

Ealing Council

February 2015

Medium Term Financial Strategy

2015/16 – 2018/19

Date: 5 February 2015



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EALING COUNCIL

MEDIUM-TERM FINANCIAL STRATEGY (MTFS)

2015/16 – 2018/19

1. BACKGROUND

In February 2014 the Council agreed the medium term financial strategy based on the objectives of the Corporate Plan, the latest resource projections and estimates of expenditure. This document refreshes and updates the Council's strategy.

The MTFS flows from the Council's Corporate Plan 2014-2018 and sets out how it will ensure a stable and sustainable financial position to allow the Council to achieve its strategic objectives including the administration's wish to not increase Council Tax in 2015/16. The MTFS also takes into account the significant on-going funding reductions confirmed in the final Local Government financial settlement for 2015/16 published on 4 February 2015.

The strategy highlights that the Council will continue to face ongoing reductions in funding over the medium to longer term given the current position on public finances.

In the face of one of the most challenging financial periods ever faced by local government, the Council's financial standing is sound and it has responded well to the pressures it faces. The Council again spent within its budget for 2013/14 with a very modest increase in the general fund balance at year-end and is undertaking management actions to control overspends and deliver a balanced outturn in 2014/15 providing a strong base for the Council to face the challenges in 2015/16 and beyond. The most recent Statement of Accounts, for 2013/14, received an unqualified External Audit opinion.

Despite these achievements, the MTFS is being produced at what continues to be a challenging time for all authorities, there is little room for manoeuvre on finances and continuous delivery of savings is required to maintain financial stability.

Council Priorities (including a further freeze on Council Tax in 2015/16)

At a time when household budgets continue to be under pressure Ealing remains committed to keeping Council Tax at an affordable level. The Administration has indicated it wishes to freeze Council Tax for 2015/16, using the Council Tax freeze grant that has been offered for this year, noting the advice of the Executive Director of Corporate Resources as Section 151 officer, however, that the Council will have to find additional savings in future years to be able to deliver a balanced budget, as this grant is only for one year.

The Council's 6 priorities are:

- A prosperous borough
- A safer borough
- A healthier borough
- A cleaner borough
- A fairer borough
- An accessible borough

2. OBJECTIVES OF THE FINANCIAL STRATEGY

- Prioritise resources to align spending plans with the Council's vision and strategic objectives and resident priorities
- Maintain council tax as low as possible (with a further freeze in 2015/16)
- Maintain a balanced budget position, and to set a medium term financial plan maintaining and strengthening that position
- Provide a robust framework to assist the decision making process
- Undertake a prudent level of capital investment to meet the Council's strategic priorities and remain within prudential borrowing limits
- Manage Council finances within the context of a forward looking three year rolling business planning framework
- Deliver value for money to local taxpayers
- Exercise probity, prudence and strong financial control
- Manage risk, including holding reserves as appropriate & sustainable levels of debt
- Continually review budgets to ensure resources are targeted on key objectives

The financial strategy covers the period 2015-2019 and sets out the resource issues and principles that shape the Council budget; it identifies current issues and considers potential developments / related issues that are likely to provide the basis for future revenue and capital budgets. The Housing Revenue Account (HRA) is not included, as a separate budget and Business Plan is produced for the HRA. This was agreed by Cabinet on 16 December 2014.

The Council remains in a strong financial position, general fund balances met the target level of £15.4m (5.9% of net budget) in March 2014 and are forecast to remain at this level as at March 2015. This is despite the Council delivering a significant savings programme over the past five years that will have achieved total savings of £87m by the end of 2014/15.

The MTFs supports all other Council strategies, such as the asset management strategy and the People Strategy. In particular, it acts as a linchpin linking the Council's more detailed service plans, asset management plans and capital plans with the longer term to show that the Council's plans are financially achievable.

3. NATIONAL CONTEXT – UPDATE ON THE ECONOMY

Ealing's financial and service planning takes place within the context of the national economic and public expenditure plans and the Financial Strategy has been formulated within the context of the current UK economic position.

The Chancellor of the Exchequer made his autumn statement on 3 December 2014. This set out the latest key economic forecasts and showed improved growth in 2014 and 2015 before falling below previous forecasts set out in the 2014 budget:

Table 1 – GDP Growth Forecasts

	2014	2015	2016	2017	2018	2019
Autumn Statement 2014	3.0%	2.4%	2.2%	2.4%	2.3%	2.3%
Budget 2014	2.7%	2.3%	2.6%	2.6%	2.5%	n/a
Autumn Statement 2013	2.4%	2.2%	2.6%	2.7%	2.7%	n/a

The forecast for borrowing has also been revised and shows borrowing falling to £91bn in 2014/15 or 5% of GDP and then continuing to fall to a small surplus, (£4.0bn) or (0.2%) of GDP in 2018/19,.

