

Scrutiny Committee – 29th September 2009

10. Medium Term Financial Strategy

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Purpose of Report

1. To advise members of the Medium Term Financial Strategy and the current position on the MTFP (Revenue Budgets for 2010/11 to 2014/15).

Action Required

2. That the Scrutiny Committee:
 - a) note the current position and process;
 - b) comment to District Executive on the strategy, position and process as outlined.

Background

3. This report will be made to the District Executive in October 2009 outlining the Medium Term Financial Strategy and Medium Term Financial Plan. This report updates members of the current position and invites Scrutiny members to have an earlier input into the budgeting process.

Introduction

4. The Medium Term Financial Strategy (MTFS) outlines how the Medium Term Financial Plan (MTFP) i.e. the budget will be delivered over the medium to long-term. The MTFP at South Somerset spans three years with a further two years added to show the likely longer-term scenario beyond the current Corporate Plan. The Medium Term Financial Strategy links the resources required to deliver the Corporate Plan and the Council's strategies. The major strategies linking to the MTFS are:

- Access Strategy
- Economic Development Strategy
- Tourism Strategy
- Climate Change strategy
- Parking Strategy
- Housing and accommodation Strategy
- Homelessness Temporary Accommodation Strategy
- Gypsy and Travellers Accommodation Strategy
- Private Sector Housing Strategy
- Sports and Active Leisure Strategy
- Young Peoples Strategy
- Play Strategy
- ICT Strategy

- Capital Strategy and asset Management Plan
 - Cash Collection Strategy
 - HR and Workforce Planning Strategy
 - Procurement Strategy
5. Of those strategies the three major ones that are linked to the MTFS in terms of delivering those resources are:
- HR and Workforce Planning strategy
 - Procurement Strategy
 - Capital Strategy and Asset Management Plan
6. The Council's 'Framework for Change' provides overall clarity in terms of the strategic direction of the organisation, its dominant ethos and developing corporate culture.
7. In addition to the above, SSDC has a Value For Money Strategy (VFM) which pulls together the activities that directly deliver VFM to the Medium Term Financial Strategy.
8. The Authority also has a Carbon Management Plan that focuses on the practicalities of reducing the carbon footprint of the organisation over the next five years. That plan is fully integrated with the Medium Term Financial Plan (MTFP) in relation to financing.

Where are we now?

9. Currently the MTFP shows a projected budget gap for each year of the plan. The figures include all estimates for pay awards, inflation, council tax, government grant, and inflation. Therefore the main drive is to find savings within the plan to ensure the on-going financing of the Corporate Plan and key strategies.
10. Some instability has been introduced through the economic downturn. Interest rates have reduced drastically, land charge searches, building control and car park income has reduced. Homelessness and housing benefit enquiries have increased. In addition to this central government borrowing has increased dramatically and eventually public services will have to be cut to bring central borrowing down to a manageable level. This therefore puts at risk future income levels through Revenue Support Grant to the Council in the near future.

What are the Outcomes we need to Achieve?

11. The Council needs 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.
12. The Council also needs to achieve as much stability as possible for both service delivery and staff in planning the moving of resources (both money and people) to areas of agreed priority.
13. SSDC also needs to continue the drive to make services as efficient as possible and this will be key to providing the public with:

- Reducing inputs of resources whilst maintaining the same (or in some cases enhanced) levels of service delivery;
 - Improving the level of service delivery whilst maintaining the same level of resources input;
 - Improving the level of service delivery by a higher proportion than an increase in the level of resources input i.e. investing for results.
14. In addition the authority will need to continue to add value in procuring goods and services and manage its assets effectively.

How will we get there?

15. Some of the Council's strategies form the blueprint of how this will be done. The fundamental areas to deliver these and the key actions are:

Corporate Plan

To deliver through the Well Managed services theme:-

- Increase Value for Money (VFM) total net value of ongoing cash-releasing VFM gains that have impacted since the start of the 2008-09 financial year.
- Increase VFM savings gained through enhanced joint working by an additional 0.5%.

Workforce Planning Strategy

- Reduction in workforce of 100 posts over four years.

Procurement Strategy

- 10% efficiency savings achieved through smarter procurement activity in 09/10.

Capital Strategy and Asset Management Plan

- Carry out a rolling review of the property portfolio, a property category at a time, to identify any surplus or underused property and recommend appropriate action. Each property to be formally reviewed at least biennially via this process;
- Monitor progress on corporate and service targets for reduction in energy consumption in local authority buildings;
- Continue to maximise occupancy of vacant office space by working with partner organisations

VFM Strategy

- “Lean Team” to programme reviews for 2009/10 and beyond and add targets to the MTFP;
- Managers to achieve at least an annual 3% efficiency targets;
- Streamline senior team proposals to members for approval in 2009/10. Streamline further within a further 36 months.

