Agenda Item: 5 (B)

BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE

4 SEPTEMBER 2008

RESOURCE STRATEGY 2009/2012

Report from: Mick Hayward, Chief Finance Officer

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Summary

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 2009/2010.

1. Budget and Policy Framework

1.1 The council's annual budget and council tax setting establishes the council's budget framework, and sets out the funding of services. The resource strategy identifies the issues that need to be addressed as part of that budget preparation and how key strategic priorities will be funded over a 3-year period. This will mesh with the preparation of a Corporate Plan for 2009-2012, which will integrate the outcome of the budget setting process into a Medium Term Financial and Corporate Plan for the period.

2. Background

2.1 This Resource Strategy sets out the council's financial plan 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 2009/2010.

2.2 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.

2.3 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.

3. Advice and analysis

3.1 The Resource Strategy 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 Comprehensive Area Assessment (CAA) 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.

3.2 In 2007/2008 the council recorded a fifth successive year where the revenue outturn has been very close to the approved budget reinforcing the robustness of the Council's budget setting, monitoring and financial management processes. Initial forecasts for 2008/2009 suggest that to achieve this for a sixth year will be very challenging.

3.3 The Resource Strategy needs to ensure that resources are allocated to achieve the service outcomes set out below but the underlying financial aims of the strategy should 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.

3.4 The MTFP for 2009/2012 must build 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 centre 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.

3.5 The financial strategy must also reflect the cashable aspect of the Gershon efficiency target. Medway has just completed its three-year Gershon efficiency programme set within the 2004 Comprehensive Spending Review (CSR2004). This set the council a cumulative target to generate efficiencies of £12.4 million over three years ending 31 March 2008. Subject to audit we have exceeded that target and achieved £13.1 million.

3.5.1 CSR2007 has increased the challenge to Local Authorities in finding efficiencies by introducing the following changes:

- Increasing the target for English local authorities to 3% pa from 2.5% pa;
- The 3% pa is now "multiplicative" rather than additional, therefore the annual cumulative target is 2008-09 3%; 2009-10 6.1%; 2010-2011 9.3% with a presumption that 2011-2012 would effectively rise to a cumulative target of 12.6%.
- All efficiencies must now be "Cashable" or cash releasing efficiencies rather than the 50% of the previous 2.5% target regime;
- Individual authorities will not be set targets but rather the whole of local authorities will be expected to achieve the overall target; and
- Reporting will be simplified.

3.5.2 Although targets are not being set for each individual authority, it is accepted that many authorities will apply targets to ensure that they do achieve cumulative targets individually. Shown below are the annual targets that would apply were such individual authority targets imposed.

2008-2009 cumulative target £ 5.3 million;
2009-2010 cumulative target £10.8 million;
2010-2011 cumulative target £16.5 million; and
2011-2012 cumulative target £22.3 million.

3.5.3 We are able to count as 2008-2009 efficiencies any excess cashable efficiencies from the previous CSR2004 efficiencies that continue into 2008-2009, and therefore, subject to audit, we can apply the £0.7m excess efficiencies to the 2008-2009 target.

3.6 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, but nonetheless, the new Government expectations are a significant challenge.

3.7 It is intended to broadly follow the process adopted last year but with a greater emphasis on planning for the strategic period and better integration with the Corporate Planning process such that we are able to deliver a true 'Medium Term Financial Plan' rather than the one year budgets of recent years.

3.8 The formal budget review process will then commence with budget reports submitted to overview and scrutiny committees in December 2008 and January 2009. The Corporate Plan document elsewhere on the agenda emphasises the more challenging Comprehensive Area Assessment (CAA) requirements that will mean the process to ensure more explicit linkage between corporate and partnership priorities, 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.

4. Assessment of Likely Available Resources

4.1 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.

4.2 With regard to central government funding, the Local Government Finance Settlement for 2008/2009 was the first year of a three year settlement announced on the back of the outcome of Comprehensive Spending Review (CSR2007). Accordingly Government support for 2009/2010 and 2010/2011 is known with relative certainty. The next Comprehensive Spending Review will be CSR2010 and unsurprisingly this will be announced in the summer/autumn of 2010. At this stage it is, therefore, necessary to estimate the impact of that review and, of course, in the interim, there will have been a general election called.

4.3 With regard to council tax increases, the Government have shown no sign of softening the approach to 'capping', indeed Portsmouth were 'capped' for breaching this year's 5% target by 0.05%. It will therefore be prudent to assume that the 5% target imposed for this year, to keep council tax in 'low single figures', is likely to continue. This will serve to worsen our relative position, given the low baseline that we continue to have (3rd lowest Unitary and 15th lowest nationally).

