District Executive – 4th October 2007

Medium Term Financial Plan

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Purpose of Report

1. To advise members of the current position on the MTFP (Revenue Budgets for 2008/9 to 20010/11).

Recommendation

2. That the Executive Board:

   a) note the current position;
   b) Members are asked to endorse the savings plan outlined in paragraph 14.

Background

3. In February 2007 Council approved the revenue budget for 2007/8 and the MTFP. This report updates the revenue budget projections and outlines the process and progress to date in identifying budget savings.

4. The CPA agenda has made Value for Money and having a balanced budget a much higher priority for our external auditors. A balanced budget is a basic requirement to achieve level 2 of the auditor judgement.

Local Government Financial Settlement

5. The provisional settlement will be announced later this year once the Comprehensive Spending Review (CSR) has been announced. It is expected that Revenue Support Grant will reduce as efficiency savings of around 3% per annum are clawed back through reduced grant. From 2008/09 onwards I have now reduced the estimated grant to 1% per annum.

Medium Term Financial Strategy

6. The medium term financial plan outlines the financial needs and requirements over the next five years to deliver the Corporate Plan. The strategy is to deliver a balanced budget each year over the term of the plan. A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments.

<u>The Strategy for Increasing Plan Expenditure</u>

7. An annual allowance will be made for pay, pension costs, and price inflation. New bids for additional expenditure will only be accepted through the following:

   - An additional requirement to meet Corporate Plan critical activities and objectives and linked to individual service plans;

- An additional requirement as an inescapable commitment meeting one of the following criteria:

    a. Legislative changes e.g. climate change levy;

    b. Growth in the community e.g. increase in number of dwellings serviced by refuse collection;

    c. Income budgets not able to increase by inflation e.g. car park fees reviewed every two years;

    d. Other potential changes e.g. contract re-tendering;

        i. An additional investment made to drive efficiency and/or performance to deliver the objective outlined in paragraph 7 in terms of efficiency savings;

        ii. Revenue implications of new capital schemes.

The Strategy for Financing the Plan

8. The aim is to set Council Tax generally in line with inflation with an allowance to increase the tax by a further 2% per annum to finance the capital programme as outlined within the Capital Strategy.

9. Each year savings will need to be found to cover the increase in planned expenditure outlined above. This will be done through savings being made in the expenditure using the following in order of priority:

    - Efficiency savings – through transformational/ business re-engineering principles;

    - Additional income – maximising income streams to the authority for services rendered;

    - Reducing expenditure in non-priority areas;

    - Other service reductions.

Contingencies, Balances, and Reserves

10. District Executive will set aside a budgeted amount annually to cover any contingencies that may arise during the financial year. This sum will be agreed on an annual basis.

11. A regular review of financial risks to assess the optimum levels of balances and reserves will be reported to members every six months. This ensures that the authority has sufficient funds to meet its key financial risks.

12. Only once-off expenditure will be financed from balances.

Council Tax

13. Assumptions made are that Council tax will increase by 3%.

MTFP – Budget Position

14. All work on the MTFP is based on current estimates and includes various assumptions. Figures provided at this stage are indicative and will continue to be worked on as things become more certain. The table below shows the estimated additional expenditure required in future years, offset by increased income and savings already identified.

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Base Budget	**18753.6**	**19213.4**	**19610.3**	**19785.7**	**20314.5**
Price Inflation @ 2.5%	209.8	215.0	220.4	225.9	231.6
Pay Inflation (including pensions and increments)	825.0	853.8	854.4	823.2	848.2
Inescapable bids	1,441.3	260.4	314.7	340.4	297.0
Risks currently included within balances for 2007/08	200.0	400.0	400.0	400.0	400.0
Revenue Implications of Capital	26.8	49.4	65.5	45.8	60.0
Corporate Plan growth/adjustments	458.3	61.0	29.0	30.0	70.0
Releasing £3m capital p.a.	150.0	150.0	150.0	150.0	150.0
Efficiency Savings	(338.8)	-	-	-	-
Increased Income	(263.0)	(27.3)	-	-	-
Other Savings	(109.1)	(42.0)	(68.0)	-	-
Once-off Expenditure	232.6	232.6	-	-	-
Total Budget Requirement	**21,586.5**	**21,366.4**	**21,576.4**	**21,801.1**	**22,371.3**

The resources available to fund these proposals are as follows:

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Formula Grant	10,720.1	10,827.3	10,935.6	11,154.3	11,377.4
Council Tax	8,217.2	8,507.0	8,806.7	9,116.8	9,427.5
Second Homes Income to LSP	43.4	43.4	43.4	43.4	43.4
Use of Balances	232.6	232.6	-	-	-
Total Income Available	**19,213.4**	**19,610.3**	**19,785.7**	**20,315.4**	**20,858.3**
Net savings required	**(2,373.2)**	**(1,756.1)**	**(1,790.6)**	**(1,486.5)**	**(1,513.0)**

The savings have been broken down into target areas as follows:

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Service targets @ 3% of net budget	465.7	500.0	500.0	500.0	500.0
Outsourcing or partnership working	556.5	500.0	500.0	300.0	300.0
Lean thinking/ Business Process Re-engineering	750.0	556.1	590.6	486.5	513.0
Reduction in non-priority areas/ and reviewing of activities	600.0	200.0	200.0	200.0	200.0
Total Savings	**2,372.2**	**1,756.1**	**1,790.6**	**1,486.5**	**1,513.0**

Service Savings Targets

15. Service savings targets have been set within the areas of each Corporate Director, the Assistant Chief Executive, and the Chief Executive. The targets have been set at 3% of net budgets (excluding Waste and Recycling for 2008/09).

