MEDWAY COUNCIL

CABINET

25 SEPTEMBER 2007

MEDIUM TERM FINANCIAL PLAN 2008/2011

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from/Author: Mick Hayward, Chief Finance Officer

1. Summary

1.1 This report reviews the major financial issues facing the Council in this and the next three years. It also provides a framework for the more detailed preparation of the draft revenue budget for 2008/2009.

2. Decision Issues

2.1 This is a matter to be decided by Cabinet.

3. Introduction

3.1 The Medium Term Financial Plan sets out the council's strategy for a four year time horizon, and establishes the financial framework within which service planning will take place. More so than previously we need to establish clear and explicit links between resourcing decisions and our key priorities. It also provides a framework for the more detailed preparation of the draft revenue budgets for 2008/2009.

3.2 This report sets out the broad assumptions that underpin the forecast of resources that will come from the local government settlement and assumed council tax yield. It attempts to predict the level of external funding for the council that will eventually be developed into service control totals.

3.3 It is clear even at this early stage that the future budget requirement, incorporating investment in meeting strategic objectives, will exceed available resources. Consequently it will be necessary to identify areas where efficiency savings can be made and/or more radical changes to the services which the council is able to afford to deliver.

4. Background

4.1 The Medium Term Financial Plan is an integral part of the service planning process of the Council and is a significant contributor to the current three star performance score for the CPA use of resources. However, the new arrangements for the CPA to be introduced for 2008 make the use of resources block even more rigorous with explicit judgements on value for money. There is also an emphasis on the need for even better planning and management of our resources, demonstrating the link between funding decisions and strategic priorities and the effective use of partnerships, assets and equalities in our decision making.

4.2 In 2006/2007 the council recorded a fourth successive year where the revenue outturn has been very close to the approved budget reinforcing the robustness of the Council's budget setting and monitoring processes. Initial forecasts for 2007/2008 suggest that to achieve this for a fifth year will be very challenging.

4.3 The MTFP for 2008/2011 builds on the progress made in recent years and must encapsulate the strategic priorities for Medway as set out in the recently approved Performance Plan. These present a greater focus than in previous years and are now based on two guiding principles or core values of:

- Putting our customers at the cntre of everything we do; and
- Giving value for money.

These themes are exemplified under the six key outcomes as follows:

- A clean and green environment
- Safer communities
- Children and young people having the best start in life
- Older and vulnerable people maintaining their independence
- People travelling easily and safely in Medway
- Everyone benefitting from the area's regeneration.

4.4 The Plan needs to ensure that resources are allocated to achieve these service outcomes but the underlying financial aims of the Plan should continue to be:

- To ensure there is a sustainable budget, without recourse to the use of reserves;
- To generate efficiencies, in partnership with others where appropriate, for re-investment in priority spending areas listed above. This extends to approving a set of efficiency projects in each financial year;
- To consider the revenue impact of funding streams supporting capital investment decisions, whether that be from supported borrowing, use of reserves, capital receipts or prudential borrowing; and
- To avoid the sanction of central government controls, for example capping.

4.5 The strategy must also reflect the cashable aspect of the Gershon efficiency target. For 2007/2008 the target was £4.1 million with a requirement that at least 50% be 'cash releasing'. For 2008/2009 it is widely expected that the target will be more stringent and have a direct impact upon resources received through the financial settlement. The general approach for seeking efficiencies supports the principles of the financial strategy and will be a necessity if the projected resource allocations outlined later in this report prove to be reality.

4.6 It is intended to broadly follow the process adopted last year. However, in response to the difficult position forecast for 2007/2008, discussions with portfolio holders and directors will commence earlier than previously i.e. as early as July for certain key services, with September/October reserved for the traditional 'Star Chamber' budget challenge meetings. Cabinet will then present the draft budget on 27 November 2007. The formal budget review process will then commence with budget reports submitted to overview and scrutiny committees in December 2007 and January 2008. The more stringent CPA requirements referred to above will mean the process to ensure more explicit linkage between service planning and budget setting must be robust. Service planning will commence in advance at the front end of the programme to inform budgeting and funding decisions.

5. Assessment of Likely Available Resources

5.1 The size of the Council's revenue budget is determined by two major factors:

- the support from central government by way of Formula Grant and Dedicated Schools Grant (DSG); and
- the amount raised locally by council tax.

5.2 With regard to central government funding, the Local Government Finance Settlement for 2008/2009 will be the first year of a three year settlement to be announced on the back of the outcome of the next Comprehensive Spending Review (CSR2007). It had been hoped that consultation on the latter would have already begun but the announcement of the outcome of the review has been postponed until the autumn with a speculative date for release in mid-October.

