TRAFFORD METROPOLITAN BOROUGH COUNCIL

Report to:	**Executive Meeting**
Date:	**4 June 2007**
Report for:	**Decision**
Report of:	**The Executive Member for Finance and the Director of Finance**

Report Title

The Council's Medium Term Financial Plan 2007/10

Summary

This report informs Members of the current financial projections over the three year planning period 2007-10, as developed during the 2007/08 business planning process. The Executive will shortly commence its consideration of the revenue budget options for 2008/09 and this report sets the likely financial landscape within which the Council will consider its priorities and associated detailed financial plans.

There is a need to identify efficiencies over the medium term and priority is being given to the service improvement programme. Members are asked to agree the release of the remaining amount of the earmarked reserve, and the revenue budget contingency of £0.595m, in support of the programme.

The report also indicates matters the Executive will be considering when drafting the Medium Term Financial Strategy for 2008/11 and the Council's Business Planning Process (due to begin in June 2007).

Recommendation

Members are requested to:

(a) note the current forecasted financial position;

(b) agree the planned activities outlined in the report;

(c) prioritise the use of the budgeted contingency of £0.595m for the Service Improvement Programme.

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Background Papers:General Fund and Council Tax 2007/08 (Budget Report to Council) – 21 February 2007
Capital Investment Programme and Prudential Indicators – 21 February 2007
Medium Term Financial Strategy 2006/09 – June 2006

Background Information

Financial Implications:	The report outlines the revenue resource allocations for the whole Council for the next three years upon which all basic plans are based upon. It is therefore fundamental to all plans, projects and programmes and the achievement of all goals.
Legal Implications:	None.
Human Resources Implications:	None directly arising from this report.
Asset Management Implications:	The three year Capital Investment Programme 2007/10 has already been approved by Council, this paper only includes for the revenue consequences of that decision.
E-Government Implications:	None directly arising from this report.
Risk Management Implications:	Risks relate to the securing of overall income and avoidance of expenditure threats that will affect the overall finances of the Council.

1. Introduction

1.1 Over the coming months the Executive will need to consider detailed plans for the formulation of its 2008/09 budget and medium term plan. The intention of this report is to provide an early update to Members of the financial environment the Council is likely to face in the period 2007-10.

1.2 The builds on the budget report agreed at the budget meeting of the Council on 21 February 2007. It draws attention to a number of significant cost pressures likely to occur during the period 2007/10, including specific priority areas identified by individual services. This is compared to the resources estimated to be available and the options that the Executive and the Council will have to consider.

1.3 Since 2004, the Council's budget planning process has included a notional allocation of estimated resources for the two years following the budget year, thus forming a three-year Medium Term Financial Plan. The purpose of extending financial planning beyond the one-year budget time horizon is to provide a financial framework for service planning and continuity. Services will be able to plan how they will achieve corporate goals and targets with a greater degree of sustainable certainty, and equally the ability to achieve goals and targets will be balanced with resource availability. This notional allocation of resources has assisted in steering business planning, and has become accepted good practice for the following reasons:

- It empowers organisations to position themselves to capitalise on future opportunities, and perhaps to create them;
- It allows organisations to provide for or avoid possible threats;
- It assists in ensuring the continued sustainable provision of key services, taking into account changes in demography, service quality, public demand;
- Sudden volatility in service provision, which is a feature of one year planning and budgets, is avoided;
- It allows for planned and continually adjusted alignment of resources to key priorities and objectives;
- There is more time to deliver savings and realignment of resources, which can often only be implemented in the medium term, especially when policy changes are needed;
- It provides time to undertake consultation exercises;
- It enables greater long term coordination amongst public service partners to deliver services more efficiently and effectively;
- Financial management, forward planning and the efficient use of resources is strengthened.
- The MTFP is the sum of the Council's medium term plans or actions to achieve corporate goals and objectives expressed in financial terms. As such, the MTFP can be considered as the resources allocated to services in order for them to deliver both their service plans and corporate responsibilities.

1.4 Reference is made to the Budget Report made to Council on 21 February 2007 which discussed in some detail the following relevant matters:

- Improvement in Financial Management and Use of Resources (section 4);
- The Council's success and plans to improve Value for Money (section 5);
- Availability of resources, primarily from the Government (section 6);
- Revenue cost pressures for 2007/08 (section 7);
- Consultation (section 8);
- The Medium Term Outlook (including a summary of the MTFP) (section 10).

