

# **BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE**

**20 SEPTEMBER 2011**

## **MEDIUM TERM FINANCIAL PLAN 2012 - 2015**

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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 2012/15.

### **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 Medium Term Financial Plan (MTFP) identifies the key issues that need to be addressed as part of that budget preparation. This MTFP will mesh with the review of the Council Plan for 2012/15 and seek to integrate budget setting with service planning and ensure priorities and funding are matched.

### **2. Background**

2.1 The MTFP approved by Cabinet last September identified a 3-year scenario, quantified the issues in some detail and importantly, updated the Value for Money strategy as part of a process for more robust financial planning. The approved budget for 2011/12 had some clear future dimension in respect of some high spending services of the Council (notably the Special Educational Needs (SEN) strategy and social care transformation measures), and the commencement and funding of the 'Better for Less' transformation project. However, it is realised that there is still some way to go before a robust long-term plan is fully developed and this is not assisted by national uncertainty around funding, driven by the Government's finance reform measures currently being consulted upon.

2.2 2010/11 once again saw the Council underspend against the budget set reinforcing the robustness of the budget set and effectiveness of control processes. This and the ability to date to deal with sizeable deficits at draft budget stage has demonstrated the strength of the Council's existing financial management but must not be allowed to lead to complacency in consideration of future budget positions for 2012/13 and beyond.

- 2.3 The Council's financial position remains challenging with an acknowledged low resource base both in terms of per capita grant and council tax. For Dedicated Schools Grant (DSG) the recent trend in falling pupil numbers has turned around and numbers are now forecast to rise over the period of this plan. In addition to which education remains a national priority service and that is reflected in the assumption that the per capita rate of DSG remains static. However there is a negative impact from academies seceding from Council control. The terms of their set up mean that the Council loses both the delegated budgets for those schools but also a share of central budgets by way of a 'top-slice' of central funding. Currently the funding of academies for the 'central support' functions is by way of grant (LACSEG), which in turn is funded by the top-slice from all LA allocations. There is a consultation paper out on proposed changes to this regime which could see Medway disadvantaged compared to now as the proposals include a linkage to the number of schools converting to academy status and in that context our proportions are greater than the national average. For the sake of consistency the resources set out in this paper assume a 'status quo' for both pupil numbers and associated DSG. The impact of academy transfers will need to be factored in to budget preparation.
- 2.4 As has become the norm, the Council's budget has been prepared against a backdrop of a serious deficit in resources and inevitably the focus has been on achieving the necessary balance for the immediately forthcoming year with less of a focus on future needs. A succession of Medium Term Financial Plans have prophesied the very deficits that manifest, usually to a greater degree, when the detail of budget preparation begins to become apparent.
- 2.5 It is also clear, even at this early stage, that the future budget requirement, incorporating investment in meeting strategic objectives allied with demographic change will exceed available resources, exacerbated by the certainty of significant reductions in Government support.

### **3. Advice and analysis**

- 3.1 The Spending Review 2010 (SR 2010) responded to the impact of the world wide economic recession and the massive growth in public sector borrowing in the UK. In a manner that is now familiar to the public in news headlines covering the state of the Greek, Spanish, Irish and a number of other economies not least the United States and the recent downgrading of it's AAA status, SR 2010 set out the Government's proposals to reduce public spending and the associated deficit. For Local Government in particular, that foretold of cuts totalling 28% over the 4-year review period.
- 3.2 SR 2010 was announced in October last year and the Financial Settlement that followed confirmed funding reductions off 11.9% and 8.3% for 2011/12 and 2012/13 respectively. The Local Government Resource Review being currently consulted upon promised changes to the distribution mechanism for resources but against a backdrop of further cuts in support. For Medway we predict that these could be a further 4% in each of 2013/14 and 2014/15.
- 3.3 A further part of the SR announcement was a statement that the Government would work in partnership with local authorities in England to freeze council tax in 2011/12. This enabled the Council to benefit from a grant equivalent to a 2.5% increase in council tax with a statement that this would be protected

through the review period. That statement was borne out by a sum of £0.7 billion being allocated each year in the SR 2010 document. What is less clear is what happens when the specific grant ceases and what happens to the taxbase growth in the interim. There is no suggestion of an enhanced sum to enable a further grant for any increase next year and for the purposes of this document it has been assumed that the increase per annum would be constrained to 2.5% against the 2010/11 tax base.