5. Forecast of overall funding

5.1 Table 1 below illustrates potential resources for 2008/2012 assuming a growth in taxbase of 0.25% in future years and council tax increases at 5% which would seem prudent given the comment at paragraph 4.3. Government support is as already announced together with an assumption of a 3.5% increase in both Formula Grant and DSG in 2011/2012.

Table 1 Potential Resources for 2008/2012

Description	2008/2009	2009/2010	2010/2011	2011/2012
	£m	£m	£m	£m
Formula Grant - % Increase	**5.6%**	**4.0%**	**3.6%**	**3.5%**
- amount	**79.120**	**82.225**	**85.130**	**88.110**
Taxbase (assumes 0.25% inc.)	85,412	85,626	85,840	86,055
Council Tax (£1,041.48 baseline)				
Increase @ +5.0%	88.955	**93.636**	**98.564**	**103.751**
DSG (based on current pupil numbers)	163.836	**167.458**	**172.140**	**176.088**
Pupil Numbers	40,616	**40,074**	**39,560**	**39,098**
Funding per pupil £	4,034	**4,179**	**4,351**	**4,504**
Summary Resources:				
DSG		**167.458**	**172.450**	**176.089**
% Increase (per pupil)		**3.59%**	**4.13%**	**3.50%**
Non-DSG (Council Tax @ +5%)		**175.861**	**183.694**	**191.861**
% Increase		**4.63%**	**4.45%**	**4.45%**

5.2 In addition to the revenue resources evidenced by the table above 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 £1.7m at 31 March 2008. The commitment of reserves to fund the existing capital programme is £1.0m and this leaves a residual, uncommitted balance of some £0.7m, albeit there are repayable commitments of £0.273m for Medway Innovation Centre cash flow and £0.044m for Strood Echoes investment to be funded in the short term. For practical purposes the General Reserve can therefore be regarded as spent with the exception of a minor balance.

5.3 An average increase in non-DSG resource at around the 4.5% level (assuming council tax increases at 5%) is broadly compatible with pay and general price inflation. Increases in the DSG are marginally worse and may present a cost pressure for schools requiring efficiencies to be sought to stand still despite minimum funding guarantees which are set at 2.1% per pupil. With falling pupil numbers driving a reduced level of DSG, and pay costs for non-teaching staff likely to present a greater demand because of the incremental scales and pension costs, there is a likelihood that the centrally retained component of the DSG will yet again be subject to greater pressure in the face of escalating demand. For both scenarios, of course, there is no allowance for future spending demands beyond inflation.

5.4 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, Community and Culture

- 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 if the Council continues to use landfill as the principal means of waste disposal. Estimates for the period are for cost increases of £1.5m, £3.3m and £3.6m respectively;
- There is some £1.5m of highways spending currently funded from the capital programme and more specifically capital receipts. The current decline in the property market, coupled with other commitments to the capital programme is such that this funding source is under severe pressure. The strategy provides for a return to a wholly funded revenue source but it is possible that a mix of revenue and capital could also be a solution to preserve a key priority programme;
- The agreement now concluded on the Medway Tunnel has passed ownership and responsibility for maintenance in whole to the Council. There is a limited reserve available to offset these costs, which are currently running at some £1m a year and, at this rate, the sum will be exhausted before the period under review. Efforts are continuing to seek Government support for the tunnel in common with all other strategic routes such as that upon which the tunnel sits. In the meantime it is felt prudent to provide half the support required from revenue;
- The loss of Planning Delivery Grant in 2008/09 creates a pressure of £0.2m per annum with the staff previously funded by the grant needing to be retained to preserve performance standards;
- In April 2008 the Government introduced a new national free fare scheme for bus travel for the elderly. Current estimates remain ill-informed because of the delay in getting cost and usage information from the scheme operators but there has been a continued increase in the number of passes issued and given the ageing population there is every likelihood that this will continue.

Growth from this demographic factor is estimated at £0.2m per annum against an assumption that Government funding for the 2008-2009 introduction will be sufficient to meet costs and this has yet to be proven;

- In common across the Council there is an increase in utility costs arising from linkage to the price of oil. There is a substantial budget within highways for street lighting and initial estimates are that 'hyper inflation' for energy costs will incur additional spend of £0.7m, £1.2m and £1.8m respectively over the period. In addition there is an almost certain impact upon bus operators and this is estimated to add a further £0.2m pa.

