

REPORT FOR: Performance and Finance Sub
Committee

Date: 20 September 2010

Subject: Future Funding Gaps

Scrutiny Lead All areas
Member area:

Responsible Officer: Myfanwy Barrett
Corporate Director of Finance

Exempt: No

Enclosures: Appendix 1 – Funding Gaps 2011-12
to 2013-14

Section 1 – Summary and Recommendations

To provide the Committee with an opportunity to review the estimated funding gaps in future years and the underlying assumptions.

Recommendation: That the Committee considers and comments on the assumptions and issues relating to future funding gaps.

Reason: To ensure that there is effective scrutiny of budget planning.

Section 2 – Report

1. In the current published MTFs, which was approved by Cabinet in February 2010, the funding gaps for 2011-12 to 2013-14 are £16m, £14m and £13m respectively. These gaps reflect the best information that was available at the time in relation to:

- Forecast grant levels
- Collection fund position
- The cost of financing capital investment
- Concessionary fares

- Levies and subscriptions payable to other bodies
 - The need to continue to strengthen the balance sheet
 - The need to reduce reliance on capitalisation over time
 - Forecast pay awards and inflation
 - National insurance changes
 - The forecast outcome of the triennial valuation of the pension fund
 - Demographic pressure in Children's Services and Adults
 - Increases in waste disposal costs due to landfill tax increases
2. The MTFS was based on a council tax increase of 2.5% in each year.
 3. The assumptions behind the MTFS are continuously under review. Since February there have been a number of important developments:
 - It has become clear that there is still considerable pressure in Children's services, over and above the approved budget for 2010-11
 - The government is encouraging schools to become academies, and this would have implications for the Council
 - Cabinet has made an in principle decision to transfer the IT service to Capita, with additional investment required
 - Harrow PCT is facing significant financial problems and this is having a knock on effect on the Council
 - Free personal care is unlikely to proceed
 - Parking income is under pressure
 4. In year funding cuts announced in June suggest there is significant risk around specific grants and Area Based Grant in future.
 5. The emergency budget published in June and subsequent analysis suggests:
 - Public sector spending totals will be reduced, on average, by 25% over 4 years in real terms (IFS analysis suggests the figure for local government may be 33%)
 - There will be a public sector pay freeze in central government for two years (2011-12 and 2012-13), with protection for the lowest paid, and this is likely to be mirrored in local government
 - Employers' NI will increase by 1% in 2011-12, but this will largely be offset by an increase in the threshold
 6. Inflation and interest rates are difficult to predict in the current climate. At the end of July this year CPI was 3.1% and RPI was 4.8%. The stated inflation target is still 2%. The Council makes separate provision for pay, so CPI is the relevant index for other inflation. The current MTFS is based on 2% and the best and worst cases in the appendix are based on 1% and 3%. It may be that Directorates are required to absorb some inflationary pressure next year. All Directorates are expected to negotiate contract increases with suppliers.
 7. The base rate has been at 0.5% for some time, and this is expected to start to increase in 2011, but the rate of increase is difficult to predict.
 8. There is considerable uncertainty about how the proposed freeze on council tax in 2011-12 will work in practice.

9. Overall in the last six months there have been some positive movements, for instance on pay, capital financing, and free personal care, and some negative movements such as the situation in Children's services and the grant outlook.

Options Considered

10. The attached analysis shows the components of the funding gap for 2011-12, 2012-13 and 2013-14. In addition, for 2011-12 there is a sensitivity analysis (best case, middle case, worst case).
11. In this analysis the worst case scenario for 2011-12 is a funding gap of £28m. This is based on no council tax increase, general and area based grant reductions of 6% per annum in cash terms, specific grant reductions of £2m, relatively high inflation, additional service pressures coming forward, and new investment in priorities of £2m.
12. The best case is £6.5m and the middle case is £17.25m.
13. As part of the planning round, the starting point is that any reductions in specific grants will be matched by reductions in expenditure, and all Directorates are being asked to review their grant funded services from this perspective. However, some allowance has been made in the analysis attached for specific grant cuts which cannot be matched by spending reductions in the service area in question.
14. The funding gaps will continue to move around as new issues emerge.

Consultation

15. Consultation is not required on funding gaps.

Financial Implications

16. Financial matters are integral to this report.

Risk Management Implications

17. A detailed risk register will be developed as part of the budget round.

Corporate Priorities

18. The budget process is aligned with the development of corporate priorities and the Corporate Plan.

Section 3 - Statutory Officer Clearance

Name: ... Myfanwy Barrett... Chief Financial Officer

Date: 24 August 2010.....

Name: ... George Curran... On behalf of
Monitoring Officer

Date: ... 24 August 2010.....

Section 4 - Contact Details and Background Papers

Contact: Myfanwy Barrett, 020 8420 9269

Background Papers:

NONE

If appropriate, does the report include the following considerations?

1.	Consultation	YES
2.	Corporate Priorities	YES

Funding Gap: Sensitivity Analysis for 2011-12

Area	2011-12 £m MTFS	2011-12 £m BEST	2011-12 £m MIDDLE	2011-12 £m WORST	Comments	2012-13 £m	2013-14 £m
Capital Financing Costs and Investment Income	2	1	1.5	2	Dependent on size of capital programme, interest rates and capital receipts	3	2
Technical aspects: <ul style="list-style-type: none"> • Area Based Grant • Reserves • Provisions • Capitalisation • Land Charges • Concessionary fares 	3	1	2	3	Important to continue to rebuild balance sheet, concessionary fares is a significant risk, general balances now over £6m	2	2
Inflation (including pension contributions)	6	3	5	7	MTFS based on 2% for pay and prices Best – pay at 0%, NI at 0.5%, general inflation at 1% Worst ¹ – pay at 2%, NI at 1%, general inflation at 3%	6	6
Loss of specific grants which can't be matched by spending cuts		0	1	2	DSG review, loss of other specific grants		

¹ July 2010 data: CPI at 3.1% and RPI at 4.8%

Area	2011-12 £m MTFS	2011-12 £m BEST	2011-12 £m MIDDLE	2011-12 £m WORST	Comments	2012-13 £m	2013-14 £m
Service Pressures	3	2	2.75	3.5	MTFS reflects free personal care, demographic growth and waste disposal costs. Latest info suggests that free personal care will not proceed and that position on WLWA levy has improved. Possible further risks around academies, carbon trading etc. Best case based on deleting free personal care and reduced levy.	2	2
NEW: Children's budget – underlying shortfall and increased demographic risk		1	1	1			
NEW: PCT risk		0	0.5	1			
NEW: IT outsourcing deal		1.5	1.5	1.5			
Investment	2	0	1	2	Political decision	2	2
Total pressures	16	9.5	16.25	23.0		15	14
General Grant reduction	2	0	2	4	MTFS based on 3% cash reduction Best – grant freeze Worst – 6% cash reduction (Same assumptions apply to Area Based Grant)	2	2

Area	2011-12 £m MTFS	2011-12 £m BEST	2011-12 £m MIDDLE	2011-12 £m WORST	Comments	2012-13 £m	2013-14 £m
Funding Gap with no council tax increase	18	9.5	18.25	27.0		17	16
Council tax increase @ 2.5%	(3)	(3)	(1.5)	0	Best – 2.5% increase or full funding provided to get to 0% Worst – 0% increase with no government funding	(3)	(3)
Collection Fund	1	0	0.5	1	MTFS based on £0.5m surplus Best – surplus of £1.5m (same as 2009-10) Worst – surplus of £0.5m		
Net funding gap	16	6.5	17.25	28.0		14	13