Financial Strategy (2008 onwards)

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1. Executive Summary.

The objective of the Financial Strategy is to define how the Council will structure and manage its finances over the next 5 years to support the objectives it has set itself, as detailed in the Corporate Strategy.

Prior to setting the 2005/06 budget a fundamental review of service priorities was undertaken against the background of a predicted revenue funding gap of £2 million. This difficult exercise was successfully completed with the Council setting a balanced budget in 2005/06 and the 2 succeeding years.

In common with other local authorities, East Devon will however continue to struggle to afford its spending plans with expenditure forecast to increase, due to pay and price inflation, at a faster rate than income. In addition the Council can anticipate higher pension costs, additional demands to meet consumer expectations, legislative changes and more challenging performance targets. The development of the new community at Cranbrook will also start to have an impact on services during the life of the 5 year financial plan. Against this it is assumed low single figure increases in central government funding and the council tax, together with lower investment income, will not keep pace.

The position is explored in detail in the Medium Term Financial Plan, which forms part of this Strategy. As a headline the Plan predicts an estimated shortfall on the General Fund budget in 2008/09 of £1,218,000, with this gap increasing annually, for the life of the Plan, to 2012/13.

The Strategy outlines the actions the Council needs to take to manage it finances in order to produce balanced budgets in the future whilst delivering its objectives.

2. Purpose and background of the Financial Strategy.

2.1 The objective of the Financial Strategy is to define how the Council will structure and manage its finances over the next 5 years to support the objectives it has set itself, as detailed in the Corporate Strategy.

2.2 The Financial Strategy links with other key strategies of the Council including its Service Plans (2007/08 to 2009/10), the Asset Management Plan, Treasury Management and the Capital Strategy, which together form the Authority's Corporate Business Plan.

2.3 The Strategy requires the preparation of an annual medium term financial planning (MTFP). This requirement has been in place for a number of years and is now an essential part of the budget setting process. The MTFP provides a financial forecast of the cost of providing services over a 5 year period, together with the resources that are likely to be available. The process provides an early warning of any potential deficit in resources.

As well as considering General Fund revenue services the Plan also reviews the Council's capital investment programme and potential resources over the next five years. This Strategy does not however look at the Housing Revenue Account for which a separate business plan is prepared.

2.4 The preparation of a 5 year MTFP is based upon a number of assumptions and risks which become more difficult to predict as the period covered lengthens. These matters will therefore be periodically reviewed as events unfold, and the Plan updated.

2.5 Underpinning the Strategy the following principles have been adopted by the Council:

- Annually a balanced revenue budget will be set with expenditure to be limited by the amount of available resources.
- The General Fund balance will be maintained at or above the adopted advisory level of 7.5% of net budget with an annual decision taken on the use of any sums available above this target.
- Resources will be redirected from low to high priority services to meet objectives set out in the Corporate Strategy.
- Council tax increases will be kept within annually announced Government guidelines

In considering the capital budget the Council will continue to follow the methodology agreed within the Capital Strategy of scheme scoring and prioritisation. The Council will also seek to maximise the use of its assets.

3. The Medium Term Financial Plan – Framework.

3.1 The base for the MTFP is the 2007/08 cost of ongoing services, adjusted to take account of any supplementary estimates agreed by Council and variances identified through budget monitoring.

To this base there are a range of costs that the Council can not escape covering such items as pay increases, inflation, the development of the new community at Cranbrook and costs arising from new legislation and associated regulations, offset by increased fees and charges.

The Plan also reflects costs associated with delivering objectives as set out in Service Plans and the Council's Corporate Strategy, together with the revenue implications of the Capital Programme, and the return to be anticipated from its investments.

Finally the Plan considers and makes assumptions about the level of the council tax and central government funding.

3.2 The aggregate of the above sums indicates whether the Council will have sufficient resources to achieve its objectives or whether steps are required to bridge a funding gap.

3.3 In formulating the calculations above a number of assumptions have been made and a range of external influences considered. Appendix A identifies the associated risks and comments on their potential impact in the event of a different outcome.