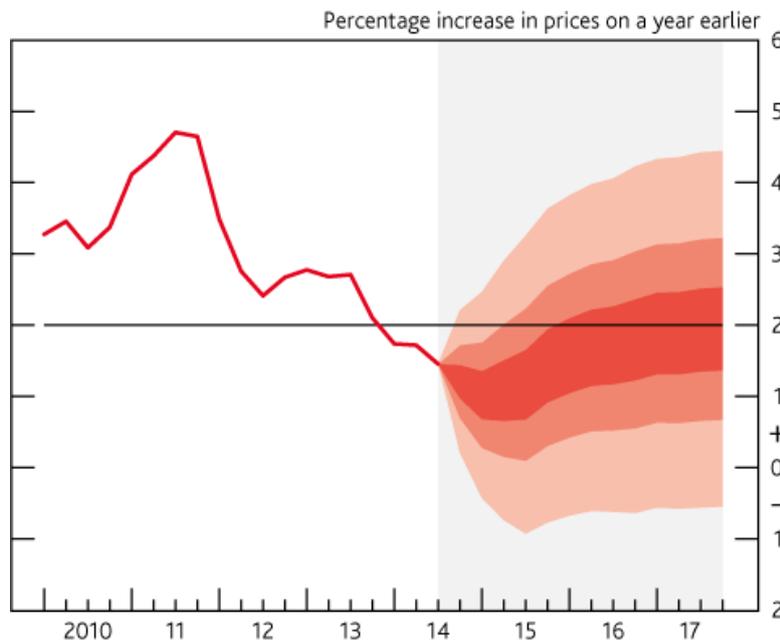
The UK base interest rate remains at an historic low of 0.5%, however with strong growth forecast, economists are forecasting that the base rate may increase by 0.25% by the end of 2015, six months earlier than forecasts of a year ago, with two further quarter percent rises forecasts during 2016 potentially increasing the rate to 1.25% by the end of that year.

The target rate for CPI inflation remains at 2% and at December 2014, stood below this level at 0.5%. CPI has been below the target rate since December 2013 when it fell to the target level for the first time since November 2009. Current forecasts are for CPI to rise to 1.7% in 2016 before rising further to hit the target level of 2% in 2017.

Whilst the current economic outlook continues to improve there remains a great deal of uncertainty and it remains important that the Council has a level of reserves that allows it to withstand unanticipated financial impacts of future developments at a local and national level.

The Bank of England's November 2014 inflation forecast is shown in the following fan chart. This forecast is based on the Monetary Policy Committee's (MPC) best collective judgment of the outlook for CPI inflation and shows the probability of inflation movements with the darker central part of the fan being the more probable. As at November 2013 the MPC's forecast was for inflation to fall slightly which has proved to be the case over the last few months and in December 2013 CPI fell to 2%, the first time since November 2009 that it has been at or below the Government's target.

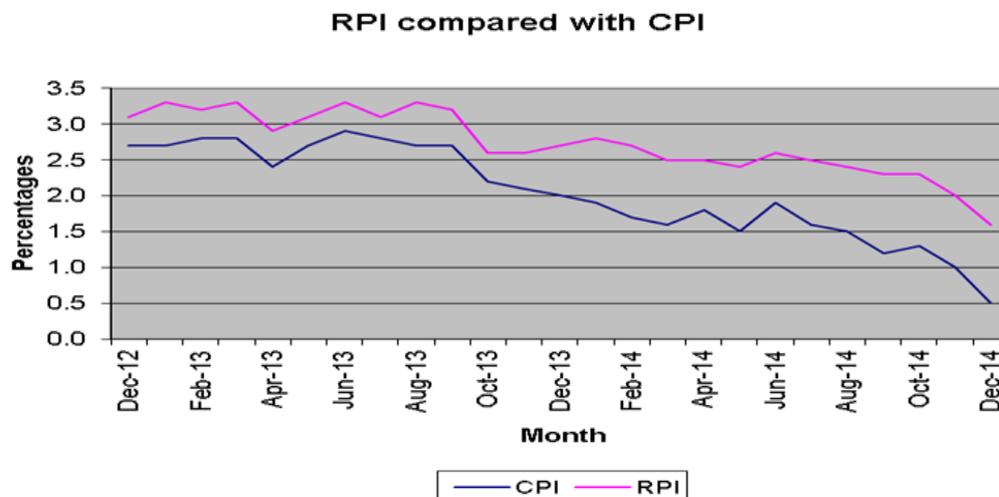
Chart 1 – CPI Inflation forecast as at November 2014



Source: Bank of England

The following graph shows the percentage change over 24-months for inflation both RPI and CPI. The Government’s target rate for CPI inflation is 2% and in December 2013 inflation fell to this level and has remained within target since then. CPI remained within 0.5% of the target for several months until August 2014 since when CPI has been on a downward trend falling to 1% in November 2014 and then dramatically falling to just 0.5% in December 2014. RPI has followed a similar trend falling to 1.6% in December 2014.

