

RENFREWSHIRE COUNCIL

To: COUNCIL

On: 11 SEPTEMBER 2008

Report by
Director of Finance and IT
and
Director of Housing and Property Services

FINANCIAL OUTLOOK 2009-11

1. **SUMMARY**

1.1 The purpose of this report is to advise members of the anticipated financial position of the Council over the next two financial years, and to set out the basis for the development of the Council's revenue budget strategies for both the General Fund and the Housing Revenue Account (HRA).

2. **RECOMMENDATIONS**

2.1 Council is asked to:

- (i) Note the confirmed grant figures for 2009-2011.
- (ii) Note the assumptions supporting the current estimates of financial pressures facing the Council over the period 2009-2011.
- (iii) Note that due to the current economic climate, the volatility of the costs of certain commodities, and the uncertainty of the outcome of pay negotiations that these will continue to be reviewed and updated as members develop their budget proposals, to ensure the financial risks they present to the Council are effectively managed.
- (iv) Note that political groups are asked to contact the Director of Finance and IT in the first instance should they require assistance in the development of budget proposals for 2009-10, and to note that the Council is required to secure a balanced budget at its meeting in February 2009.
- (v) Note that longer term financial planning for the Council is under development and will be brought back to members for their information at a future meeting.

3. **BACKGROUND**

3.1 This paper provides an overview of the Council's anticipated financial position over the next two financial years, to 31 March 2011. The report takes account of the outcome of the Government's Comprehensive Spending Review and the subsequent grant settlement for local government for the period 2008-2011, issued in December 2007, and reported to Council in February 2008.

- 3.2 Importantly, it also highlights the potential impact of the current economic conditions on specific budget lines which are driving exceptional budget pressures which the Council must deal with moving forward.
- 3.3 In addition, a number of uncertainties surrounding the detail of the settlement in the lead up to the budget setting by Council for 2008/09 meant that there was limited time for detailed consideration by Members of the implications of the grant settlement for the final two years of the settlement period. For these reasons, it is therefore now appropriate for members to consider the financial outlook of the Council for the remaining two years of the current three year settlement period, and for political groups to start to consider the development of budget proposals for submission to Council in February 2009.
- 3.4 This report takes account of the contents of the Exempt report on the agenda.

4. GOVERNMENT GRANT

- 4.1 The Council has confirmation of its grant position for 2009/10 and 2010/11. The table below summarises the confirmed increases in grant:

Year	Total Grant	Increase over Previous Year	
	£000	£000	%
2009/10	344,153	7,744	2.3
2010/11	352,319	8,166	2.4

- 4.2 Included in the increase in grant is an element of conditional funding for a council tax freeze of £2.366m in 2009/10 and 2010/11. Should members elect not to freeze council tax at 2008/09 levels, then the Council would lose grant of £2.366m in 2009/10 and £4.732m in 2010/11. Our Council Tax (Band D) for 2008/09 is £1,164.69 and is £15.80 (1.38%) above the Scottish average.

5. FINANCIAL PRESSURES AND RISK MANAGEMENT - GENERAL FUND

- 5.1 It is currently anticipated that funding pressures over the next two years are likely to be of the order of £35 million. There are a number of assumptions supporting these estimates which members will wish to be aware of, and also a number of unresolved issues and uncertainties resulting from the current economic conditions and the status of key issues affecting the Council's budget, such as pay negotiations.

- (i) Pay inflation is currently assumed at 2.5% for all staff. Any variations on the actual pay award for 2009/10 and 2010/11 could potentially have a significant impact on the Council's financial strategy. Similarly, in setting its 2008/09 budget the Council assumed a pay increase of 2.5%. Any increase on this as a result of current negotiations will also have a direct impact on next year's budget.