3.4 A similar exercise is undertaken in respect of future capital expenditure and the anticipated resources that will be available to the Council to fund the programme of works.

4. Summary of the MTFP Model.

4.1 The full MTFP Model is attached.

4.2 The Summary position on General Fund services shows the latest prediction for the current year, 2007/08, showing a balanced budget with services being provided within the funds available and a sound base to use to make future assessments. This then turns to a projected deficit for 2008/09 of £1,218,000 and continues to grow on an annual basis. Clearly this is not a position the Council will allow and the Strategy addresses this point in Section 5.

Table 1: MTFP Model – Summary of General Fund Position

	2007/08 £'000	**2008/09** £'000	**2009/10** £'000	**2010/11** £'000	**2011/12** £'000	**2012/13** £'000
Service Requirement	15,766	15,470*	16,978	18,487	19,857	20,444
Pay Award & Inflation	-	359	372	382	393	406
Increment Rise (JE) & Market Supplement	-	237	222	228	178	-
Recycling & Refuse	-	710	884	749	-	-
Superannuation	-	123	-	-	-	-
Other Items	306	79	31	11	16	(20)
Net Budget Requirement	**16,072**	**16,978**	**18,487**	**19,857**	**20,444**	**20,830**
Government Grant	(7,659)	(7,866)	(8,078)	(8,296)	(8,520)	(8,750)
Council Tax	(6,347)	(6,538)	(6,695)	(6,856)	(7,020)	(7,189)
External Interest	(1,306)	(1,306)	(1,306)	(1,306)	(1,306)	(1,306)
LABGI	(130)	-	-	-	-	-
Collection Fund Surplus	-	(50)	-	-	-	-
Use of G.F Bal - Previous Years Surplus	(630)	-	-	-	-	-
Total Resources Available	**(16,072)**	**(15,760)**	**(16,079)**	**(16,458)**	**(16,846)**	**(17,245)**
(Surplus) / Deficit	-	**1,218**	**2,408**	**3,399**	**3,598**	**3,585**

(Note to above figures – The deficit of £1,218,000 in 2008/09 differs to the deficit of £313,000 outlined in a financial presentation to the visioning panel on 26 June 200. This is due to three main items; the decision of the Executive Board on 4 July to adopted an improved service in relation to the recycling and refuse scheme (£710,000), the exclusion of LAA grant received in 2007/08 of £110,000 under recycling and refuse budget which it is felt prudent to exclude from future years and variances identified in Month 3 budget monitoring report to the Executive Board on 1 August (£60,000)).

4.3 Looking more closely at the first year of the MTFP model there are a number of one off items, totalling £602,000, contained within the 2007/08 base budget which will not be required in future years. These can be deducted from 2008/09. However there are a number of additions to make in terms of "inescapable" costs for pay increases, inflation, job evaluation, costs associated with Cranbrook. In addition a significant cost is the increase associated with improvements agreed by the Executive Board on 4 July 2007 associated with improvements to the recycling and refuse scheme.

By going through the steps identified in 3.1 above this gives a budget requirement in 2008/09 of £16,978,000 with resources/funds calculated as being available to the Council of £15,760,000. This results in a projected deficit of £1,218,000.

4.4 The funding gap widens in 2009/10 to £2,408,000. However, as it is to be anticipated that the 2008/09 position will have been resolved the sum, then required to be found in order to set a balanced budget, would stand at £1,190,000 i.e. £1,218,000 less the £2,408,000. .

4.5 The final page of Appendix B considers capital expenditure and funding projections over the same five year period. The current position of the programme is shown in table 2 below and shows a deficit of £1,884,000 in 2008/09 which then decreases towards the end of Plan, the reason being is the Programme in latter years, only includes recurring items such as Disabled Facility Grants with no new major projects/schemes included.

Table 2: MTFP Model – Capital Expenditure and Funding Position

	2007/08 £'000	**2008/09** £'000	**2009/10** £'000	**2010/11** £'000	**2011/12** £'000	**2012/13** £'000
Net Expenditure (agreed programme)	5,119	2,988	1,939	1,605	1,231	1,231
Resources Available	4,905	1,104	910	910	910	910
(Surplus) / Deficit	**214**	**1,884**	**1,029**	**695**	**321**	**321**

Note – 2009/10 to 2012/13 the rolling programme items have been carried forward.