5.3 A number of significant issues have been featured in various stages to the lobbying process with the more notable being pensions, waste, children's services and the ever-ageing population. There are a host of others but the over-riding message from Treasury is that the Public Sector as a whole cannot expect to see levels of growth in spending at the same level experienced in the years preceding this review.

5.4 A further feature of the various announcements that have been made in the lead up to publication of CSR2007 is that there will be a much greater emphasis on efficiency and that this will translate to a real reduction in financial support from Government in the expectation that councils will deliver the savings. Speculation is that this will mean a 'cut' in resources of 3%, effectively wiping out any RPI based increase. A change to previous years is that there is an expectation that schools will be expected to also deliver real cash from efficiencies with minimum funding guarantees (MFG) at a lower level than in recent years. A recent document from the LGA suggested mfg at 2.5% per pupil with 'headroom' between the minimum Dedicated Schools Grant increase and the MFG at 1%, 0.8% and 0.8% respectively for 2008 to 2011.

5.5 With regard to council tax increases, there is no reason to suppose that Government will rescind recent policy on 'capping'. With a tight settlement as forecast there is every reason to suppose that there will be greater control to prevent any Government restriction in financing being made up by higher increases in Council Tax.

5.6 It is therefore reasonable to assume that the capping regime will continue for 2008/2009 and beyond and that council tax rises should be kept to 'low single figures' which, for the purposes of this MTFP have been assumed to be 5%. With a historic record of a nationally low baseline for council tax (13th lowest out of 356 comparable authorities in 2007/2008) this will have an increasingly adverse effect upon the council's resource base.

6. Forecast of overall funding

6.1 The following table illustrates potential resources for 2008/2011 assuming a growth in taxbase of 0.25% in future years and council tax increases at 5%, coupled with a nil increase in non-DSG resources. The overall impact in terms of resource increase is also shown.

6.2 In addition to the revenue resources evidenced by the table the council does have access to reserve balances. However the balance of General Reserves (i.e. those not allocated for an earmarked purpose) was only £3.7m at 31 March 2007. The commitment of reserves to fund the existing capital programme is a similar £3.7m and that uses all the available balance. In addition to the General Reserve the council has a revenue balance of £7.7m that is equivalent to 5% of the non-schools budget and consistent with a prudent level of contingency funding which is a key feature of the Use of Resources component of the Comprehensive Performance Assessment process.

Table 1 Potential Resources for 2008/2011

Description	2007/2008	2008/2009	2009/2010	2010/2011
	£m	£m	£m	£m
Formula Grant (nil increase)	71.281	**71.281**	**71.281**	**71.281**
Taxbase (assumes 0.25% inc.)	84,611	84,823	85,035	85,248
Council Tax (£991.89 baseline)				
Increase @ +4.0%	83.925	**87.501**	**91.228**	**95.115**
Increase @ +5.0%	83.925	**88.341**	**92.990**	**97.884**
Increase @ +6.0%	83.925	**89.183**	**94.770**	**100.708**
DSG (based on current pupil numbers)	159.684	**165.273**	**170.727**	**176.361**

Assuming for MTFP purposes that a 5% increase in council tax is sustainable the summary resource table would be:

Description (2006/07 base)	2007/2008	2008/2009	2009/2010	2010/2011
	£m	£m	£m	£m
Formula Grant (nil increase)	71.281	**71.281**	**71.281**	**71.281**
Council Tax (+5% increase)	83.925	**88.341**	**92.990**	**97.884**
Total Non-DSG Resource	155.206	**159.622**	**164.271**	**169.165**
% Increase		**2.84**	**2.91**	**2.98**
DSG	159.684	**165.273**	**170.727**	**176.361**
% Increase		**3.50**	**3.30**	**3.30**

6.3 An average increase in Non-DSG resource at just under 3% (dependant on the prior year decision on council tax levels) is broadly compatible with pay and price inflation. Increases in the DSG are marginally better. However such a scenario needs to be set against the reality of a current forecast overspend of just under £6 million and makes no allowance for future spending demands beyond inflation.