3.4 The SR also announced that public sector pay would be frozen for two years except for a flat rate increase of £250 per annum for employees earning less than £21,000 in each year. There was some conflict here between the Government and the employers' negotiating body who offered a nil increase in 2011/12; and the autonomy of that and other negotiating bodies is an issue. For the purpose of this MTFP it is again assumed that there will be a nil pay increase and there has been no provision for non-pay inflation in the assumptions beyond unavoidable contractual commitments. This latter assumption will be a challenge given current RPI inflation is circa 5% and latest forecasts predict this to remain so for at least the next year.

3.5 High level spending needs have been reviewed as part of the preparation of this report and are narrated and summarised in sections that follow but if the plans already in place are to be achieved then the MTFP for 2012/15 must encapsulate the strategic priorities for Medway as set out in the Council Plan and the two guiding principles or core values of:

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

The Council Plan is the council's business plan. It has five priority areas and sets out what will be done to deliver these and how we will tell what difference has been made. Those five priorities are:

- Safe, clean and green Medway;
- Children and young people have the best start in life in Medway;
- Adults maintain their independence and live healthy lives;
- Everybody travelling easily around Medway; and
- Everyone benefiting from the area's regeneration

These priorities and the progress towards their delivery are monitored quarterly alongside the financial performance of the Council integrating measures of cost and service delivery success.

3.6 Over the life of this medium term financial plan, the policy context in which the council and its partners work will continue to change. This MTFP and the forthcoming council plan refreshes will need to be able to respond to these changes. Key dimensions include:

- Radical changes to the health system with new responsibilities for public health and health and well-being transferring to the council
- Continued reform of the education system with increasingly autonomous academies and free schools, but councils continuing to have responsibility for school improvement

- Decentralisation and localism with increased expectations about community and neighbourhood involvement in commissioning services
- Increase in personalisation and choice across all services areas
- Presumption against local authority direct provision of services, and increased emphasis on payment by results.

#### **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, other Specific Grant and DSG; and
- The amount raised locally by council tax.

4.2 The Local Government Finance Settlement announced earlier this year set out Formula Grant expectation for both 2011/12 and 2012/13. Therefore, subject to data changes which are unlikely to be significant, this component of Government support is known for next year at least. The Spending Review 2010 (SR 2010) that preceded the settlement announcements also indicated that there would be reductions in Formula Grant over the 4-year SR period. Whilst the 'front loading' of these changes is now known to be reductions of 11.9% and 8.3% respectively for 2011/12 and 2012/13, the remaining 2 years of the review period are less certain. Overall reductions in Local Government spend of some 28% were forecast in the SR 2010 but it was also announced that there would be a review of the distribution mechanism for Formula Grant support which could impact upon the relative gain or loss by councils for the last 2 years of the SR period.

4.3 This review, which also includes complex proposals for changes to the Non-Domestic Rate collection (business rates), is currently out to consultation. These proposals could have a significant impact upon the Formula Grant support which is currently comprised of a re-distribution of the national pool of business rates collected based upon population, together with a Revenue Support Grant, based initially at least, upon an assessment of need for each authority. For 2011/12 the relative amounts involved are £65 million and £20 million respectively. In context this is against total Government grants of some £434 million, as set out in the table below, which, when combined with locally generated revenue from fees and charges and council tax, together with reserve contributions, funds the gross Council Budget of some £617 million. The table is pre adjustments to schools funding in respect of Academy transfers.

