detailed below:
- a) The overall financial strategy will be to ensure that the Council's resources are directed to achieving the objectives set out in the Council Plan;
  - b) Copeland recognises that it will not be able to continue to resource services at the current levels due to the level of funding cuts over the period of the current spending review and will ensure that budget savings are identified to minimise the impact on frontline core services;
  - c) Services provided to the most vulnerable are protected wherever possible within the identified funding constraints;
  - d) At a global level Council spending will be contained within agreed budgets. If the monthly monitoring indicates that service budgets are expecting to exceed the total budget, then actions will be taken to ensure that spending is contained within the approved budgets;
  - e) Reserves will only be used to finance non-recurring spending or to cover transitional costs. If in exceptional circumstances reserves are used to support recurring spending, this will be dependent on a strategy being in place to replace the use of reserves with mainstream funding;
  - f) The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually
  - g) Balances and reserves will be maintained at a level which is sufficient to allow for quantifiable liabilities and foreseeable risk and also to enable the Council to react to opportunities and risks should they arise;
  - h) The Council will continue to improve its approach to efficiency, value for money and procurement so as to minimise the impact of budget savings;
  - i) The impact of any increases in Council Tax will be carefully considered against the delivery of the Council Plan;
  - j) Fees and charges will be reviewed to ensure that fees and charges are set at an appropriate level in line with the delivery of the Council Plan and take into account comparative levels of charge;
  - k) The Council will consider ways in which it can maximise trading opportunities and new charges to maximise income to deliver priorities;
  - l) External funding opportunities will be considered to ensure that income is maximised to help deliver Council priorities;

- m) The Council will continue to contribute to reviews of the local government finance system;
  - n) Opportunities for working in collaborating and partnership will be identified and developed where this will support the Council's priorities and improve service efficiency and delivery; and
  - o) Any proposed changes to service provision will take account of financial implications for future years.
- 1.4 The projections and assumptions detailed in points 1.4 and 1.5 above have been applied to the projections attached at Appendix A and are updated annually as part of the budget process, or more frequently if required.
- 1.5 Members may wish to give further consideration on the relevance of these assumptions and principles applied to the MTFS but the following principles remain essential:

Reserves will only be used to finance non-recurring spending or to cover transitional costs. If in exceptional circumstances reserves are used to support recurring spending, this will be dependent on a strategy being in place to replace the use of reserves with mainstream funding.

The Council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.

Balances and reserves will be maintained at a level which is sufficient to allow for quantifiable liabilities and foreseeable risk and also to enable the Council to react to opportunities and risks should they arise;

## **2 CHANGES SINCE FEBRUARY**

- 2.1 The original high level budget that was included in the MTFS as approved by Council in February 2012 showed a shortfall in funding of £948k in 2013/14 and as can be seen in Appendix A attached, this is currently projected at £1,511k, the main differences are a loss of recycling credit income from the County Council of £340k (see paragraph 2.4), the impact of the new LSCT scheme (see paragraph 2.2) together with some further pressures identified and savings which are unlikely to be achieved.

- 2.2 The Local Government Finance Bill (2010 – 2012), currently progressing through the Lords, includes proposals for Localised Support for Council Tax (LSCT) to replace Council Tax Benefit. LSCT will operate as a discount under existing Council Tax regulations and local Councils are required to design their own schemes.

Following consideration of the issues Council, on 6 September, recommended that they would adopt a local scheme for 2013/14 identical to the Department for Communities and Local Government's default scheme. In effect this means:

- (i) That the existing benefit scheme is replicated as far as claimants are concerned albeit there are significant technical and accounting changes arising from the change of the award from a 'benefit' to a 'discount'.
- (ii) That as a result of adopting the above scheme, the estimated 10% cut in government funding will be borne by the precepting authorities and not by the claimants. For Copeland Borough Council its proportion amounts to c. £140k pa.
- (iii) The future award will be at 90% of our current level so any additional claimants will be a 100% cost to the authority

- 2.3 The Local Government Finance Bill also sets out proposals to allow changes to Council Tax Technical charges which could generate additional income by the reduction of discounts on empty properties and second homes and may generate up to c.£120k which would close this gap to £20K as reflected in High Level Budget Analysis attached in Appendix A. However it should be stressed that there are a number of assumptions and unknown factors in the additional income figure such as number of empties / second homes and impact of any changes on potential 'avoidance' measures coupled with increased difficulty in collecting, may impact on collection rates, which could mean that this gap is much greater. Please see the Proposals for Council Tax Technical Reform paper presented elsewhere on this agenda for full details.

- 2.4 The Local Government Finance bill also sets out proposals for the localisation of Business Rates, whereby local authorities will return a proportion of the Business Rates generated in its area. There is a detailed consultation exercise underway which closes on 24 September, following which, details of the proposed scheme will be finalised. It is not anticipated that we will know our starting funding position on the new Business Rates scheme until mid-December.

- 2.5 Following a review by Cumbria County Council we are currently awaiting written confirmation from their Chief Executive that they will be reducing the re cycling credits they award to the district councils, which for Copeland will mean a full year reduction in 2013/14 of circa £340,000. This reduction in income has been included in the figures in Appendix A. How we meet this reduction in funding will need to be considered as part of the budget process.