Chart 2 – RPI and CPI 24-month percentage change



Source: Office for National Statistics

A key element in the budget preparation process is building in an appropriate central allowance for inflation, whilst noting that it is difficult to forecast exactly how it will vary against the estimates made. Some specific allowances have been built into the budget for prices where contractually required. No other specific allowances have been built into the budget for pay and price inflation. Instead an overall inflation allowance of £3m has been used.

4. THE ECONOMY AND THE COUNCIL'S INVESTMENTS

One of the most significant possible on-going impacts of the wider economy for Ealing is in the area of its treasury management investments.

The UK base interest rate, currently 0.5%, underpins investment returns and is not expected to start increasing again until 2016 at the earliest. As a result short term returns are set to remain low during 2015/16. Longer term investment rates however (3 years plus) may begin to move up again although they carry a greater level of risk and do not therefore meet Ealing's current lending criteria.

The Eurozone sovereign debt difficulties provide a clear indication of much higher counterparty risk. This continues to require the Council to restrict lending to much higher quality counterparties and also for shorter time frames.

The Council continues to regard security of the principal sum it invests as the key objective of its treasury management activities on investments. The Council continues to minimise risks, with the rate of return on the investments remaining lower as a result. The separate and detailed annual treasury management strategy document presented to members for approval as part of the budget setting process goes into this in greater detail.

The latest Treasury Management Strategy is included as Appendix 11 to the main Budget report and is subject to approval by the Council at the same time as the 2015/16 Budget and 2015/16 – 18/19 MTFS.

5. OTHER IMPLICATIONS OF THE NATIONAL ECONOMIC SITUATION

The other potential implications for Ealing of the wider economic situation include:

- The Council may find it harder to collect sums due to it, for example for council tax and business rates. Despite the increased pressures, to date the performance on income collection has been strong.
- The Council will face increased demand for its services to assist residents falling into hardship.
- Government funding is tighter with public spending reduced even further than forecast.
- The Council may find its suppliers and contractors at risk of liquidation, potentially affecting delivery of services.
- Inflationary pressures may be greater than assumed.

6. FUNDING FROM GOVERNMENT

Business Rates Retention

The business rates retention scheme introduced from April 2013 allows Councils to keep 50% of any increases in business rates in their area to invest in local services. In London this 50% is split between the Local Authority (30%) and the GLA (20%).

The 2013-14 local government finance settlement was the first under this scheme and provided each local authority with a starting position under the business rates retention scheme. This included the following calculations, which will be fixed until the planned reset of the system in 2020 when the funding baselines will be recalculated to take into account changes in needs, population and other factors which the Government so determines in the intervening period:

- Individual authority start-up funding assessment;
- Baseline funding level;
- Individual authority business rates baseline;
- Tariffs and top-ups (uprated annually by RPI) and
- Safety net guaranteed funding level.

Where a Council's individual business rates baseline is less than their baseline funding (like Ealing), they receive a top up payment to ensure they are not unfairly penalised.

The final Local Government financial settlement for 2015/16 was published on 4 February 2015. It is a one year settlement owing to the imminent General Election; Government spending plans, as part of the Comprehensive Spending Review, are not likely to be published until the Autumn of 2015. This creates additional uncertainties over future funding levels.

Ealing's funding received via the Business Rates Retention system is comprised of Revenue Support Grant and Business Rates, as outlined in the table below. We will also receive a top-up to our Funding Baseline, which will be index-linked to RPI in future years.

	2015/16 £m
Revenue Support Grant	62.104
Business Rates – Individual Authority Baseline	40.717
Business Rates – Top-Up	29.265
Settlement Funding Assessment (SFA)	132.086

A safety net is available and Ealing's element of the Business Rates would need to fall by more than £5.249m below our baseline of £40.717m in order for the safety net to be activated.

7. COUNCIL TAX POLICY

The Budget for 2015/16 has been constructed around the Administration's wish to freeze council tax again in 2015/16.