What Assumptions are made in principal to the Plan for the next five years?

16. There are some principals that underpin the plan. These are as follows:

- SSDC will achieve a balanced budget each year without the use of balances for ongoing expenditure;
- That capital resources can be financed through savings or through an additional 2% in council tax – this remains the only way to give stability and continuity to a sound capital programme to deliver the Corporate Plan and key strategies;
- That SSDC will remain within any government capping levels;
- In agreeing new Capital Schemes the revenue implications will be fully costed and added to the MTFP;
- Pay inflation is linked in budgeting terms to the expected increase in Retail Price Index (RPI) inflation;
- Supplies and Services inflation is linked to expected Retail Price Index Excluding Mortgages (RPIX) inflation;
- All new and revised strategies must review the focus on current activities to realign resources. In exceptional cases where there are additional resource requirements these will be fully costed and added to the MTFP.
- Smarter and better targeted partnerships to reduce the overall level of corporate financial partnership support with little or no reduction in outcomes

17. In terms of financing the plan:

- Increases from central government in Revenue Support Grant is either linked to the Comprehensive Spending Review (CSR) reported estimates or is estimated at no growth for the foreseeable future.
- Council Tax is linked to expected Retail Price Index excluding mortgages (RPIX) inflation;
- Efficiency savings remain the main focus for financing the plan through transformational/ business re-engineering principles,

procurement, streamlined management arrangements and asset management;

- Managers will continue to have a 3% efficiency target per annum with the exception of those that have been through the lean process in the previous twelve months;
- The authority will maximise income streams to the authority for services rendered;
- The authority will continue to reduce expenditure in non-priority areas;

What is the Mechanism for Adding Expenditure to the MTFP

18. Other than the increases outlined above the following shows the mechanism for adding to the MTFP:
- An additional requirement as an inescapable commitment meeting one of the following criteria:
 - Legislative changes e.g. climate change levy;
 - Growth in the community eg. increase in number of dwellings serviced by refuse collection;
 - Income budgets not able to increase by inflation eg. car park fees reviewed every two years;
 - Other potential changes eg. contract re-tendering;
 - Where members have already agreed additional costs through the approval of the corporate plan or a specific strategy.
 - An additional investment made to drive efficiency and/or performance to deliver efficiency savings;
 - A growth bid can be made to improve service delivery but must be linked to the Corporate Plan and service plans. Each growth bid will be scored to ensure that those with highest priority are financed.

Contingencies, Balances, and Reserves

19. 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.
20. 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.

Public/Stakeholder Consultation

21. Members will receive regular reports as the budget progresses. In addition Scrutiny Committee will be consulted during the process and a commission requested to look at detailed bids.
22. In recent years public and stakeholder consultation has mainly taken place through Simalto. It is recommended that for the next two years that consultation take place through the Citizen's Panel formed in June 2009.

Diversity and Equality

23. Each saving put forward by managers must outline any impact the saving will have on diversity and equality to ensure that any issues are highlighted to members before a decision is made. An annual report will be made to the Diversity and Equality Panel of all savings that have an impact on any group.

Risks to the Medium Term Financial Strategy and Plan

24. The Strategy and Plan make regular risk predictions. The key risks to the plan are currently seen as:
 - Government changes to Formula Grant – it is possible that local government will bear the brunt of any savings required to bring public borrowing back to a manageable level. The impact over the term of the plan of a 5% cut in Formula Grant over each year of the plan beyond 2010/11 are:

Year	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Additional Shortfall	(556.4)	(528.6)	(502.1)	(477.0)

- There is also a risk that the current CSR settlement for 2010/11 will change if the government decided that public borrowing needed swifter action to contain a 5% reduction would result in further savings in 2010/11 of £693k.
 - The recession remains a risk to income and expenditure. Prolonged interest rates at 0.5% beyond the middle of 2010/11 will have an impact of £1.6 million per annum. In addition SSDC has seen reduction in income such as car parking but increases in costs of homelessness.
 - Government legislation and new requirements for local authority will remain a risk as funding does not always follow the requirement.
25. The key risks are determined and agreed by Management Board (MB) and subsequently outlined in each budget setting report to Council. A senior officer is identified to monitor and manage that risk.

Reviewing the Strategy

26. This strategy will naturally span the life of the current Corporate Plan but will be reviewed annually to take into account changes within and external to the organisation. In more uncertain times the strategy will be reviewed more frequently.