1.5 It is not intended to repeat the information already presented to Council in February, but only to enhance or extend such information when it is pertinent to years two and three, and/or to medium term planning.

1.6 The 2007/10 Capital Investment Plans of £112m were also summarised in the Budget Report (section 11). However, a greater level of detail can be found in the Capital Investment Programme and Prudential Indicators report that accompanied the revenue budget report.

2. Medium Term Financial Plan 2007/10

2.1 By necessity the MTFP is based on a number of high level forecasts and assumptions concerning resource availability and estimated cost pressures. For 2007/10 there is a greater level of uncertainty or risk than there was for previous plans primarily due to:

- The outcome of the Government's Spending Review (SR2007) will not be known until 'the autumn', which will then filter into the three year grant settlement in late November. The Council has therefore been without benefit of the Government's commitment to provide three year resource data to enable medium term planning;
- The potential effect that the Lyon's review (published March 2007) may have on Local Government funding, although this will not be as far reaching as first hoped;
- The major exercise of Job Evaluation (JE) is still to be carried out and the results will not be known until October/November 2007;
- The volatility in forecasting pay awards now that the three-year pay award ended in March 2007.

2.2 The MTFP must be contained within the resource envelope, which is the level of forecasted available funding:

Table 1: (Base Budget) Resource Envelope 2007/10

	2007-08 £m	2008-09 £m	2009-10 £m
Formula Grant	62.600	63.539	64.492
Council Tax	77.667	81.929	86.376
Collection Fund	0.428	0.428	0.428
Reserves	0.873	0.437	nil
Total	**£141.568 +£4.673 +3.4%**	**£146.333 +£4.765 + 3.4%**	**£151.296 +£4.963 + 3.4%**

2.3 The key assumptions on available resources are:

- The council will continue to receive the 'floor' i.e. minimum increases in formula grant. In the absence of the SR2007 the working assumption is that the annual increase will be 1.5%. There has been some recent speculation that grant levels could be kept at a cash standstill (see also para 3.3);
- The council tax increase will be 5% for planning purposes;
- There will be a surplus available from the collection fund (council tax collection) of £0.428m in each year;
- The base budget reliance on reserves will fall by £0.437m in each of the following two years 2008/09 and 2009/10;
- The Council will not benefit from the Local Authority Business Growth Incentive Scheme (LABGI, sharing of business rates);
- Any reward grant from the LPSA will not be used to support base budget expenditure (LAA Reward grant is not payable until 2010/11).

2.4 The MTFP has complied with the policies of the MTFS 2006/09, and has been drafted so that it will meet the MTFS objectives:

- To enable longer term planning of services within affordable budget levels;
- To ensure available resources are allocated to identified priorities, leading to improved service outcomes and increased customer satisfaction;
- To ensure a sustainable financial environment is maintained during the medium term;
- To maintain an affordable level of council tax which is within the Government's capping criteria;
- To deliver year on year efficiency savings in excess of the Government's target of 1.25%;
- To support a prudent level of capital investment to support the Council's priorities.

2.5 Table 2 below shows the build up of the MTFP according to cost and income analysis. This analysis is expanded at annexes 1 to 3 to provide the detail at a Directorate level.

Table 2: MTFP 2007/10 by cost and income analysis

	2007/08 £m	2008/09 £m	2009/10 £m
Previous year's budget carried forward	136.895	141.568	146.333
Inflation (incl. job evaluation) [see 2.6]	6.228	9.020	5.820
Demographic & other costs [see 2.7]	5.987	6.919	3.569
Service investment [see 2.10]	0.372	0.568	1.103
sub-total	12.587	16.507	10.492
Planned efficiencies	(4.366)	(2.306)	(1.727)
Service Improvement Programme	(1.000)	(4.000)	(2.700)
Realignment of resources	(2.548)	(1.374)	(1.030)
Budget (deficit)/surplus [see 2.9]		(4.062)	(0.072)
sub-total	(7.914)	(11.742)	(5.529)
Net increase in Base Budget	**4.673**	**4.765**	**4.963**
Annual Budget	**141.568**	**146.333**	**151.296**
Percentage increase	+3.4%	+3.4%	+3.4%

