

## APPENDIX A: MEDIUM TERM INFLUENCES AND KEY FACTORS

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The Government distributes over £70bn to local authorities in England each year, primarily on the basis of population. The focus for economic growth is expected to remain in the rural parts of the East of England over the next 20 years. The Region is expected to:-

- Increase prosperity and productivity measured by the Gross Value Added per employee
- Increase employment and measure this by the employment rate of the over 16 population
- Protect the environment, measured by an overall reduction in CO2 emissions

Breckland is also an area with recognised pockets of deprivation and one which is subject to an ever changing balance within the community. These issues suggest our population is growing rapidly but projections are based on historic figures so do not accurately reflect our true position; therefore we do not receive adequate grant funding. Secondly the trend of 'migration' is the most difficult part of the population estimate process. It is this area that we believe to be flawed and inequitable. Migrant workers have become an increasingly visible social group within Breckland over the past few years, and results in demands on the Council which are not reflected in the grant formulae.

It is likely as issues such as economic well being, deprivation and migration are addressed they will be backed by funding opportunities. Our strategy will be to manage these opportunities to access national and regional funding for the benefit to of the local community.

## Investment Income

One of the most significant factors outside of the Council's control is interest rates, investment income will be closely monitored and our financial strategies will be tailored to become less reliant upon investment income. Our return on investments will not be at the expense of risk, security and liquidity.

There will be a key challenge to manage the equation of consuming capital resources and the impact that has on the annual budget requirement. A model that links capital, treasury and revenue is developed to aid decision making.

### Sensitivity matrix for Breckland Council 2009/10

Average rate of return	Average cash balance				
	£5m	£10m	£15m	£20m	£25m
%					
	Annual investment income (£'s)				
0.89	44,271	88,542	132,814	177,085	221,356
1.89	94,014	188,028	282,042	376,057	470,071
2.89	143,757	287,514	431,271	575,028	718,785
3.89	193,500	387,000	580,500	774,000	967,500
4.89	243,243	486,486	729,729	972,972	1,216,215
5.89	292,986	585,972	878,958	1,171,943	1,464,929

This sensitivity matrix is based on the assumption that the at risk investments held with Icelandic banks are not returned during 2009/10 and then £6m (50%) of the investments are returned in 2010/11. At this stage we have taken a prudent approach and chosen not to refresh these assumptions as the CIPFA guidance and figures are subject to change in the near future, albeit current thinking suggests that up to 90% of investments could be returned.

## **Economic Downturn**

2009-2010 is seeing the general downturn in the economy continuing. Inflation is running at negative figures, the housing market is operating at record low levels of activity and there is a general credit crunch impacting on both families and companies.

This brings with it uncontrollable influences on Breckland Council and will require the elevation of its risk management arrangements. Specifically our collection rates for debt will require scrutiny, our inflation assumptions will need constant configuration and the risks of our partners becoming unable to fulfil contractual arrangements must be considered.

Such a climate is also likely to place pressures on community supportive services and our finances must remain flexible to meet emerging needs.

Breckland's reliance on rental income through the success of its commercial property reserve is an obvious risk in a period of economic downturn. The Authority's annual assessment of reserves will be used to ensure this risk is mitigated against by maintaining the commercial property reserve at £2m.

## **Pension Fund Contributions**

Legislation requires councils to make good any deficit to their employees' pension fund. No increase in employer contribution rates have been factored into the plan. The last triennial review of the Norfolk Fund was based on the position as at 31<sup>st</sup> March 2007. Employer contribution rates were set for the three years commencing 2008/09. An actuarial review in 07/08 increased the employer's contribution rate to 18% and the Capita Symonds contract for Planning & Building control services has increased the contribution rate to 20%. This has been reflected in the 2009/10 Financial Plan.

<b>Year</b>	<b>Contribution Rate</b>
2004-05	13.0%
2005-06	14.4%
2006-07	15.8%
2007-08	17.2%
2008-09	18.0%
2009-10	20.0%
2010-11	20.0%

### **Key Issues**

We have also identified a number of key areas that will have an impact on our Financial Plan. These areas are currently being project managed and will be costed and incorporated into our future plans:

- **Local Area Agreement** – A Local Area Agreement (LAA) is a three year agreement between partners to deliver priorities for local people. Through the commitment to a shared vision, pooled funding, better coordination and innovation it aims to be responsive to local priorities and drive measurable improvements in public services, better access, customer satisfaction and greater efficiency across the county.

The LAA for Norfolk (Norfolk Ambition) is built around nine themes:

- Inclusive and Diverse
- Healthy and Well
- Safe
- Knowledgeable and Skilled
- Active and Engaged
- Environmentally Responsible
- Creative
- Economically Thriving
- Accessible and Well Housed

The LAA model will be increasingly used to deliver priority outcomes and distribute Government funding through the

new non ring-fenced Area Based Grant. The council will receive grant to help support the Habitats, Climate Change and Cohesion agenda.