5. The Way Forward

5.1 To address the gap in funding identified for both the General Fund and Capital Programme particular consideration needs to given to:

- Achieving efficiency savings to provide the current level of service at less cost, or an improved level of service at current cost.
- Ensuring services achieve value for money and continue to deliver the Council's priority aims and objectives.
- Alternative means of service delivery, including partnership arrangements.
- Options for acquiring assets and the use of Prudential Borrowing Code powers.
- To maximise income from fees and charges.
- The scrutiny of budget spending, including the requirement to appoint to vacant posts.
- The use of resources, including sums received through the Local Authority Business Growth Incentive Scheme, on an 'invest to save basis'.

The gap in funding identified is now unfortunately a common theme in terms of setting the Council's budgets. This Strategy does not however suggest a fundamental review of service expenditure is required as was the case previously. Instead the 2008 'visioning' exercise will provide an opportunity for the Council to assess the views of stakeholders on a range to key issues facing the Authority and redirect resources from low to high priority service areas.

6. Process for Delivering the Financial Strategy

6.1 This Strategy will be considered and debated by the Executive Board at its meeting in August 2007 and alongside the visioning exercise help shape the Council's revenue and capital budgets.

7. Measuring Delivery

7.1 Financial and non-financial performance will be routinely monitored and reported on in accordance with the Council's Performance Management Framework.

7.2 The Strategy and the MTFP model will be updated annually for presentation to Executive Board, but in addition the MTFP model will be constantly reviewed and updated for consideration by the Strategic Management Team and can, with the lead from Members, steer the Councils detailed budget preparation for future years.

APPENDIX A

EXTERNAL INFLUENCES AND KEY ASSUMPTIONS WITHIN THE MTFP MODEL.

- **Comprehensive Spending Review**

The Governments Spending Review sets out the framework for Government grant support to local government. There is currently a Spending Review taking place which covers the period 2008/09 to 20010/11 with the outcome to be announced in the Autumn of 2007. This review determines the total grant to local authorities for the following three years. The last settlement gave the Council a 2.7% increase, which again as in previous years was calculated at the floor (minimum) level.

The next spending review has been billed as an extremely tight one, figures in the Chancellors budget reports show overall public spending growth at 1.9% per annum in real terms. However once commitments on health, education and aid, and increases in benefits and tax credits are taken into account, this could remove any scope for real spending increases for local authorities. Efficiency is also likely up to be a major issue in the Review with expectations of delivering 3% cashable efficiency savings. We are already seeing the implications of this with the Department for Works and Pensions (DWP) having received their departmental administration grant for the three year period from 2008/09 which provides them with a 2.5% cut in real terms year on year. The indications are that the DWP will pass this on to local authorities; this has been reflected in the Plan.

The Plan has assumed a 2.7% year on year increase in grant, this assumes a real term increase in the order of 0.3% which is near to a freeze in funding.

Risk assessment

The Government have previously provided all authorities with a real term increases in formula grant. Whilst the indications are this provision will be retained in future years, there is a risk that this might not be the case. The impact for example of a nil increase would have significant effect on the funding gap by increasing it by £207,000 for 2008/09. However based on previous experience the likelihood of funding not being increased in “cash terms” is seen as low, although a modest sum has been allowed based on commentary we have read.

What ifs

Below is the effect of a different outcome to that used in the Plan.

Effect of changes in Formula Grant- comparison made in 2008/09 as certainty over 2007/08.