4.4 Table 1 is an effective illustration of the complexity of the resourcing of the Council's spending requirement. Clearly, the challenge for this document is to predict the changes in these funding streams over the next 3 years against limited knowledge.

**Table 1 Gross Budget and Funding 2011/12**

		£ millions	£ millions
<b>Total Budget 2011/12</b>			<b>616.8</b>
Funded by:			
Fees, charges and other income			84.7
Council Tax			98.5
Use of reserves			(0.4)
Government Grants:			
Dedicated Schools Grant	DfE	199.1	
Housing / Council tax Benefit	DWP	102.2	
Formula Grant (NDR)	CLG	65.8	
Formula Grant (RSG)	CLG	20.3	
YPLA	DfE	17.7	
Early Intervention Grant	DfE	10.2	
Learning Disability and Health Reform	DoH	9.1	
Council Tax Freeze Grant	CLG	2.5	
Pupil Premium	DfE	2.3	
Adult Education	BIS	2.1	
New Homes Bonus	CLG	1.2	
Flood Defence	Defra	0.1	
Other misc grant		1.4	
			434.0
<b>Total Funding 2011/12</b>			<b>616.8</b>

- 4.5 Medway's position remains one of the lowest in both our peer group of Unitaries (7<sup>th</sup> lowest) and nationally (27<sup>th</sup>). However, for non-schools (DSG) expenditure, Council Tax represents 24% of the resources supporting the 2011/12 budget; Fees and Charges 20%, Formula Grant 21%; and other grants 35% (of which benefits is 24% and nets against payments made). Given an inevitable constraint on Government funding streams there is a balance to be struck between the aspiration for a low tax increase (or none) and the need to maximise a significant part of our funding resource when other sources are likely to reduce. For the purposes of this MTFP it has been assumed that a 2.5% increase in Council Tax will occur.
- 4.6 For Council Tax increases the position is now clear with the former capping regime now replaced with a process for referenda for 'excessive' Council Tax increases. Essentially Government will determine the rate of increase above which increases are deemed to be excessive. This is similar to the old "capping" regime but the level will be announced before budget and council tax levels are set. Any proposal to exceed the set level will need to be supported by an alternate budget to meet the determined increase and subject to a local referendum. For 2011/12 the position was complicated by a 'council tax freeze' grant designed to encourage councils to set a zero increase and fund them an equivalent 2.5% uplift for doing so. The SR 2010 suggests that this grant for the 2011/12 zero increase, will be honoured through the 4-year SR period but, given that the amount provided nationally is a fixed sum, it can only be assumed that there will be no increase in the cash amount and therefore no recognition of the impact of growth in the taxbase.

- 4.7 The taxbase upon which the current council tax is set was agreed as 88,034 Band D equivalents. As at the end of August the taxbase was 87,701 reflecting a slow down in the rate of new properties being added but predictions are that some 700 new properties to complete this year and only 290 have been added since March so we remain likely to reach the estimate. Growth for the next few years is predicted to be similar and whilst banding and discounts are unpredictable it is considered that a 0.5% growth rate is a reasonable assumption.
- 4.8 For DSG there is some logic in an expectation of a slightly better position overall given the predicted increase in pupil numbers from 39,933 in 2011/12 to 40,730 in 2012/13. However it is difficult to see an increase in the per pupil funding rate which means an effective real cut in funding equivalent to inflationary pressure. An added complication will be the transfer funding for Academies that is predicted to rise from £45.1 million in 2011/12 to £80.1 million in 2014/15. 2011/14.
- 4.9 Overall assumptions for inflationary increases are nil for pay, in line with current national negotiation thoughts; 2.5% for uplift on fees and charges; nil provision for general inflation where there is no contractual commitment; and 10% for utilities in 2012/13 and 2013/14.
- 4.10 Table 2 below illustrates potential resources for 2011/15 based upon the assumptions in 4.2 to 4.9. Also reflected is the loss of one-off funding from reserves (£587,000) included in the 2011/12 budget, but for which the spending requirement substantially continues (free swimming, Freedom Pass, apprenticeship scheme).
- 4.11 The resource assumptions in Table 2 below are as set out in the preceding paragraphs but in terms of sensitivity analysis a 1% change in Formula Grant (post 2012/13) is some £0.75 million and similarly a 1% variation to council tax assumptions is some £1 million.
- 4.12 In addition to the revenue resources referred to above the Council does have access to reserve balances. However, whilst the balance of General Reserves (i.e. those not allocated for an earmarked purpose) has increased in recent years as a result of budget underspending, it is still at a minimal level. As at 31 March 2011 the uncommitted general reserve and the contingency balance amounted to some £16 million. Taken in context to the recurrent saving requirement illustrated in this report, and the risks and costs that are likely in achieving financial balance, it is clear that they do not represent a solution to the financial equation.