The Medium Term Financial Plan

27. All work on the MTFP is based on current estimates and 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.

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Base Budget	19,885.0	20,272.8	20,501.8	20,829.6	21,168.8
Price Inflation	213.1	219.5	226.1	232.9	239.8
Pay Inflation	213.1	842.3	705.9	707.3	728.8
Inescapable bids	906.5	899.8	761.5	726.3	716.7
Risks to MTFP	400.0	400.0	400.0	400.0	400.0
Revenue Implications of Capital	62.2	44.4	61.4	30.0	35.0
Corporate Plan growth/adjustments	(5.0)	30.0	70.0	30.0	70.0
Releasing £3m capital p.a.	150.0	150.0	150.0	150.0	150.0
Efficiency Savings	(444.0)	-	-	-	-
Increased Income	(51.2)	-	-	-	-
Other Savings	(60.0)	-	-	-	-
Once-off Expenditure	23.3	-	-	-	-
Total Budget Requirement	21,371.0	22,858.9	22,876.7	23,106.1	23,509.26

The resources available to fund these proposals are as follows:

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Formula Grant	11,127.8	11,127.8	11,127.8	11,127.8	11,127.8
Council Tax	9,012.6	9,329.5	9,657.4	9,996.5	10,347.3
Second Homes Income to LSP	44.5	44.5	44.5	44.5	44.5
Use of Balances	88.0	-	-	-	-
Total Income Available	20,272.8	20,501.8	20,829.6	21,168.8	21,519.6
Net savings required	(1,098.1)	(2,357.1)	(2,047.0)	(1,937.3)	(1,989.6)

Assumptions Made

28. There are several assumptions in line with the MTFS as part the overall estimates contained therein:
- Council Tax – 2% for 2010/11 and then 3% per annum (based on estimated RPIX);
 - Pay – 2% for 2010/11 and then 3% per annum for pay and ½% additional pension contributions (RPIX);
 - Non-Pay Inflation – 2% 2010/11 and 3% thereafter (RPI);
 - Formula Grant – 1.3% for 2010/11 then nil in the following years;
 - Assumed budgeted interest rates at 3% including the interest reserve.
 - Uplifting concessionary fares for the £234k required in 2009/10 plus a further £116k for 2010/11.

Savings

29. The savings targets have now been revised in light of the updated MTFP and the target areas that MB have agreed and are working through the operational requirements to deliver on are as follows:
- Outsourcing and partnership work;
 - Lean thinking;
 - Reduction in non-priority areas.
30. In addition to this managers will be requested to find 7% (approximately £1.3 million) savings with their service areas to bridge the financial gap. This can be done through the following:
- Removing vacant posts;
 - Reducing non-priority areas;
 - Increasing Income;
 - Outsourcing and partnership work;
 - Service efficiencies
 - VR and removing vacant posts;
 - Procuring goods and services more cheaply.

31. Overall strategically the estimated savings will be split in accordance with the strategies and plans in place as follows:

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Increased Income/ efficiency measures/ procurement	500.0	500.0	500.0	600.0	600.0
Outsourcing or partnership working	100.0	557.1	447.0	440.6	489.6
Reduced Staffing	903.3	1,100.0	900.0	396.7	400.0
Reduction in non- priority areas/ and reviewing of activities	150.0	200.0	200.0	500.0	500.0
Already Found	(555.2)	-	-	-	-
Total Savings Remaining	1,098.1	2,357.1	2,047.0	1,937.3	1,989.6

32. A reserve was set up in 2008/09 to fund voluntary redundancies and this has been successful in reducing staffing numbers. To ensure that the savings for 2010/11 can be found and to give managers the ability to decrease staff numbers it will be paramount to the overall savings target to replenish the reserve. It is recommended that members top up the fund through any savings from the salary awards for 2008/09 and 2009/10 (if 1% is agreed then this would add about £150,000) plus a further £300,000 from general balances.

Growth Bids

33. The figures shown above do not include new growth bids within the MTFP at present. The following bids are likely to be made to members for addition to the plan:

Bid	£'000
Sort IT+ collection of plastic and card from households	400.0
Controlling Urban Sea Gulls	20.0
Market Towns Vision Support Officer	15.5
Total Growth Bids	435.5

Budget Deadlines

Inescapable and growth bids – to finance by the end of July 09
 Capital Bids – August 09
 Members Finance Workshop – September 09
 Scrutiny Committee – September 09, December 09, February 10
 District Executive – October 09, December 09, February 10
 Savings Targets from Heads of Service – October 09