- **Strategic Service Delivery Partnerships** – In recent years Breckland have entered into contractual arrangements for the delivery of core services. This process is continuing into 2009 and will require focus on both governance and performance of our partners to ensure effective service improvement for local residents.
- **Planning and Building Control** – The Council’s Planning and Building control services are operating at very high levels. The Building Control team is one of the highest performing in East Anglia, Development Control has delivered continuous improvement year or year for the past five years and the Local Development Framework is one of the most advanced in the country. The Council has recently entered into a 15 year contract with Capita Symonds to deliver the Planning & Building Control services maintaining these initial high performance standards, whilst simultaneously delivering cashable savings to the authority.
- **EU Expansion** – the inward migration into Norfolk brings additional demands on the Council, we will need to assess which service areas will be affected as the same rights are extended to migrant workers as those of the indigenous population.
- **Climate Change** - rising global temperatures will bring changes in weather patterns, rising sea levels and increased frequency and intensity of extreme weather events.
- **Government Housing Aims and Objectives** – The Government’s aims and objectives for housing include measures and targets to support their key aim “Everyone should have the opportunity to rent or buy a decent home at a price they can afford, in a place where they want to live and work”. These will shape the future housing policy of the authority.
- **Comprehensive Financial Review (CSR 07)** – The CSR 2007 introduced the first three year settlement which will allow more stability and encourage improved financial planning. Councils will also benefit from additional flexibility provided by the removal of specific grants and ring-fenced funding. However, the settlement was disappointing for Districts councils in a number of areas;
  - 85% of Districts suffered a ‘real terms’ decrease

- Over 40% are now at the floor of 0.5% (double the previous level), however Breckland are not one of these
- Scale-back factors are very high (much greater than previous settlements)
- There is a failure to recognise the efficiency gains that many Districts have already made
- Population Measures – 2004 figures do not provide a proper foundation and need to reflect future forecasts not past trends

It is also disappointing to note that when local government is delivering a national government priority the cost of this is not funded centrally (in full) rather than at differing levels dependant upon the outcome of a grant system that results in differing levels of local contributions from Council Tax payers. Examples of this include waste and recycling and planning. The real terms funding increase will not enable councils to deliver new services promised by the government or meet the cost of providing services to increasing numbers of older people.

Grants from Central Government have grown by 2.7% over last year, while Band D council rates have risen by an average of 3.0% over the same time period. Yet the government has said that it wants Band D council tax increases to be held below 5% per year.

We recognise that the settlement projections are a key risk to the Council and will continue to liaise with organisations such as LGA and CIPFA to show that the later years projections are based on current thinking.

- **Efficiency Targets** – The Government has set a £30bn efficiency target across the public sector with a £4.9bn target for Local Government over CSR, this equates to 3% per annum all cash releasing. This will stimulate a Value for Money Focus on services. Individual authorities will no longer have an efficiency target unless agreed as one of the LAA targets, while achievement will be monitored by a single measure in the National Indicator set. An enhanced system of support will be delivered through the National Improvement and Efficiency Strategy to set out a route map for meeting the efficiency challenge.
- **Comprehensive Area Assessment** – The Comprehensive Area Assessment (CAA) will be introduced from April 2009 – it replaces the comprehensive performance assessment, joint area reviews, and annual performance assessments. There are 4 key elements:

- An area risk assessment carried out jointly by the local service inspectorates
- Publication of performance against the national indicator set
- A scored direction of travel judgement for each authority and other public bodies – that identifies the rate of improvement and likelihood that this improvement will continue.
- Scored Use of Resources judgement – reviews organisational effectiveness and how well resources are used to support priorities and service improvements, including the arrangements for achieving and improving Value for Money.

➤ **Democratic Community Leadership**

The Council is developing its response to new demands arising from the developing local government agenda and particularly the implications of the agenda for place shaping, rural governance and community engagement. This is a corporate priority and community leadership is being tested with the creation of the Thetford Task Force. Further work is in hand to develop rural governance model(s) that are appropriate and effective across the district and underline the role of District Councillors as community leaders, which may have cost implications.

➤ **Financial Investments**

Early in October 2008 the Icelandic banking sector defaulted on its obligations. Regulations issued in May 2009 allow the authority not to charge amounts relating to impaired investments to the General Fund until 2010. Further guidance will be issued by 2010/11 which may allow us to capitalise any impairment, however there is a risk that impairments may need to be recognised within the Income and Expenditure account.

➤ **Local Government Review**

The government is considering proposals to abolish local Councils within Norfolk and replace them with one or more “unitary” councils covering the whole of Norfolk (and parts of Suffolk). The Boundary Committee is currently consulting on the alternative unitary proposals and on 15 July 2009 they will make their recommendation(s) to the Secretary of State for the future organisation of Local government in Norfolk.