6.4 It is not the purpose of this document to plan the service needs of departments but none the less there are a number of key spending issues that sit alongside the priorities of the council. These are:

Regeneration and Development

- A new waste contract will be let in the autumn of 2009. It will be naïve to not anticipate price growth in that contract compared to current service delivery. In addition the Government have already announced increases in the Landfill Tax regime that will have a significant impact upon costs. Estimates for the MTFP period are for cost increases of £1.0m, £2.0m and £4.0m respectively;
- There is some £1.5m of highways spending currently funded from the capital programme and more specifically capital receipts. There is no guarantee that this funding source is sustainable;
- The Medway Tunnel is currently the subject of protracted negotiation between the Bridge Trust and the council in terms of both revenue and capital spending. It is unlikely that there will be additional revenue support from the Trust but the health and safety requirements for operating the tunnel dictate a significant increase in revenue requirement, currently estimated at £0.75m per annum;
- In April 2008 the Government will introduce a new national free fare scheme for bus travel for the elderly. Current estimates are that there will be an estimated unfunded effect of £0.2m per annum
- There will be a need to spend a further £0.15m to finalise the Local Development Framework in 2008/09 and thereafter a contribution of £0.1m per annum to fund subsequent plans.

Community Services

- The current spending forecasts for the directorate reveal ongoing pressure on key, demand led, services for the elderly and disabled. Whilst there are strategies designed to assist in mitigating this demand, particularly the elderly, these are investment led and require a long lead-time to creation. In the meantime if demand continues to grow at the rate experienced over the past few years it is anticipated that for the three areas of elderly care, physical disability care and learning disability care an annual demographic bill of £2m per annum above inflation should be expected;

Children’s Services

- The major part of the directorate service provision is funded by the DSG and to that extent service growth will be determined by the additional funding provided by Government through this means. However there is a balance within the DSG between the funds delegated to schools and the funds retained centrally to manage other pupil services. The level of retained funding is restricted by the ‘Central Expenditure Limit’ (CEL) regulation. In recent years there has been sustained growth pressure within SEN services particularly in relation to private and voluntary sector placements. These form part of the CEL and whilst the ‘headroom’ between the minimum funding guarantees to schools and the actual DSG may be used to support growth it has to be with the agreement of the Schools Forum. This was achieved for 2007/08 and some £1m was allocated for that purpose. However even with this enhanced funding the directorate budgets in this area are still forecasting an overspend of some £0.7m this year. Any excess above the DSG levels falls to the non-DSG funding requirement. If the current trends persist, and the Schools Forum do not agree to further funding transfers, this could add a further £0.7m per annum to funding requirements;

- There are also significant pressures on services outside of the DSG, including SEN transport that is forecast to overspend by £0.5m this year, and the employment of agency staff to cover vacancies for qualified social workers. The extent to which the latter pressure will continue will depend on the success of the current recruitment strategy.

Business Support/Corporate Issues

- Pay is the largest component of the council's budget. The cost of employment is a combination of the pay received by employees made up of the rate for the job, the annual cost of living increase negotiated nationally and the employers overheads for pensions and national insurance. Whist the anticipated increase in resources may be sufficient to cover the cost of living increase, the ongoing costs of the job evaluation scheme implemented in 2003 and the associated ten point pay scales are producing an additional annual cost of some 2% of the pay bill. For non-schools budgets this represents a potentially unfunded growth of almost £2m per annum reducing slowly as staff turnover occurs. In addition 2008/09 may suffer an additional burden arising from the employer cost of pension contributions that may occur as a result of the three yearly actuarial valuation of the Kent Pension Scheme. The results of this exercise should be available in December this year and will be affected by a number of complex factors. Over the past decade the level of contribution has increased from 12.0% in 1996/97 to a current 19.4% (in 1992/93 the employer rate was 3.6%). A 1% increase in the employer contribution rate would produce a further £1m per annum resource demand;
- The decision a few years ago to cease contributions from revenue to fund building repairs and maintenance has, in part, been mitigated by an allocation of capital resource to an on-going programme of repairs at £1m a year. However the statutory, routine inspections of premises and equipment for asbestos, legionella, lifts, boilers etc. are not within the capital definition unless part of a wider project such as the new Civic HQ. Funding for these has been achieved over the past three years by utilising the residual balance of the building repair fund. This has now been exhausted and the revenue impact to be funded from 2008/09 is £0.75m per annum;
- The new regime for Local Land Charges is yet to be implemented but remains as a potential loss of income of some £0.25m per annum.

6.5 This is not an exhaustive list but as a glimpse at the larger issues already presenting as probable pressures they tabulate to a sizeable challenge for re-directing resource. The table below summarises the effect that amounts to additional resource requirements of £9.4m, £6.8m and £5.5m for 2008/09, 2009/10 and 2010/11 respectively. This assumes that the pension revaluation will have a neutral effect.

6.6 There is an obvious need to challenge some of these assumptions and at this stage some of the figures quoted are crude in their calculation. That said they are not without foundation, especially when compared to recent spending profiles.