The Council's approach is to deliver an affordable but prudent and realistic level of Council Tax over the period of the MTFS. The Council needs to ensure that it has adequate resources to meet its statutory and mandatory obligations and its priorities.

The proposed local Band D Council Tax (excluding the GLA precept) for 2015/16 is **£1,059.93**, meaning that Council tax levels in Ealing will have remained unchanged since 2008/09. The Council will continue to work to ensure the right balance of council tax and spend is achieved throughout the three year MTFS period, in accordance with its business and financial planning framework and process and in the context of the Councils overall strategic priorities.

Since 2011/12 and in addition to SFA the CLG resource has also included various levels of compensation for Councils in the form of Council Tax Freeze (CTF) grants. These grants, with the exception of 2012/13 have subsequently been rolled into the Council's baseline funding. The Government has extended its council tax freeze grant scheme to cover 2015/16. This means the Council will receive a grant worth 1% of its council tax, amounting to £1.288m. At final settlement it was confirmed that this grant will now be rolled into baseline funding.

For Council's looking to increase council tax in 2015/16, a cap of 2% has been set above which level any increase would require a local referendum.

8. DELIVERING THE COUNCIL'S PRIORITIES

The role of the Council's financial planning process is to support the achievement of the Council's Strategic Goals, Corporate Plan and Community Strategy.

The Council has six priorities that respond to residents' concerns and to ensure the delivery of high quality, cost effective services.

- A prosperous borough
- A safer borough
- A healthier borough
- A cleaner borough
- A fairer borough
- An accessible borough

Over the last four years the Council has successfully delivered low council tax levels (significantly below both the national and outer London average) and high quality services.

Link to corporate plan

http://www.ealing.gov.uk/downloads/download/233/corporate_plan

This MTFS contains the most up to date information at the time of drafting but the Council's financial position is dynamic. The Council faces a number of financial uncertainties that could affect the Council's financial position over the medium term, including:-

- Central government policies, including legislative change, which may require additional expenditure in areas that would not otherwise be Council priorities.
- Changes in interest rates.
- The impact of market forces on costs, particularly with regard to major contracts and the local employment market.
- The raising of community expectations, leading to additional demand for services or improved services.

9. BUDGET REVIEW PROCESS

The Council continues to use a rigorous priority led budget review process, established in 2005 and now fully embedded, which helps to assess service budget proposals and bids for growth against the Council's vision and priorities. Departmental budget options are reviewed each year at a series of confidential officer Budget Review meetings in the Autumn. These Budget meetings are challenge sessions on the direction of travel of service divisions, in terms of finance and performance. Service ideas and proposals are presented by the relevant Executive Director and Service Directors with the relevant portfolio holders also in attendance. These meetings do not constitute formal decision-making bodies. The objectives of the review process are as follows:

- To provide directorates with an opportunity to submit proposals for growth and savings compared to the current business plan for the three-year period.
- To provide a mechanism for challenging departments' proposals and how they meet corporate priorities in a robust and constructive fashion
- To measure these proposals against the prevailing financial situation including the savings requirement.
- The outcome of the process is a set of business plan options put forward for consideration by the Cabinet, Overview & Scrutiny committee and final consideration by full Council at its budget-setting meeting in February.

10. COUNCIL'S BUSINESS AND FINANCIAL PLANNING TIMETABLE

Date	Activity
April	<ul style="list-style-type: none">Commence work on strategic budget and service planning.
July	<ul style="list-style-type: none">Budget strategy and process reported to Cabinet
Nov	<ul style="list-style-type: none">Cabinet review budget optionsCabinet receives preliminary budget proposals including savings
Dec	<ul style="list-style-type: none">Cabinet receives further budget proposalsLocal Government Provisional Financial Settlement
Jan	<ul style="list-style-type: none">Budget Strategy report to Cabinet including provisional settlement, further budget proposals
Feb	<ul style="list-style-type: none">Budget Strategy report to Overview & Scrutiny CommitteeConsultation with Ealing Business PartnershipCabinet reviews proposed budget and recommends to Full Council.Local Government Final Financial SettlementFULL COUNCIL APPROVES THE BUDGET AND COUNCIL TAX

11. FORECAST SPENDING LEVELS – THE MEDIUM TERM FINANCIAL MODEL

The financial implications of the MTFs are set out in this section, which summarises the revenue budget projections over the medium term. Ealing faces a period of funding restraint and in the MTFs model the Council, like other Councils, is forecasting on this basis. The model provides the latest indication of the Council's financial position for 2015/16 to 2018/19.