**Table 2: Potential Resources for 2011/2015**

Description	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
<b>Formula Grant - % Increase</b>		<b>-8.3%</b>	<b>-4.0%</b>	<b>-4.0%</b>
<b>- amount</b>	<b>86.096</b>	<b>78.280</b>	<b>75.149</b>	<b>72.143</b>
		+0.5%	+0.5%	+0.5%
Taxbase	88.034	88.474	88.916	89.361
<b>Council Tax (£1,119.15 baseline)</b>	<b>98.523</b>	<b>101.491</b>	<b>104.548</b>	<b>107.698</b>
<i>Increase in taxbase</i>		<i>0.493</i>	<i>0.507</i>	<i>0.523</i>
<i>Increase @ +2.5%</i>		<i>2.475</i>	<i>2.550</i>	<i>2.627</i>
<b>Council Tax Freeze Grant</b>	<b>2.463</b>	<b>2.463</b>	<b>2.463</b>	<b>2.463</b>
<b>New Homes Bonus</b>	<b>1.188</b>	<b>2.495</b>	<b>3.525</b>	<b>4.583</b>
<b>Use of Reserves</b>	<b>587</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>School Specific Funding:</b>				
<b>DSG (based on forecast pupil numbers)</b>	<b>197.789</b>	<b>199.018</b>	<b>200.291</b>	<b>201.737</b>
<b>Academy Transfer</b>	<b>(56.966)</b>	<b>(88.061)</b>	<b>(95.045)</b>	<b>(98.194)</b>
<b>Pupil Premium</b>	<b>2.300</b>	<b>3.767</b>	<b>5.416</b>	<b>7.638</b>
<b>YPLA (6<sup>th</sup> Form Funding)</b>	<b>17.725</b>	<b>17.700</b>	<b>17.700</b>	<b>17.700</b>
<b>Pupil Numbers</b>	39,902	40,181	40,438	40,730
<b>Funding per pupil £</b>	4,953	4,953	4,953	4,953
<b>Other Specific Grants</b>	<b>125.427</b>	<b>126.083</b>	<b>126.083</b>	<b>126.083</b>
<b>Summary Resources:</b>				
<b>DSG and other Schools based funds</b>	<b>160.848</b>	<b>132.424</b>	<b>128.362</b>	<b>128.881</b>
<b>Non-DSG (Council Tax @ +2.5%)</b>	<b>314.284</b>	<b>310.812</b>	<b>311.768</b>	<b>312.970</b>

## 5. Spending Priorities

- 5.1 It is clear that for 2011/12 and beyond the Council will need to be restricting rather than identifying increased spending requirements. That is evident in the assumptions made for pay and prices in spite of the current situation where RPI is running at some 5%. However there will be areas where either for legislative reasons, uncontrollable demands, or contractual obligations, there will still be spending pressures that will serve to magnify the nature of the problem in balancing the budget equation.
- 5.2 It is not the purpose of this document to plan the service needs of departments but nonetheless there are a number of key spending issues that sit alongside the priorities of the council. These are highlighted below and set out in Table 3 that follows.