### **3 RISKS AND EMERGENT ISSUES**

- 3.1 The settlement from government will not be received until mid-December 2012. The level of this settlement will impact greatly on the attached High Level Financial Projections, as any amount lower than that assumed (which is probable) will further increase the shortfall. It should also be noted that risks that were previously borne by the government in terms of LSCT and Business Rates will now fall to the council and this could give rise to significant movements in funding during the year, (whereas previously funding, from government was guaranteed i.e. fixed for the year).
- 3.2 Consultation on business rates is due to end in September 2012, with final proposals to follow. Until we receive our settlement figure in December it is not clear how this will affect Copeland, but as we are not a high growth area it is very likely the final scheme will have a negative impact on Copeland's finances. Again an anticipated increased difficulty in collection would necessitate the need to revise debt management arrangements which in itself will lead to additional costs which will in future fall directly to the Council and will not be met by the Government as per the current scheme.
- 3.3 The new LSCT scheme, together with the continuing impact of the recession may give rise to an increase in claimant numbers which will directly increase the cost to the council.
- 3.4 The Council Tax Technical Reform discounts that are proposed will need to be consulted on as part of the budget consultation. Clearly owners of second and empty homes are unlikely to welcome any reduction in their current discounts and benefits and as mentioned in paragraph 2.2 above this may lead to increased difficulty in collection rates which would necessitate the need to revise debt management arrangements which in itself will lead to addition cost. It is hoped however that a reduction in the number of empty properties will have a positive impact on the New Homes Bonus grant received from Government.

### **4 PLANNING ASSUMPTIONS**

- 4.1 Given the current levels of uncertainty particularly in the various income streams for the Council the current planning assumptions result in a gap of c. £2.4M by March 2016, excluding any assumptions of changes to government grant settlements, against a previous assumption in February 2012, of £1.9M.
- 4.2 A list of options and alternatives are being proposed for public consultation in October as part of the work on the future role of the council – the outcome of the settlement and the feedback on the options and public consultation will be considered in February as part of the final budget setting process. The range of options to be considered should allow for proposals to be brought forward should the settlement from Government be significantly different to the CSR2010, planning assumptions on formula grant and transitional grant.

## **5 STATUTORY OFFICER COMMENTS**

- 5.1 The Monitoring Officer's comments are: None
- 5.2 The Section 151 Officer's comments are: contained in the report
- 5.3 EIA Comments: An Equality Impact Assessment will be completed once the saving proposals have been considered.
- 5.4 Other consultee comments, if any: None at this stage, subject to budget consultation

## **6 HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?**

- 6.1 The Risk that the MTFS projections will not be realised as set out is considered a Strategic Risk and is included on the Strategic Risk Register and monitored as part of that setting process. The achievement of the savings proposals, once approved, will be monitored carefully by CLT and Members to ensure the projections contained within the final budget proposals are achieved.

## **7 WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?**

- 7.1 The key measurable outcome is the formal Medium Term Financial Strategy which will guide the allocation of financial resources over the period 2012/13 to 2015/16 and which will determine the manpower, financial and other resources it will have available to provide services for the year.

### **List of Appendices**

Appendix A – High Level Financial Projections 2012/13 to 2015/16 as revised at October 2012.

**High Level Financial Projections 2013/14 - 2015/16 as revised at October 2012****Appendix A**

	2011/12	2012/13	2013/14 original	2013/14 revised as at October 2012	2014/15 revised as at October 2012	2015/16 revised as at October 2012
	£	£	£			
<u>Funding from Grants &amp; Council Tax</u>						
Base budget	13,104,230	11,487,508	10,614,861	<b>10,614,861</b>	11,613,648	11,961,935
Add on 'gap' from 12/13				<b>49,000</b>		
<u>Budget Reductions</u>						
Budget savings outside the service review process	-986,415					
Savings achieved through the service review process	-1,771,207	-1,540,250				
Savings not ongoing into later years			42,000	<b>195,000</b>	1,000	
<u>Budget Increases</u>						
Salary Movements - Original	286,000	152,000	177,000	<b>160,000</b>	116,000	200,000
Salary Movements - Revised		-171,921				
Salary Movements - increased pay award		25,000				
Pensions Increases Costs	130,000					
Identified Spending Pressures	346,000	588,352	11,500	<b>376,500</b>	0	
Contractual increases for inflation	61,900	74,172	206,372	<b>218,287</b>	231,287	237,287
Treasury management	317,000					
	11,487,508	10,614,861	11,051,733	<b>11,613,648</b>	11,961,935	12,399,222
Funding from Reserves						
Earmarked Reserves	2,619,000	435,564	84,000	<b>104,000</b>	104,000	54,000
Total Spending	14,106,508	11,050,425	11,135,733	<b>11,717,648</b>	12,065,935	12,453,222
Rounded Total Spending (£'000)	14,106	11,050	11,135	<b>11,718</b>	12,066	12,453
<b>FUNDING</b>						
RSG/NNDR	5,660	5,000	4,955	<b>4,955</b>	4,678	4,678
Transitional Grant	611	327	0	<b>0</b>	0	0
PFI Grant	837	837	837	<b>837</b>	837	837
Council Tax - freeze 2011/12, 2.5% increase thereafter	4,011	4,114	4,211	<b>4,211</b>	4,316	4,424
Council Tax Surplus	32	15	0	<b>0</b>	0	0
Council Tax "Freeze" Grant	100	3	100	<b>100</b>	100	0
New C Tax Freeze Grant				<b>0</b>	0	0
Earmarked Reserves	2,619	436	84	<b>104</b>	104	54
General Reserves	236	221	0	<b>0</b>	0	
	14,106	10,953	10,187	<b>10,207</b>	10,035	9,993
<b>Shortfall</b>	<b>0</b>	<b>97</b>	<b>948</b>	<b>1,511</b>	<b>2,031</b>	<b>2,460</b>