The Council reported a modest underspend of £0.025m in 2013/14 and the latest forecasts for the 2014/15 revenue budget reported to Cabinet on 20 January 2015 as at month eight indicates that spending will again be within the agreed budget. Whilst the report is forecasting an overall overspend of £2.965m (1.13% of the net budget) which is due to budget pressures in Adult Services and on Housing Benefit, management actions are being put in place to manage spending within the current budget. There have also been no drawdown requests by services against the £3m contingency to date.

The MTFs is intended to set out a sustainable and affordable financial plan that addresses the Council's priorities over the next four years. It should provide for realistic levels of spending, not dependent upon the use of one-off reserves. It should provide for a prudent level of reserves for contingencies.

Whilst the settlement only set out the funding allocation for the Council for 2015/16 it is the view within local government finance, based on Government announcements to date that overall Local Government funding is likely to continue to fall over the medium term. An estimate of funding for 2016/17 to 2018/19 has been included in this MTFs.

The overall net budget proposed for 2015/16 is £249.863m which can be funded through the Revenue Support Grant and Business Rates of £133.034m, council tax

income (based on the tax being frozen) of £110.864m and the collection fund surplus of £5.965m. A summary of the proposed budget is set out in annex 1.

Looking forward over the MTFs period a variety of planning scenarios are of course possible and for the purposes of this document, two indicative scenarios are set out below. Where these include Council Tax increases, these increases have been set at 1.99%, which is within the Government's 2% Council Tax cap, above which a local referendum would be required:

Scenario 1 Key assumptions are as follows:

(Exemplified details in **Annex 1**)

- Funding decrease as per two year settlement to 2015/16, then reducing by 14% based on anticipated CSR cuts for 2016/17.
- Contingency £3m
- General Fund balance maintained at £15.4m per annum
- Council Tax frozen 2014/15 to 2016/17
- Additional Council Tax freeze grant of £1.288m for 2015/16, which the government will fund for two years only.
- NDR income based on Revenues' forecasts.

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Net Spend	249.9	233.6	213.7	215.5
RSG/Business Rates	(133.0)	(113.4)	(98.0)	(84.7)
Council Tax	(110.9)	(112.2)	(112.7)	(112.9)
Collection Fund	(6.0)	-	-	-
Savings requirement	-	(8.0)	(3.0)	(17.9)
Closing Balances	15.4	15.4	15.4	15.4
Council Tax increase (excl. GLA)	0.00%	0.00%	0.00%	0.00%

Scenario 2 Council Tax frozen in 2015/16, then 1.99% increases in 2016/17 and 2017/18.

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Net Spend	249.9	233.6	216.0	220.0
RSG/Business Rates	(133.0)	(113.4)	(98.0)	(84.7)
Council Tax	(110.9)	(114.5)	(117.3)	(119.8)
Collection Fund	(6.0)	-	-	-
(Savings requirement) / budget surplus	-	(5.7)	(0.7)	(15.5)
Closing Balances	15.4	15.4	15.4	15.4
Council Tax increase (excl. GLA)	0.00%	1.99%	1.99%	1.99%

12. SENSITIVITY ANALYSIS

A small change in key underlying assumptions can produce a significant change in the budget. The key sensitivities are outlined below:

Sensitivity	Change	Approximate annual impact
Business rates income	1.00%	£0.400m*
Pay award	0.25%	£0.250m
Interest rates	0.25%	£0.500m

*Council receives 30% of growth under the current funding system

For each budget adjustment of £1m, the impact on council tax is some £9.56 on Band D Council Tax or 0.90%. In terms of council tax sensitivity, for every 1% increase in the 2015/16 council tax additional £1.109m council tax revenue is raised and therefore for every 1% variation, a budget variation of £1.109m would be required.

Allowances in the budget model

Within the budget model is an annual allowance for inflation of £3m which takes into account the following:

- (i) **General inflation** – The inflation allowance is primarily needed to cover general inflation. The general assumption is that services should first seek to cover inflation from their existing budgets, unless the Council is tied contractually to increases that require additional funding. Contractual inflation is included within specific budget proposals where necessary.
- (ii) **Pay inflation** – In November 2014 a pay award of 2.2% was agreed for January 2015 to March 2016, the cost of this pay award will be met partly from the 2014/15 provision for inflation and partly from the 2015/16 inflation provision. A 1% pay award broadly equates to an increase in costs of £1m.

Employer Pension Contribution

The latest actuarial review of the pension fund was as at 31 March 2013 the outcome of which fed into the budget from 2014/15.