- (ii) There is no general provision for inflation on expenditure budgets, and it is anticipated that income budgets will increase by at least 2.5% , which is consistent with the Council's budget decisions over a number of years. However, certain specific areas of price increase have been funded in the past where increases have been exceptional and there is some provision for this in the strategy e.g. provision for known increases in the rate of landfill tax, now estimated to continue rising at £8 per tonne and costing the Council an extra £800,000 per year. Similarly, recent volatility in gas and electricity prices, as reported to the General Management and Finance Policy Board on 13 August 2008, suggests that further significant budget provision over 2009/11 may be necessary, subject to contract renewals in 2009. The overall cost of energy to the Council is now such that a continuation of price increases similar to those experienced in recent months becomes very difficult to manage without potential service impact. Similarly, fuel and food prices are increasing and impacting on service budgets. Members should be aware that these items will be key considerations in their budget strategy for 2009/10.
- (iii) In common with other Councils, Renfrewshire has in recent years been subject to increases in its contribution to the local government pension scheme. For planning purposes, and on the advice of the Strathclyde Pension Fund, the anticipated increase is of the order of 10.6%.. Members should also be aware that COSLA and the Association of Chief Police Officers in Scotland (ACPOS) are currently in negotiations with the government over the funding of police pensions for 2009/10, where there is a significant cost increase evident. The outcome of these negotiations will impact directly on the Council's financial position.
- (iv) As outlined in a report recently considered by the Scrutiny Board, the Council continues to face spending pressures as a result of its demographic characteristics. These are presenting themselves principally in budgets supporting delivery of services to the growing elderly population, looked after children and children requiring additional support. The Council has a good track record in managing these budgets, mainly as a result of spending pressures being acknowledged and addressed by members in recent years in setting budgets and effective management by the responsible Director. The strategy anticipates further provision will be required for 2009/10 and 2010/11, although the detail of this will require to be discussed with the relevant Director(s). Members will be aware that pressures on demand led budgets represent a risk to the future financial stability of the Council and will want to carefully consider how these are dealt with in the 2009/10 budget.
- (v) The Housing Business case agreed by Council on 26 June 2008 is under discussion with the Scottish Government. Regardless of the outcomes of those discussions, it has been recognised that £1 million of grounds maintenance costs can be more appropriately charged to the General Fund rather than the Housing Revenue Account by 2010/11 and it is anticipated this transfer of costs will start in 2009/10. Members should note that there is currently no provision in approved budgets for the servicing of any debt transferred from the Housing Revenue Account. The financial strategy of the Housing Revenue Account for the next two years is discussed at paragraph 9.

6. CONCORDAT COMMITMENTS AND SERVICE DEVELOPMENT

- 6.1 The 2008/09 budget directed resources to the delivery of a number of the commitments in the concordat, including class size reductions, allowances for kinship carers, maintaining the expansion of pre-school provision, and provision of additional respite care. At present, the financial strategy makes no further provision for the implementation of the remaining elements of the concordat, or for policy and service development proposals. Should political groups wish, this can be discussed in more detail as part of their own budget strategy development, taking account of the commitments made in the Single Outcome Agreement.

7. GENERAL FUND RESERVES

- 7.1 The Council's unaudited accounts at 31 March 2008 confirmed available working balances of £9.0 million which is in line with the strategy previously agreed. There is no budgeted increase or decrease to balances as part of the 2008/09 budget, and it is not proposed, at this stage, to budget to increase reserves during 2009/10 or 2010/11. This, however, relies on budgets continuing to be managed on a bottom-line basis by Directors. At this stage, £9m is still regarded a reasonable level at which to maintain reserves in the context of the Council's plans and the risks it is exposed to in the management of its business and the delivery of its change and investment programmes. However, should economic conditions deteriorate further, this may need to be revisited.

8. GENERAL FUND - LONG TERM FINANCIAL PLANNING

- 8.1 As part of strengthening the Council's approach to strategic planning, work has been ongoing to develop long term financial planning. This will allow the Council to develop a better understanding of what broadly the Council's financial landscape is likely to look like over the longer term taking into account the forecast impact of demographic change, forecast changes in demand for Council services, potential legislative changes and areas of potential cost pressures.
- 8.2 Ultimately, the development of a long term financial model will allow the Council to identify the key financial risks over the medium to long term and provide the Council with the opportunity to consider and develop longer term financial strategies to manage the impact of the risks. The outcome of the initial development of the long term financial model will be the subject of a separate report at a future meeting of the Council.

9. HOUSING REVENUE ACCOUNT

- 9.1 Council was advised on the 26th June 2008 that a revised HRA business plan model had been developed that will enable the Council to produce a Standard Delivery Plan (SDP) to achieve the SHQS for all Council stock and maintain rents at an affordable level.