Worse	Model	Better
0%	**2.7%**	**3.7%**
£7,659,000	£7,866,000	£7,942,000
-£207,000	-	+£76,000

- **Inflation**

These calculations can been seen from the supporting sheets to the MTFP Model summary, attached in Appendix B. Varying increases have been applied depending on the classification of expenditure. In the main pay has been increased at 2.5% for 2008/09 onwards. Main inflation as been taken at 2.4% with the exception of electricity, gas, water, and fuel which have been taken at higher increases, mainly 4%, based on recent experience. Fees and charges have been increased at 2.4%. Each of these can be separately looked at to see "what if", but below the effect of increasing each factor by 1% is shown and the effect of decreasing each factor by 1% is shown. A set amount was included for the increase in the refuse and recycling contract in accordance with the report made to the Executive Board on 4 July 2007. No increase has been assumed on the Leisure Trust Contract, although the contract details will need to be reviewed in 20010/11.

Risk assessment

The most significant budget provision, in cash terms, is employees pay. Here the assumption is made for pay awards in line with inflation, as in prior years. With regard to other budgets the rise in energy prices are more difficult to predict, however as the overall spend in this area is only £264,000 the impact of prices higher than that allowed are not considered significant when viewed against a net budget of £16m.

What if

Below is the effect of a different outcome to that used in the Plan.

Effect of changes in inflation sums allowed for 2007/08.

Better	Model	Worse
-1.0%	**Various %**	**+1.0%**
£217,000	£359,000	£501,000
-£142,000	-	+£142,000

- **Investment Returns**

  Current interest return assumes 5.15%, forecasts suggest that rates may fall in the longer term, but a prudent budget has been set in 2007/08 which should allow for this. It is assumed that there will be no growth in the investment fund as annually the interest is taken from the fund and used to support revenue funding, it is also assumed that the Council will maintain the level of funding and not use its current reserve levels.

  Risk assessment

  A number of factors determine the level of interest the council will receive and incur in a year, including:

  - Sum invested
  - Interest rates
  - Speed and level of revenue collection
  - Expenditure patterns

  The assumption is made that the Council will set a balanced revenue budget and set a capital programme in line with the resources available to it without recourse to the use of balances.

  If that position is achieved and the council maintains revenue collection rates the one area of most concern is future interest rates. Whilst there are uncertainties in this area there does not appear to be a commonly held view that rates will move significantly from there current position. The approach adopted, of budgeting for investment income at the bottom end of the portfolio manager's prediction, remains prudent.

  What if

  Below is the effect of a different outcome to that used in the Plan.

  Effect of a change in investment return for 2007/08.

Worse	**Model**	**Better**
-0.2%	**5.15%**	**+0.2%**
£997,000	£1,037,000	£1,077,000
-£40,000	-	+£40,000

- **New Community – Cranbrook**

  Costs have been predicted for the provision of servicing to the new community at Cranbrook. The phasing of development and likely amenities to be required have been considered, although this is an area where future updated MTFP models will require further analysis. The significant costs are currently expected to fall outside the life of the current Model. Predicted costs are shown in the Plan offset against the likely level of additional council tax income which will be received from the new community. This is difficult to estimate as additional properties will affect the Council's Tax Base which in turn will affect the Council's formula grant, again this will need to be revisited when further details our known, but the effect on the Plan projections are considered not material at this stage.

Risk assessment

Timing on speed of delivery will be dependant on the granting of planning permission, the capacity of builders and the general housing market. The impact on the plan of delays will be the effect of deferring expenditure, therefore not seen to be significant in financial terms.

- **Local Authority Business Incentive Scheme (LABGI**)

The Council received a grant under the LABGI scheme in 2006/07 of £253,000, the final year of the current scheme ends in 2007/08, but the Government has indicated that it is intending to support a similar scheme in future years and we are awaiting their proposals.

If a similar basis to the scheme is maintained for future years then Council's base of business rate valuations has continued to grow steadily and it is extremely likely that the Council will receive at least this figure in the futures. No sum has been included in the Plan from 2008/09 onwards as no announcement has been made on the details of the future scheme, the Authority will also need to decide if any future monies received under the scheme is to be ring fenced for specific expenditure or used to support general expenditure. If the Government continues to support this scheme in a similar fashion then the Council could benefit substantially in future years with the introduction of Skypark etc.

Risk assessment

There is no reason to believe businesses will not continue to be attracted to the region but no income has been included from 2008/09 onwards as no details of the future scheme has been determined.