13. CAPITAL PROGRAMME

The capital strategy (updated in February each year and set out in its own separate document for approval by Members) sets out a clear framework for funding and investment decisions in respect of capital assets, in the context of the Council's vision and priorities and its financial resources. All new projects are assessed in terms of their contribution to the Corporate Plan objectives and their priority in terms of scarce resources.

The Council reviews its capital spending plans each year and sets a Capital Programme. Revenue expenditure is concerned with the day-to-day running of services and capital expenditure is a key element in the development of the Council's services concerned with investment in the assets required to deliver services. Decisions on the capital programme have an impact on the revenue budget, for example, in relation to:

- The revenue costs of financing capital, including prudential borrowing;
- The ongoing running costs and upkeep of new assets such as buildings.

The Council's revenue and capital budgets are integrated with the financial impact of the proposed capital programme, which is reflected in the revenue estimates.

The Council will only invest as long as its capital spending plans are **affordable, prudent and sustainable**. The key constraint on capital investment by the Council is the scope to afford the financial implications in terms of acceptable council tax levels and, in the case of the housing revenue account, acceptable rent levels.

14. VALUE FOR MONEY

The Council assesses and challenges the value for money provided by each service through the annual budget setting process. The Council's Budget Review Process guidance for 2015/16 required that, in seeking to deliver a balanced budget, Cabinet Members would seek to identify efficiencies and savings that would not adversely impact on service delivery and identify options to improve value for money through improving performance and/or reducing service costs.

15. RISK MANAGEMENT

The current funding settlement only provides certainty for 2015/16, beyond this there remains a great deal of uncertainty. The MTFS therefore includes various assumptions on future funding which is based on Government announcements made to date. The General Election in May 2015 adds to the uncertainty as public spending plans could easily change under a new government.

The MTFS model will continue to be updated as greater clarity is provided by the Government on their medium term funding plans.

Given the uncertainties of the economic environment and the anticipated scale of the expenditure reductions required, there are inevitably significant risks involved in delivering balanced budgets over the medium term. Key strategic risks are regularly reported to Audit Committee and the Annual Budget setting report contains a detailed review of the risks to the MTFS.

Since 2013/14, the balancing of the budget in-year depends upon the Council achieving its Business Rates projections. Business Rates income continues to be closely monitored by the Financial Strategy Group each month.

The area of highest risk is represented by the continuing need to deliver significant cuts and efficiencies over the next four years. Robust and detailed plans will be

required at an operational level to ensure that this risk is mitigated and savings are duly delivered. The risks on delivery of savings of the magnitude required will be mitigated by robust monitoring and financial control through the budget monitoring process, with action plans being required to find compensating savings for any overspendings identified.

The Council is faced with an uncertain financial climate over the medium to long term which presents a high risk to the authority and there remains potential for further, as yet unrecognised, risks. For this reason, a prudent approach to the level of reserves held by the Council remains sensible and necessary. The Executive Director of Corporate Resources, as the Council's Chief Finance Officer, is required to state whether the reserves are adequate as part of the annual budget setting process.

As with any plan spanning a number of years it is prudent to consider all associated risks. The Council, in common with most local authorities, continues to be at risk from many financial pressures. They include:

- Inflation differing from assumptions – directorates will be required to absorb inflation to help contribute to future years budget gaps
- Growth pressures for example due to changing demographics – growth will only be provided for uncontrollable pressures
- Interest Rates – variations due to economic factors
- Changes in legislation affecting the costs of carrying out services
- Reduction in fees & charges income
- Reduction in collection rate of debt
- Requirement to increase use of Prudential Borrowing to fund capital spend
- Any adverse claims experience increasing insurance premiums
- Service demands exceeding resources available
- Additional reductions in Government funding beyond those already assumed in the MTFS.

16. GENERAL FUND BALANCE

As well as holding specific earmarked reserves, the Council holds the General Fund balance to cushion the impact of any unexpected events/emergencies. The forecast on the balance over the period of the MTFS is shown below:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Brought Forward	15.4	15.4	15.4	15.4
Contribution to/from General Fund	-	-	-	-
Carried Forward	15.4	15.4	15.4	15.4

The Executive Director of Corporate Resources reviews the level of the balance annually in relation to the overall financial position of the Council and the CIPFA guidance on Local Authority Reserves and Balances 2003 does not recommend any % level. **The advice of the Executive Director of Corporate Resources as**

Section 151 officer is that the working balance of £15.4m is considered as the minimum level required as at 31 March 2015. This represents 6.2% of the non-schools net budget for 2015/16.