- 9.2 Negotiations are ongoing with Scottish Government officials about the level of financial support that the Government is prepared to offer the Council to support the Plan. The Plan requires the transfer of open space maintenance costs in mixed tenure areas and the transfer of the outstanding debt associated with demolished properties from the HRA to the General Fund, placing a significant cost pressure on the General Fund if no Scottish Government funding was available. A key assumption in the draft planning framework is the adoption of a planned long term rent strategy of RPI + 1%. A report will be brought back to the Council when negotiations are concluded.
- 9.3 Council is asked to note that long term HRA business planning will change the way that the Council budgets for its Housing Revenue Account. Whilst rent levels will still be set by Council in February each year, the business planning framework requires a commitment to a longer term rent strategy to support investment needs. Future budget considerations are likely to be focused on the progress of investment plans, revised service levels and efficiencies within the context of a 30 year plan as opposed to determining the rent level for the next year.
- 9.4 The key financial assumptions underpinning the revised HRA business plan over the period 2009-2011 are
- (i) Rent and service charge increases are planned at RPI + 1% for 2009/2010 and 2010/11. RPI at July 2008 was 5.0% and it expected that the RPI at November would be used as the baseline for determining the following years rent increase.
 - (ii) A full year impact of previously agreed efficiency savings of £350,000 in 2009/2010 following the implementation of the sheltered housing review and the extension of the Customer Services Centre to incorporate housing enquiries, as agreed in the setting of the 2008/09 budget.
 - (iii) Reductions in the budget for reactive repair and maintenance reflecting reduced stock numbers as a result of right to buy and demolition programmes in 2009/10 and 2010/11.
 - (iv) An increase in the budget for cyclical maintenance programme to finance increased painter work, gutter cleaning programmes etc.
 - (v) A reduction in the budget for loan charges reflecting the transfer of debt associated with demolished properties to the General Fund.
- 9.5 The revised HRA business plan did not make provision for the recent increases in gas and electricity costs and assumed an annual 2.5% increase for pay awards. Any additional costs, which are likely to be significant, will need to be budgeted for, with corresponding efficiencies to be developed to help offset this. The targeting and scope of these efficiencies will be developed by officers with each of the political groups, as required.

- 9.6 The Plan also assumed £20 million of capital receipts from the sale of land over the period 2008-2011 that reduces the capital debt outstanding on the Housing Revenue Account and the loan servicing costs. The recent slowdown in the housing market is likely to defer capital receipts, increasing outstanding HRA capital debt and loan servicing costs in the short term.
- 9.7 The Council budgeted for a contribution of £249,000 to HRA reserves during 2008/2009, with reserves planned to increase to £6.9 million at 31st March 2009.
- 9.8 The revised HRA Business Plan assumes that there are further contributions to reserves between 2009 – 2012, with reserves increasing to a peak of £10 million at April 2012. Reserves are planned to reduce to £7 million over the period to 2012 - 2015
- 9.9 The HRA Business Plan would need to be reworked if the Council is not in a position to transfer the outstanding debt associated with demolished properties from the Housing Revenue Account to the General Fund. Rent increases above RPI + 1% may be required if the Council was to decide to invest to achieve SHQS by 2015. HRA capital investment programmes and service levels would also need to be reconsidered to reflect a more challenging financial position.

IMPLICATIONS OF THIS REPORT

1. **FINANCIAL IMPLICATIONS** - The Council is required to agree a balanced budget for 2009/10 on both its General Fund and Housing Revenue Account at its meeting in February 2009. Members are invited to start detailed consideration of proposals to achieve this, in consultation with the Director of Finance and IT, and the Director of Housing and Property Services.
2. **PERSONNEL IMPLICATIONS** -
3. **COMMUNITY PLAN IMPLICATIONS** -
 - Social Inclusion -
 - Modernising Government -
 - Sustainable Development -
4. **LEGAL IMPLICATIONS** -
5. **PROPERTY IMPLICATIONS** -
6. **INFORMATION TECHNOLOGY IMPLICATIONS** -
7. **EQUAL OPPORTUNITIES IMPLICATIONS** -
8. **HEALTH & SAFETY IMPLICATIONS** -