Children's and Adult Services

- The current spending forecasts for the directorate reveal ongoing demographic pressures on key, demand-led, services for the elderly and disabled. Following the abandonment of the Shawswood/Woodlands scheme and the ongoing implementation of Fair Access to Care Services (FACS) there is a need to review the Older Peoples' Strategy. None the less there is and will be for some time an inexorable growth in the number of people living beyond retirement and especially in the 75+ area. It is anticipated that for the three areas of elderly care, physical disability care and learning disability care an annual demographic bill of £1.3m, £2.6m and £4.1m respectively over the period. Against this the full effect of FACS is expected to save £1.3m pa;
- 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 independent and non-maintained sector placements and these are forecast to grow further at £0.5m, £1.0m and £1.4m through the period. 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. There was some debate about this in setting the budget for 2008-2009 and, understandably, the schools were, and continue to be, concerned at the impact of falling rolls as well. Neither problem will disappear in the period under review, indeed the problem of falling rolls will become greater as the funding tables presented earlier indicate. Council resources do not permit an enhancement to the DSG from Council Tax and it will be necessary to manage these service pressures within the DSG envelope. ; The Schools Forum has the power to approve the use of an element of the DSG in respect of the wider children's agenda. However, the pressures on the Schools Budget components (both delegated and retained) do not permit this to be a realistic option currently.

- There are also some additional children's pressures on services outside of the DSG, including 'Looked After Children' whereby the 'corporate parenting' costs are forecast to increase by £0.2m pa. SEN transport that will suffer from the 'hyper inflation' on fuel albeit this should be offset by savings on new tenders and associated route revisions. 'Hyper inflation' on energy costs is forecast to cost an additional £0.1m, £0.2m and £0.3m across the period.

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. The 2008-2009 cost of living increase has yet to be settled at the time of writing this report and with headline inflation running at circa 4% there could be some difficulty in constraining increases to a level of 2.5%, which is the inherent assumption in this report. In addition the ongoing costs of the job evaluation scheme implemented in 2003 and the associated ten point pay scales are producing an additional annual cost pressure of between 1% and 2% of the pay bill. Employer pension costs will rise by 0.7% in 2009-2010 and a further 0.6% in 2010-2011 with the change in 2011-2012 being dependent upon the next actuarial valuation due at 31 March 2010. For non-schools budgets each 1% increase is equivalent to about £1m of additional cost;
- The downturn in the housing market has had an inevitable impact upon Local Land Charges income with a potential loss of income of some £0.2m per annum;
- 'Hyper inflation' on energy (principally utilised in the corporate buildings) is forecast to add costs of £0.2m, £0.3m and £0.5m through the period. Here as in the other directorates, it must be a priority for the Council to rationalise occupation of buildings and improve energy efficiency to cut this pressure;
- New borrowing to support capital investment outside of the 'prudential' regime is funded by incorporation in the grant formula and is therefore incorporated in the resource tables above. However it is not in the current budget and such 'supported borrowing' is running at about £10m pa with an associated cost for interest and principal of £1m pa in incremental addition through the period.

5.5 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 £7.0m, £12.2m and £16.5m for 2009-2010, 2010-2011 and 2011-2012 respectively, with these costs representing the variation to the 2008-2009 baseline.

5.6 These are headline numbers and undoubtedly the detailed budget preparations will produce more variations to base budgets. In addition there are already proposals to further ambitions in support of priorities such as Park and Ride with a potential cost of £0.6m a year and on a larger scale the Area Based Grant (ABG) and the associated aspirations of both contributors, such as the respective Government agencies, and partner bodies, for the use of these non-ringfenced funds, must be managed. ABG is a sizeable sum already announced as £11.0m for 2008/2009 and £11.7m in 2009/2010 and 2010/2011 (excluding Supporting People Grant). In 2008/2009 the grant of £11.0m is fully utilised in supporting service expenditure.

Summary Additional Resource Requirement – against 2008/2009 base

	2009/2010	**2010/2011**	**2011/2012**
	£m	**£m**	**£m**
Regeneration, Community and Culture			
Waste Contract	1.500	3.315	3.606
Highways	1.500	1.500	1.500
Medway Tunnel	0.500	0.500	0.500
Concessionary Fares	0.200	0.200	0.200
Fuel costs for bus operators	0.200	0.200	0.200
Loss of Planning Delivery Grant	0.210	0.210	0.210
Energy Hyper Inflation	0.677	1.178	1.781
Adults and Children			
Elderly/Disability Care	1.279	2.550	4.150
FACS	-1.305	-1.305	-1.305
SEN & other DSG Services	0.480	0.961	1.441
Looked After Children	0.227	0.227	0.227
Energy Hyper Inflation	0.101	0.176	0.266
Business Support/Corporate Issues			
Land Charges	0.200	0.200	0.200
Energy Hyper Inflation	0.187	0.325	0.492
Debt Financing	1.000	2.000	3.000
TOTAL	**6.957**	**12.237**	**16.468**

5.7 In achieving a balance of requirements to resources across the strategic period members will need to be mindful of the needs as represented by the priorities that have been agreed (para 3.3) for the Council and the targets that we have set for ourselves in the Local Area Agreement (LAA). That does not mean that existing service delivery does not meet those requirements, in part, but clearly for the LAA and the associated 'stretch' targets we will need to do more with the same resource, or direct that resource in a more targeted fashion. This will be the key challenge in the process leading up to the draft budget and that eventually agreed by Council.