### *Regeneration Community and Culture*

- For waste services there is a pressure of some £1.3 million in 2012/13 that is in part due to the contractual uplift based on RPI (£0.7m), additional costs from increases in Landfill Tax (£0.2m), and a contract variation to provide clear sacks (£0.3m). These pressures continue through 2013/15 but at a diminished level of additions of £0.7 million.
- Highways maintenance also has a pressure from the contractual uplift for inflation of £0.2 million and additional cost of maintaining the Medway Tunnel with the exhaustion of the tunnel fund at £0.35 million in 2013/14 and 2014/15.
- Parking services have a current budget pressure from reduced income levels and additional costs at some £0.2 million but this could be offset by increased fees resulting from tariff increases.
- Traffic management has a budget pressure of £0.1 million from the operating costs of the new traffic management system (UTMC).
- Leisure and Culture services have budget pressures of some £0.3 million partly as a result of the end of non-recurrent funding for 2011/12 in respect of the Deangate Landfill project (£0.1m). In addition there are additional cost from a business rate revaluation for Medway Park (£0.2m) albeit this is subject to appeal. 2013/14 sees a benefit of £0.4 million with the end of the Olympics project.

### *Children's and Adults*

Children and Adult Services is the largest directorate, representing the greatest call on available resources. The directorate is having to transform the way it delivers services in response to significant national policy drivers, for example, changes in the health system and the proposed transfer of responsibilities for health and well being, the push towards academies and free schools, strengthening the role of local communities in challenging and delivering local services, radical plans to fund the rising demand for long term care and the drive towards sector led self-regulation and improvement. This, together with local priorities and imperatives, creates a number of significant pressures competing for scarce resources:

- The demographic pressures on demand-led, services for the elderly and disabled continue to be an issue. The Office of National Statistics predicts steady growth in Medway's population, but more significantly the growth in the number of people over 65 is expected to increase by 4% between 2011 and 2012 and 4% again by 2013. This will inevitably be reflected in increasing numbers of elderly people requiring care. However the demographic projections in the MTFP have been restricted to 2% growth per annum. The impact of this demographic pressure on the cost of caring for the elderly and people with physical and learning disabilities is estimated to be £640,000, £130,000 and £260,000 respectively for 2012/13 and similar pressures beyond. In addition to further investment in reablement and the continuation of self-directed support, the emphasis will shift away from direct provision and towards better commissioning. The authority will also look to greater integration of health and social care and to enabling the voluntary sector;
- In common with many areas nationally, Medway has experienced growth in the number of looked after children in Medway has been steep and the Council is already at the previous projection for 2012. The current pressure, together with anticipated growth in 2012/13 has resulted in an estimated £2.2million increase in the budget requirement for next year. The directorate continues to develop preventative services and to pilot evidence-based interventions in order to mitigate the effects of this demographic pressure;
- Service providers have been restricted to 2008 base price levels and this has become increasingly difficult to sustain with the increase in minimum wage, energy costs and provisions. An average increase of 2% adds £1.8 million to social care budgets across both children and adults.
- The major part of the directorate's services are funded from the Dedicated Schools Grant and to that extent service growth will be determined by the 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. There is currently no pressure reported against the centrally retained DSG, however the increasing number of academy conversions and the impact these have on both the DSG and the Council's Formula Grant, represent a significant issue which will have to be addressed through the MTFP and budget setting process.
- Whilst the directorate appears to be successfully managing demand for SEN places, through increasing in-house capacity and a more effective process for handling tribunals, the SEN transport budget remains underfunded. The MTFP seeks to address this, whilst also recognising the significant work being undertaken to reduce overall costs.
- The schools organisation programme necessary to effectively plan for pupil demographics is also likely to generate costs that under current arrangements fall to the non-schools component of the DSG or the General Fund. These include redundancy, retirement and deficit balances where they exist.
- The recent Government white paper placed the onus of improving standards, and the associated resources, firmly with schools. Consequently the directorate significantly reduced the budget to fund schools improvement activity. However there are significant issues of under-performance in some primary schools and a pressing need to continue to close the gap between children who do well and those who do not. Whilst the MTFP does not

reflect any financial impact, it is important to flag the risk that the Government could impose costly interventions on failing schools, which the Council would have to fund.