Summary Additional Resource Requirement

	2008/2009	2009/2010	2010/2011
	£m	**£m**	**£m**
Regeneration and Development			
Landfill Tax	0.700	1.400	1.200
Waste Contract (+10%)	0	0.750	0.750
Highways	1.500	0	0
Medway Tunnel	0.600	0	0
Concessionary Fares	0.200	0	0
Local Development Framework	0.150	(0.050)	0
Community Services			
Elderly/Disability Care	2.000	2.000	2.000
Children's Services			
SEN & other DSG Services	0.700	0.700	0.700
SEN Transport (non DSG)	0.500	0.500	0.500
Business Support/Corporate Issues			
Incremental Drift	2.000	1.500	1.000
Pension Costs	0	0	0
Maintenance Inspections	0.750	0	0
Land Charges	0.250	0	0
Elections	0.150	0	0
TOTAL	**9.400**	**6.800**	**5.450**

7. Indicative service control totals

7.1. It has been usual to suggest indicative control totals at this point in past versions of the MTFP. However the table of additional resource requirements above, combined with the current deficit of almost £5.9m dictates that resources of almost £28m per annum need to be found over the period to 31 March 2011. This is an enormous task and clearly makes a nonsense of using the present resource base as the starting point as had been the case in previous years. Clearly a more radical approach is required and this will demand a great deal of both senior management and members.

8. Timetable

8.1 The timetable for production of the Medium Term Financial Plan and Draft Budget Proposals is as follows:

Report to Overview and Scrutiny	6 September 2006
Report to Cabinet	25 September 2007
Star chamber discussions	September/October2007
Initial budget proposals to Cabinet	27 November 2007
Reports to Overview and Scrutiny	December/January
Draft budget to Cabinet	19 February 2008
Budget proposals to Council	28 February 2008

8.2 It is proposed that work commences immediately with informal discussion with portfolio holders taking place over the summer period certainly before the star chamber discussions scheduled for September and October. This will also give added emphasis to the business and service planning process which must similarly start at the front end of this programme.

8.3 In considering the draft of the MTFP the Management Team identified a number of areas to be investigated with a view to avoiding forecast pressures or achieving savings. Clearly some of these are controversial but they are headlined below:

- A stop to automatic increments (competency framework);
- Implement a local pay agreement;
- Invest in local facilities to avoid high cost disability care or SEN placements;
- Review eligibility to home to school transport and parental contribution rates;
- Similarly review eligibility for adult care services;
- Explore 'shared services' initiatives (both support and direct services);
- Remove/reduce the discretionary elements of services (corporate learning and development, black bags, charge for bulky waste);
- Introduce innovative income generation schemes such as a pet cemetery within bereavement services;
- Re-finance the Local Government Re-organisation debt held by KCC;
- By a mix of pricing and service offers, ensure the Leisure portfolio breaks even at worst;
- Explore the income generation potential of the council property portfolio through sale/leaseback schemes or realisation of capital receipts from regeneration sites (NB revenue savings will arise from investment returns on proceeds and would need to exceed costs of leases for example); and
- Maximise income from parking both for the public and staff.

9. Conclusion

9.1 The financial strategy identifies our spending needs for 2008/09 and beyond. However, it is clear that there will need to be a radical approach to the distribution of resources and the services that are capable of being delivered. The efficiency agenda must assist with this and Government assumptions are likely to be for a 3% per annum cash target which will equate to some £5m a year. This is not inconsistent with the additional resource requirement albeit even more will be required to meet that demand in full. With the severe constraints on revenue funding that are anticipated, service delivery beyond the strict priorities set out by this framework will be limited. Strict measures will be needed to ensure budgets are contained within the control totals for each directorate when finally agreed.

9.2 Irrespective of the forecast shortfall in resources arising from the budget requirement, it must remain the Council's main strategy aim to achieve a sustainable budget because there are no longer reserves to draw upon and indeed it would be preferable to have some form of reserve replenishment as part of this strategy.

10. Financial and Legal Implications

10.1 These are contained within the body of the report.

11. Recommendations

That Cabinet:

11.1 Endorses the underlying aims of the Medium Term Financial Plan (paragraph 4.4);

11.2 Endorses the forecast level of overall funding outlined in Section 6;

11.3 Instructs portfolio holders and directors to identify savings and efficiencies to achieve a balanced budget for 2008/2009; and

12 Suggested Reason for Decision

12.1 This is a preparatory document to meet the budget process and timetable set out within the constitution.

Background Papers

Medium Term Financial Strategy – Report to Cabinet 5 September 2006
Capital and Revenue Budgets 2006/2007 – Report to Council 1 March 2007.

These reports are available via the Council's website: www.medway.gov.uk