For 2015/16, as in 2014/15, the Council does not plan to use any of the general fund balance to support the budget. Using the balance to avoid making budget reductions would have the effect of delaying the requirement to deliver sustainable savings.

There is an opportunity cost of holding a balance of £15.4m in terms of investing in services or limiting the council tax and this is offset by the flexibility that it allows the Council to deal with risk and adverse expenditure variations. Each £1m drawing on reserves would reduce Band D council tax by some £9.56 or 0.90%.

17. CONTINGENCY

The Council needs to hold an adequate level of central contingency in the base budget as well as appropriate levels of reserves and balances. Each year when assessing the level of contingency the following are examples of the factors that are considered: -

- Budget risks (e.g. delivery of savings of £96m over the MTFS period)
- Financial risks arising from the recent welfare reform changes
- Inflationary pressures
- Demographic pressures
- In year budget pressures on volatile and demand led budgets (e.g. social services placements)
- Unexpected events
- Current economic climate
- New burdens

The contingency figure presented in the draft budget is £3m for 2015/16, which is the same level as for 2014/15.

For 2015/2016 there has been no automatic inflationary increase of budgets except where directorates have concluded that they are unable to contain specific inflationary pressures (e.g. on a number of our contracts where services are tied into specific contractual arrangements) and have submitted growth bids.

18. MONITORING AND REVIEW

Cabinet receives regular budget update reports during the year on how the Council is progressing against its MTFS. All processes and procedures relating to the monitoring of the budget are set out in the Council's Financial Regulations.

The strategy is published on the Council's website and communicated to staff and stakeholders, for example, by publishing it on the Council's website.

Annex 1

Budget Totals	2015/16	2016/17	2017/18	2018/19
	£'m	£'m	£'m	£'m
Expenditure				
Base budget services	196.101	167.515	142.387	124.075
Savings from 2015/16 budget process	(35.080)	(19.634)	(16.295)	(1.579)
Growth from 2015/16 budget process	3.732	0.751	0.990	-
Other adjustments	2.762	1.763	-	-
Savings requirement	-	(8.008)	(3.007)	(17.892)
Total departmental budgets	167.515	142.387	124.075	104.604

Below the line items				
Levies	31.740	32.985	34.024	35.064
Contingency	3.000	3.000	3.000	3.000
Inflation	3.104	6.104	9.104	12.104
Treasury management	41.375	43.012	42.025	43.525
Pensions contribution provision	4.000	4.000	4.000	4.000
Provision for NI related to pensions changes	1.500	1.500	1.500	1.500
Council tax freeze grants	(1.288)	(1.288)	(1.288)	(1.288)
New Homes Bonus	(6.278)	(8.042)	(8.686)	(8.864)
Education Services Grant	(4.286)	(4.286)	(4.286)	(4.286)
Adult Social Care growth	1.000	2.000	3.000	4.000
Additional Council Tax Collection Costs	0.302	0.302	0.302	0.302
Contribution to redundancy costs	4.275	-	-	-
Other service budget adjustments held centrally	3.904	3.897	3.897	3.897
Total non-departmental budgets	82.348	83.184	86.592	92.954

Net budget requirement	249.863	225.571	210.667	197.558
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Funding				
Revenue Support Grant	91.369	69.569	51.982	36.471
NNDR	41.665	43.782	45.962	48.208
Council Tax	110.864	112.220	112.723	112.879
Collection Fund	5.965	-	-	-
Total Funding	249.863	225.571	210.667	197.558

GLOSSARY OF TERMS

Actuarial Valuation

An independent report of the financial position of the Pension Fund carried out by an actuary every three years. The actuary reviews the Pension Fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the Council.

Baseline Funding Level

The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top-ups are calculated.

Budget Requirement

The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding Council Tax, RSG and Business Rates)

Capital Expenditure

Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

Capital Programme

The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts

These are proceeds from the disposal of land or other assets and can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.

Capping

This is the power under which the Government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the Government to restrain increases in council tax. The Council Tax cap, currently 2%, means that any local authority in England wanting to raise council tax by more than 2% on prior year must consult the public in a referendum, Councils losing a referendum would have to revert to a lower increase in their bills.

CIPFA

The Chartered Institute of Public Finance and Accountancy are one of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

Collection Fund

A statutory account maintained by the Council recording the amounts collected from council tax and Business Rates and from which it pays the precept to the Greater London Authority.

Collection Fund Surplus (or Deficit)

If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authority, in Ealing's case this is the GLA, in proportion to the respective council taxes. These surpluses or deficits have to be returned to the council taxpayer in the following year through lower or higher council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the council tax base, a surplus or deficit will arise. The Council generally achieves a surplus, which is shared with the GLA. From 2013/14 the Collection Fund now also includes business rates income.