### *Business Support/Corporate Issues*

- The Council's energy budgets are likely to face cost pressure of some 10% in both 2012/13 and 2014/15 despite tendering options for fixed price contracts to run from October for 3 years. This will add a pressure of £0.3 million in each year to the corporate property portfolio.
- In addition to the blunt price increases being estimated there is also a new Carbon reduction scheme that has been introduced by the Government in a similar vein to the Landfill Tax regime. This will have an overall impact of some £0.5 million for the Council but only £0.27 million of that falls to the General Fund services with balance being a cost borne by the DSG. Smaller increases are forecast for successive years.
- The Government have announced a 5% reduction nationally in the grant paid to Councils for administering housing and council tax benefit and this will result in a pressure of £0.1 million. This service is being transformed as part of the first phase of the Council-wide 'Better for Less' programme. This is already delivering significant revenue savings from the service but means that there is restricted ability to achieve further efficiencies beyond those already identified.
- A number of limited life funding schemes such as Ward Improvements and Rural Liaison Grants come to an end next year and present saving opportunities of £0.23 million if funding is not maintained.
- The new cremator project at the crematorium will enhance facilities but in the construction period there will be a non-recurrent income loss of just over £0.1 million.
- The transfer of responsibility for the new 'Blue Badge' scheme for disabled parking creates a pressure of £0.1 million albeit the transfer cost formed part of the Learning Disability and Health Reform Grant.
- In line with pressures identified in Children and Adults as a result of increases in numbers of looked after children and those subject to child protection plans, Children's Independent Safeguarding and Review Service within Business Support which chairs looked after children reviews and child protection conferences faces a pressure of £0.15 million to keep pace with the statutory requirements for the service against a background of increasing cases.
- Income pressure both from the decreased usage of the temporary staff agency and the 'buy-back' of services by schools are presenting pressures of £0.1 million for the HR function.

**Table 3: Summary Additional Resource Requirement – against 2011/2012 base**

	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/2015</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Regeneration, Community and Culture</i>			
Front Line Services	1.629	1.060	1.060
Development, Economy and Transport	0.027	0	0
Leisure & Culture	0.297	(0.380)	(0.060)
<i>Children and Adults</i>			
Adult Social Care	1.484	2.672	2.395
Children's Care	2.406	0.853	0.492
Commissioning	0.200	0	0
Inclusion	1.100	(0.900)	(0.250)
Schools Retained Funding & Grants	0.200	0	0
<i>Business Support/Corporate Issues</i>			
Housing & Corporate Services	0.566	0.155	0.033
Financial Services	(0.048)	0	0
Democracy & Customer First	0.250	(0.168)	(0.028)
Comms, Performance & Partnerships	0.152	0	0
Organisational Services	0.120	0	0
<i>Better for Less</i>			
Projected saving profile	(2.410)	(1.890)	(0.904)
<b>TOTAL</b>	<b>-GENERAL FUND</b>	<b>5.973</b>	<b>1.402</b>
	<b>-DSG</b>	<b>0.000</b>	<b>0.000</b>
		<b>0.000</b>	<b>2.738</b>

5.3 It is almost inevitable that other issues may surface as the budget preparation moves into detailed formulation but it is a more comprehensive analysis than in previous years. There will also be an aspiration to move at greater speed towards the priority areas but in that regard the challenge will be in re-directing resource as well as the overall balancing requirement. Table 4 below summarises the net effect of these amounts when compared to resource assumptions as summarised in Table 2.