5.8 In producing the budget for 2008/2009 a number of areas were investigated with a view to avoiding forecast pressures or achieving savings. We will need to review progress on these initiatives, add new and revisit discarded options. For completeness these were:

- 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.

6. Timetable

6.1 The timetable for production of the Medium Term Financial Plan, consolidating the Resource Strategy and the Corporate Plan is set out at Appendix 1 but the key dates for Cabinet are:

- Resource Strategy and Corporate Plan to Cabinet 2 September 2008;
- Draft Budget for 2009/2010 and Draft Corporate Plan 2009/2013 to Cabinet 25 November 2008;
- Final Budget for 2009/2010 and Final Corporate Plan 2009/2013 to Cabinet 17 February 2008;
- Cabinet proposals considered by Special Council meeting 26 February.

6.2 It is proposed that work commences immediately with informal discussion between portfolio holders and directors taking place over the summer period. This will also give added emphasis to the business and service planning process which must similarly start at the front end of this programme.

7. Conclusion

7.1 The financial strategy identifies our spending needs for 2009/10 and beyond. However, despite a heartening start to the monitoring process for 2008/2009, it remains clear that there will need to be a radical approach to the distribution of resources and the services that are capable of being delivered if, as it must, the Council is to deliver a balanced budget in 2009/10 and the succeeding years. The efficiency agenda must assist with this and Government assumptions around the 3% per annum cash target, discussed in section 3.4, would clearly deliver this if those efficiencies were realised.

7.2 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.

8. Financial and Legal Implications

8.1 These are contained within the body of the report.

9. Recommendations

9.1 Members are requested to consider the Resource Strategy 2009/2012 and make comments to the Cabinet.

Background Papers

Medium Term Financial Strategy – Report to Cabinet 25 September 2007
Capital and Revenue Budgets 2008/2009 – Report to Council 28 February 2008.

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

Appendix 1

<table>
<tr><th>Date</th><th>Forum</th><th>Budget Timetable</th><th>Corporate Plan</th></tr>
<tr><td>2 September</td><td>Cabinet</td><td>2009-2012 Resource Strategy report</td><td>Scene setting report for Corporate Plan 2009-12</td></tr>
<tr><td>1 to 12 September</td><td>STAR CHAMBERS (Round 1)</td><td colspan="2">For Members to understand the base budget and future budget requirements and advise officers regarding service priorities, service reductions and areas to target for efficiency savings, in order to achieve a balanced and sustainable budget and to inform the development of the Corporate Plan.</td></tr>
<tr><td>14 to 24 October</td><td>STAR CHAMBERS (Round 2)</td><td colspan="2">To present Members with proposals to balance the budget and service implications of these proposals</td></tr>
<tr><td>25 November</td><td>Cabinet</td><td>2009-10 Budget Report</td><td>Draft 2009-12 Corporate Plan</td></tr>
<tr><td>1 to 12 December</td><td>STAR CHAMBERS (Round 3)</td><td>Provisional, in case the budget presented to Cabinet on 25 November is not balanced.</td><td></td></tr>
<tr><td>9 December</td><td>BSD O&S</td><td>To consider the overall budget and review the BSD budget proposals.</td><td>To consider the overall corporate plan and review relevant BSD sections</td></tr>
<tr><td>13 January</td><td>RCC O&S</td><td>To review the RCC budget proposals.</td><td>To review relevant RCC sections of Corporate Plan</td></tr>
<tr><td>14 January</td><td>H&ASC O&S</td><td>To review the Social Care budget proposals.</td><td>To review relevant Social Care sections of Corporate Plan</td></tr>
<tr><td>20 January</td><td>C&A O&S</td><td>To review the Education budget proposals.</td><td>To review relevant Education sections of Corporate Plan</td></tr>
<tr><td>3 February</td><td>BSD O&S</td><td>To make recommendations to Cabinet, following consideration of budget proposals by the relevant directorate overview and scrutiny committees.</td><td>To make recommendations to Cabinet regarding the priorities laid out in the Corporate Plan</td></tr>
<tr><td>26 January</td><td>Cabinet</td><td>Update on post-November progress</td><td>Final Draft Corporate Plan</td></tr>
<tr><td>17 February</td><td>Cabinet</td><td>2009-10 Final Budget Report and recommendations to Full Council.</td><td>Final Corporate Plan 2009-12 and recommendations to Full Council</td></tr>
<tr><td>26 February</td><td>Full Council</td><td>To agree the Budget and Council Tax.</td><td>To agree the Corporate Plan 2009-12</td></tr>
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