- **Council Tax Income**

Income from council tax has been included in the model assuming a 2.4% increase, in line with general inflation; it is the stated Government intention to maintain the capping rules with increases limited it is assumed to 4.99%. The Model assumes that there will be a surplus on the Collection Fund for 2008/09, which is sensible bearing in mind the balance currently held by the fund, but no surpluses or deficits have been assumed for other years.

Risk assessment

Again assuming council tax increases in line with inflation is considered to be prudent and does provide for scope to raise further sums, up to the capping limit.

What if

Below is the effect of a different outcome to that used in the Plan.

Effect of a change in Council Tax Level for 2008/09.

Lower	Model	Higher
-1.0%	**2.4%**	**+2.59%**
£6,474,000	£6,538,000	£6,704,000
-£64,000	-	+£166,000

- **Other issues.**

There a few other issues to note regarding the Plan, these being:

i. There is a base income figure included in the 2007/08 estimates and carried forward to future years of £140,000 for Planning Development Grant (PDG). PDG will come to an end with 2007/08 being the last year of grant monies. However, this level has been left in the Model as indication from Government is that this funding will be replaced with the ability for Council's to raise their charges to cover the loss.

Risk assessment

The impact would be a loss of £140,000 in income; however the likelihood that this would not be replaced with increased income in fees is small as the Government has already stated that this is their intention.

ii. The Land Charges budget in 2007/08 is estimated to bring a net income to the Council of £200,000. This sum has been carried forward to future years of the Plan, updated for inflation. There has been guidance issued by Government that Councils should not be making a "profit" on these activities and should do no better than break-even. Details of this guidance need to be considered and a report made to the Executive Board. The break-even period does look over a few years and it is only applicable to certain charges, the MTFP will be updated following full consideration and the Executive Boards consideration.

Risk assessment

The impact could be a loss of £200,000 in income; however if this change is implemented the Council would ensure that full costs are appropriately charged to this service before calculating any "profit" to ensure this sum is kept to a minimum.

iii. The 2007/08 budget currently includes income of £110,000 from a Local Authority Area Agreement on the refuse and recycling budget. Although bids will be made for future years this has currently been excluded for the future as the possible success is unknown. Similarly other grants and contributions may be available for the roll out of the planned service improvements on the recycling and refuse contract but potential sums have not been included as there is no certainty.

The overall costs of the improved service have been included in the MTFP, including future roll out of the scheme across the District. Should this prove not be the case then substantial savings would be made, but it is consider sensible at this stage to include the full cost.

Risk assessment

If bids are successful the impact would be addition income and this approach is considered appropriate at this stage.

iv. In April 2006 the Government introduced a free concessionary bus fare scheme for people aged over 60 and disabled people, which was funded by an extra £350 million added to formula grant in 2006/07. This scheme is currently included in the Plan's base budget and carried forward to future years.

From April 2008 the Government is to introduce a further extension of this scheme to enable concessionaires to travel for free anywhere in England. The additional costs and administration of the scheme will in the initial years at least fall to this Council for its area. Discussions are continuing as to whether the extra funding for this extension should be added to formula grant or distributed through a special grant. The Plan assumes that additional costs incurred will be covered by additional funding.

Risk assessment

The Council in the past has proven itself skilful at managing the scheme whilst protecting the council taxpayer as much as possible. The concern is that historically government funding has not matched expenditure in this area. Once funding proposals have been announced and future costs considered in more detail then the Plan will be updated appropriately, but at this stage the intention by Government is that funds will be made available to meet the additional costs incurred.

v. Within the Plan is budget base budget of £234,000 for planned maintenance which has been rolled forward each year with inflation. In addition to this a Reserve is being used to supplement this budget in order to bring the council's assets to a suitable condition. The balance on this Reserve is £589,000 and it is assumed for the period of the Plan that this will with the annual budget be sufficient to meet the determined priorities for maintenance.

Risk assessment

There is the risk that the sums available will be insufficient to meet the requirements of the maintenance programme. It is assumed at this stage that monies are adequate and monitoring is undertaken through the Asset Management Forum where if problems are identified then the Plan will be modified.