**Table 4: Net Resources**

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Summary Resources:			
<b>School Specific Funding:</b>			
(Additional) / Reduced Resources (based on forecast pupil numbers)	28.434	4.052	(0.519)
Additional Resource Demand	(28.434)	(4.052)	0.519
<b>Net (Surplus)/Deficit</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>General Fund</b>			
(Additional) / Reduced Resources	3.472	(0.956)	(1.202)
Additional Resource Demand	5.973	1.402	2.738
<b>Net (Surplus)/Deficit</b>	<b>9.445</b>	<b>0.446</b>	<b>1.536</b>

## 6. Balancing Resources and Demands

- 6.1 The organisation has already embarked on a major transformation exercise to improve services to our customers and deliver efficiencies (Better for Less - BfL). The first 4 phases of that project which will deliver new ways of working in customer contact and administration will deliver savings estimated at approximately £5.6 million per annum by their completion from 2015/6 onwards. This is profiled over the 4 years as a saving of £0.404m in 2011/12, a further £2.41m in 2012/13, a further £1.89m in 2013/14 and £0.904m in 2014/15. The cumulative saving is just under £14m.
- 6.2 There is a separate BfL Category Management project which is anticipated to deliver some £5 million to £10 million of savings by more effective commissioning and procurement over the MTFP period. Both these elements of the BfL programme will deliver progressively but given the urgent need to address the funding shortfall there is an imperative to maximise that delivery as early as possible. However, at this stage, the scale and timing of category management efficiencies is not quantifiable.
- 6.3 In addition to this transformation programme there is a need to make immediate progress in a number of areas where there are potentially significant efficiencies to be gained without impacting significantly on service delivery to residents. Initial areas to be covered are:
- Adult Social Care
  - SEN re-provision (DSG);
  - Enablement (including extra care) and personalisation;
  - Potential shared service arrangements with other councils and public agencies;
  - Property rationalisation; and
  - Opportunities for market testing.

- 6.4 Given the resource position it is equally important that the Council embarks upon a rational review of costs, performance and priorities. The Council's approach to managing performance has improved significantly over the past few years and our external auditors have acknowledged a "step change improvement" in the way the Council monitors itself and is able to report on and manage its performance. The development of the Council Plan forms the backbone of these improvements. It was not written for inspectors – it was written for the Council itself to use to deliver its priorities that were developed by services, drawing from consultation and evidence of quality of life in Medway and is monitored in a similar fashion using resident opinion from a number of sources to track success.
- 6.5 The plan is underpinned by a limited and high level set of measures of success, so that for each priority Members can track a cluster of indicators to gauge progress, to enable Members to see how well the Council's actions are making a difference and are giving value for money, and provide a way of communicating with the public about the difference the Council is making.
- 6.6 Value for money (VFM) is an integral part of delivering services in Medway ensuring that the best value is being secured for our residents, customers and service users. Medway has adopted VFM as one of its two core values and the Council has agreed a VFM Strategy to gain a better understanding of VFM and to demonstrate that this is being achieved and maintained. The Strategy is supported by a performance monitoring and service planning regime that identifies both costs and performance of services and a mechanism to demonstrate VFM through service self assessment.
- 6.7 The current Council Plan includes the following specific actions relating to improving efficiency and delivering VFM for our residents:
- Work proactively with partners to share services for greater efficiency;
  - Continue to develop our workforce;
  - Embed a VFM and performance culture in Medway and improve the effectiveness of the council's business planning and performance management systems; and
  - Ensure our procurement delivers the best value for the council.
- 6.8 The integrated reporting of finance and performance information strengthens the VFM credentials by ensuring we focus on both outcomes and costs.