16. The areas of focus within the savings exercise are as follows:

    - Efficiency savings;
    - Additional Income;
    - Transfer of Work to the Voluntary Sector.

    The returns are due in Finance by the end of September for the 2008/09 budget.

Outsourcing or Partnership Working

17. Outsourcing of areas of work will need to be explored where the private sector can demonstrate quality and price. In terms of partnership working post LGR it is important that partnership working continues with our neighbouring authorities to improve service delivery and to provide savings to the organisation.

18. The Transformation Board will look at these areas by the end of October before making recommendations to members by January 2007.

Lean Thinking/ Business Process Engineering

19. Management Board have agreed to employ a company of specialists to review SSDC as an external check to see where we can be more efficient in the way we work. The initial review will be completed by the end of October.

20. It is likely that an internal team will work with the company initially and then be able to continue the work throughout the organisation over the next few years.

Reduction in Non-priority Areas/ Review of Activities

21. An internal review will take place to review SSDC overall activities and also non-priority areas to enable us to move resources to our priority areas. This review is due to be completed for 2008/09 by mid November.

22. In all of these areas of reduction it is important to ensure that the changes impacting on members of staff are handled sympathetically and that the current established staff are protected as much as possible. It is therefore likely that a recruitment freeze will occur before the end of the calendar year. This will enable the organisation to redeploy as many members of affected staff as possible.

Interest Receivable

23. Current interest rates stand at 5.75% and a continued prudent approach to interest rates needs to be followed as they can vary due to global economic or other factors and the SSDC revenue commitments are generally static. Current forecasts for 2008/09 are that the base rate will average 5.5%.

24. The assumption for budget provision remains at 4.25% for all investments. However, there will be a need to factor in further use of capital receipts and also overall cash flow on a daily basis that can be placed in the market.

25. The current strategy of utilising interest over this rate for once-off items or capital remains in place through the MTFP

Gershon Savings

26. SSDC has met the Gershon targets set so far. The final year however 2007/8 has a target set of £619,000 (half of which has to be cash backed). This efficiency exercise will also contribute to the budget shortfall if the savings identified are cashable. The Gershon savings targets and achievements to date are as follows:

Year	Target £'000	SSDC Estimate/Actual £'000	Excess/(Shortfall) £'000
2005/06	760	783	23
2006/07	619	658	39
2007/08	619	575	(44)
Total	**1,998**	**2,016**	**18**

The Corporate Plan

27. The Corporate Plan was approved in August 2005 and one of its purposes is to guide decisions on budget savings, so that these are targeted from non-priority areas of activities.

28. The Corporate Plan also identifies the key priorities that SSDC will focus on over the next seven years. Whilst most of these priority areas will be funded in the base budget there could be some critical activities that require specific funding. New bids are attached at Appendix A.

Risks

29. An amount each year has been outlined within the MTFP for financial risks. An amount of £200,000 is included for 2008/09 as additional risks includes:

Service Plan Bids – there should only be a number of smaller bids once service plans have been completed as most managers have already submitted bids for additional resources during the preparation of service plans.

Pay award – the pay award for 2007/08 has not yet been finalised. An allowance of 3% has been allowed for 2008/09

Pensions – the three yearly actuarial review is due by the end of October. An allowance for an increase of 0.5% has been allowed for within current figures as recommended by the actuary.

CSR (Comprehensive Spending Review) – the Government have not yet announced how the CSR will affect local authorities. At present an allowance of only an additional 1% on formula grant has been allowed for in the MTFP.

Concessionary Fares – An uplift in costs of £554k has been included but the assessment has not included additional costs of free countrywide travel that will be in place in April 2008. The Government has not yet announced the increase to formula grant to cover the additional costs.

Links to Key Partnerships

30. Within the MTFP outlined above revenue partnership funding has been included within the following areas:

	2008/09 £'000	**2009/10 £'000**	**2010/11 £'000**	**2011/12 £'000**	**2012/13 £'000**
Somerset Waste Partnership	2,920.1	3,029.2	3,177.6	3,335.7	3,420.5
South West Audit Partnership	154.4	158.3	162.2	166.3	170.4
LSP	43.4	43.4	43.4	43.4	43.4
Total Partnership Funding	**3,117.9**	**3,230.9**	**3,383.2**	**3,545.4**	**3,634.3**

Links to Major Strategies

31. Within the MTFP the detail of funding of major strategies will be included once Service Plans are completed. There will also be some amendments to some of those strategies and the MTFP will be amended as the figures are confirmed. It is expected however that the majority of those costs are already included within the bidding process. A further update will be given as the MTFP process progresses.

Inescapable Bids

32. Officers have been asked to outline any inescapable bids in terms of new legislative changes etc that will affect their services in 2008/09 and beyond. A list of the bids is outlined in Appendix B.

Additional Income

33. Officers have reviewed fees and charges. The list of those that increase income above inflation are outlined in Appendix C.

Next Steps

34. A further report will be made to the Executive in November 2008. This will update members on the progress of the various savings streams.