Contingency

This is money set-aside centrally in the Council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

Council Tax Base

The Council Tax base for a Council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To work this out, the Council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

The Council Tax Calculation

The formal calculation of Ealing's Council Tax as presented in the Council Tax Resolution.

CPI and RPI

The main inflation rate used in the UK is the CPI (Consumer Price Index), the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, one that removes mortgage interest payments.

Dedicated Schools Grant (DSG)

This is the ring-fenced specific grant that provides most of the Government's funding for schools. This is distributed to schools by the Council using a formula agreed by the schools forum.

Earmarked Reserves

These balances are not a general resource but earmarked for specific purposes.

Financial Regulations

These are a written code of procedures set by a local authority, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.

Financial Year

The local authority financial year commences on 1 April and finishes on the following 31 March.

General Fund

This is the main revenue fund of the local authority, day-to-day spending on services is met from the fund. Spending on the provision of housing however, must be charged to the separate Housing Revenue Account (HRA).

General Fund Balance

This is the main unallocated reserve of the Council that is set aside to meet any unforeseen pressures. Currently this reserve represents around 5.9% of the non-schools budget.

Gross Domestic Product (GDP)

GDP is defined as the value of all goods and services produced within the overall economy.

Gross Expenditure

The total cost of providing the Council's services, before deducting income from Government grants, or fees and charges for services.

Housing Revenue Account (HRA)

A separate account of expenditure and income on housing that Ealing must keep. The account is kept ring-fenced from other Council activities. The Government introduced a new funding regime for social housing within the HRA from April 2012.

Individual Authority Business Rates Baseline

This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Levies

A levy is an amount of money a local authority is compelled to collect (and include in its budget) on behalf of another organisation. Ealing is required to pay levies to a number of bodies such as the West London Waste Authority and the London Pensions Fund Authority.

Local share

This is the percentage share of locally collected business rates that will be retained by local government, currently 50%. At the outset, the local share of the estimated business rates aggregate will be divided between billing authorities on the basis of their proportionate shares. Ealing are required to split the 50% with the GLA, 30%, 20% respectively.

Net Expenditure

This is gross expenditure less income, but before deduction of government grant.

National Non Domestic Rates (NNDR)

Also known as 'business rates', Non Domestic Rates are collected by billing authorities such as Ealing and, up until 31 March 2013 were all paid into a central national pool, then redistributed to authorities according to resident population. From 2013/14 local authorities retain a "Local Share", see above, the aim of which is to provide an incentive to help businesses set up and grow.

New Homes Bonus

Under this scheme Councils receive a new homes bonus (NHB) per each new property built in the borough for the first six years following completion. Payments are based on match funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ringfenced grant.

Precept

The precepting authority's council tax, which Ealing collects on behalf of the preceptor, the Greater London Authority (GLA).

Prudential Borrowing

Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the Council's capital investment plans are affordable, prudent and sustainable.

Revenue Expenditure

The day-to-day running expenses on services provided by Council.

Revenue Support Grant (RSG)

All authorities receive Revenue Support Grant from central government in addition to its baseline funding level under the local government finance system. An authority's Revenue Support Grant amount plus its baseline funding level together comprises its Settlement Funding Assessment.

Section 151 Officer

Legally Councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in Ealing's case this is the post of Executive Director of Corporate Resources.

Settlement Funding Assessment (SFA)

A local authority's share of the local government spending control total which comprises its Revenue Support Grant for the year in question and its baseline funding level (in 2013/14 this was called the Start-up funding allocation).

Specific Grants

As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. Education.

Spending Review

The Spending Review is an internal Government process in which the Treasury negotiates budgets for each Government Department. The 2010 Spending Review set government spending for the four financial years up to 2014/15, the 2013 Spending Review set spending for 2015/16 only. The next spending review is expected in 2016, after the next General Election.

Start-up funding allocation (SUFA)

Refer to Settlement Funding Assessment.

Tariffs and top-ups

These are calculated by comparing an individual authority business rates baseline against its baseline funding level. Tariffs and top-ups were fixed at the start of the scheme in 2013/14 and are index linked to RPI in future years. Ealing is a 'top-up' authority.

Treasury Management

The process of managing the Council's cash flows, borrowing and cash investments to support Ealing's finances. Details are set out in the Treasury Management Strategy which is approved by Cabinet and Full Council in February each year.

Virement

This is the transfer of budget provision from one budget head to another. A virement must be properly authorised by the appropriate committee (Cabinet) or by officers under delegated powers.