## 7. Timetable

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

Report to Cabinet	06 September 2011
Report to Business Support Overview & Scrutiny	20 September 2011
Portfolio/Directorate reviews	September to November
Initial budget proposals to Cabinet	29 November 2011
Reports to Overview & Scrutiny	December/January
Draft budget to Cabinet	14 February 2012
Budget proposals to Council	23 February 2012

7.2 Business and service planning will run in tandem with the budget setting process.

7.3 The suggested timetable for consideration of the draft budget proposals at the Overview and Scrutiny Committees (O&S) is as follows:

Business Support O&S	To receive initial budget proposals – 1 December 2011
Children & Young People O&S	6 December 2011
Regeneration, Community & Culture O&S	13 December 2011
Health & Adult Social Care O&S	15 December 2011
Business Support O&S	To consider all O&S committees comments before referring them to Cabinet's budget meeting 2 February 2012

7.4 There is also another meeting scheduled for each Overview and Scrutiny Committee during January 2012, should they wish to consider this matter further, before referring their comments to the Business Support Overview & Scrutiny Committee on 2 February 2012.

## 8. Conclusion

8.1 The Medium Term Financial Plan identifies our spending needs for 2012/13 and beyond. Whilst the Government support beyond 2012/13 remains in doubt, it is clear that there will be substantial savings still to be achieved against current costs.

8.2 Whilst table 4 identifies a potential deficit for 2012/13 of some £9.445 million this is after allowing for a potential council tax increase yielding almost £3 and savings from the 'Better for Less' programme estimated at £2.4 million. Without these the gap would have been almost £15 million. Clearly any council tax increase will be a matter for political judgement closer to the time and that in turn will be influenced by decisions made by central Government. The savings from the BfL programme are also estimates that have yet to be supported by the detail of delivery programmes. Against this background it is very clear that there is a need to both curtail aspirations and identify efficiencies and changes to service delivery to produce a balanced financial position over the next three years and this will not be an easy process given the efficiency programmes of previous years.

8.3 Irrespective of the eventual forecast shortfall in resources arising from the budget requirement, it must remain the Council's main strategic aim to achieve a sustainable budget without recourse to reserves. To that effect it is critical that both existing and emerging requests for pressures are challenged out of the process where possible and that due weight is given to driving forward the efficiency agenda and the search for more radical and cost effective means of

delivery. This is consistent with the VFM strategy and the measures described in section 6 will be a key part of that process over the term of this plan.

- 8.4 Cabinet at its meeting on 6 September 2011 agreed the principles set out in this report and instructed Portfolio Holders and Directors to identify savings and efficiencies to achieve a balanced budget 2012/2013. Cabinet also endorsed the underlying aims of the Medium Term Financial Plan and the forecast level of overall funding outlined in Section 4 of the report.

## **9. Financial and Legal Implications**

- 9.1 These are contained within the body of the report.

## **10. Risk Management**

- 10.1 The risks exposed by a failure to effectively manage the resource planning and allocation process to achieve priorities and maintain effective service delivery are great. The uncertainties about recovery from the current recession and the consequences in terms of future financial assistance and targets imposed by Government will make this process difficult.
- 10.2 Formula Grant and DSG are but one aspect of Government funding with other significant sums being received through specific grants, and the importance of locally generated income from fees and charges and of course Council Tax must not be underplayed.

## **11. Diversity Impact Assessment**

- 11.1 The council has legal duties to give due regard to race, gender and disability equality in carrying out its functions. This includes the need to assess whether any proposed changes have a disproportionately negative effect on people from different ethnic groups, disabled people and men and women, which as a result may be contrary to these statutory obligations. The Medium Term Financial Plan identifies the resources available, which will determine the service priorities within the Council Plan. Diversity Impact Assessments will be undertaken and reported to Members as part of the budget and service planning process as the quantum of resources and hence the impact on Council services unfolds.

## **12. Recommendations**

The Committee is invited to comment on the report and the recommendations of Cabinet on 6 September 2011.

## **Background Papers**

Medium Term Financial Plan 2011/14 – Report to Cabinet 28 September 2010  
Capital and Revenue Budgets 2011/2012 – Report to Council 24 February 2011.

These reports are available via the Council's website: [www.medway.gov.uk](http://www.medway.gov.uk)