2.6 The key assumptions on costs estimates include:

- Pay awards of 2% in 2007/08 and 2.5% in 2008/09 & 2009/10 respectively with an additional 1% for employer's pension liabilities;
- General inflation on running costs of 2.5%;
- For planning purposes the consequences of Job Evaluation is currently estimated to have a 5% full year increase on the salary bill, to commence in January 2008;
- Levies; 4% passenger transport, 4.5% waste disposal;
- Borrowing costs at 4.5% to finance the recently approved Capital Investment Programme;
- The Service Improvement Team (SIT) efficiency programme can deliver savings of £1m in 2007/08 and a further £4m and £2.7m in 2008/09 and 2009/10 respectively i.e. a total of £7.7m above the savings targets already planned by services of £8.4m.

2.7 In addition to the above base budget assumptions there are significant increases in cost pressures beyond inflation. The largest of these pressures is demography, which is the increase in the number and/or the needs of residents, particularly in the cases of Learning Disabilities and Older People. The cost of implementing new legislation, and a reduction in income as certain Government grants come to an end or are "rolled up" within general grant also pose base budget cost pressure.

Table 3: Summary Analysis of Non-inflationary Cost Pressures

	2007/08 £m	2008/09 £m	2009/10 £m
New Legislation:			
- CYPS	0.299	0.031	0.011
- CSSC	0.033	0.010	
Sub-Total	**0.332**	**0.041**	**0.011**
Demography:			
- CYPS	0.006	(0.002)	0.093
- CSSC	3.550	2.916	2.378
Sub-Total	**3.556**	**2.914**	**2.471**
Loss of Grant or other income:			
- CSSC	0.374	0.780	0.153
- PPD		0.080`	
Sub-Total	**0.374**	**0.860**	**0.153**
Other business consequences:			
- CYPS	0.294	0.267	0.147
- CSSC	0.396		
- PPD	0.106	0.194	(0.076)
- CCS	0.275	0.005	
Sub-Total	**1.071**	**0.466**	**0.071**
Corporate Budgets [see 2.8]	0.481	2.086	0.320
Total	**5.987**	**6.919**	**3.569**

2.8 Pressures in the Corporate Budgets relate mostly to the financing of the Capital Investment Programme and other changes to Treasury Management, such as surplus cash volumes. For 2008/09 there is a specific increase of £0.350m, which is the currently estimated cost of the increase in Passenger Transport Levy relating to the introduction of national free travel for pensioners and the disabled.

2.9 The notional 2008/09 budget does not balance and is in deficit by £4.062m. The 2009/10 notional budget is marginally in deficit by £0.072m. **The Executive will need to take specific steps in the development of the 2008/09 Business Planning process to address this issue.**

2.10 It is also noted that the level of service improvement and/or investment over the medium term is £2.043m (see Table 4). **The Executive would wish to increase the base budget investment in key priority areas as part of the 2008/09 Business Planning process.**

Table 4: Planned Base Budget service investment 2007/10 (by Directorate)

Directorate	2007/08 £m	2008/09 £m	2009/10 £m	Total £m
CYPS	0.073	0.033		0.106
CSSC	0.109	0.492	0.103	0.704
PPD	0.015	0.320	1.000	1.335
CCS	0.175			0.175
Corporate		(0.277)		(0.277)
Total	**0.372**	**0.568**	**1.103**	**2.043**

2.11 In the 2006/07 and 2007/08 budgets priority investments of £9.4m have been financed from reserves generated from previous budget underspends, and as such this investment is one-off in nature.

In developing the 2007/08 Business Planning process the Executive will also be mindful to improve the level of priority service base budget investment wherever possible, given the constraints of limited funding.

3. Sensitivity Analysis

3.1 There are indications that some of the basic assumptions used to build the MTFP will need to be reviewed during the 2008/09 Business Planning process. For example, the Government may tighten fiscal policy leading to lower general and specific grants and base greater reliance on efficiency gains that are already built into the Council's MTFP. Table 6 below indicates what some of the potential consequences are to the MTFP, and in particular the overall deficit/surplus position should some of these assumptions need to change.

3.2 The main expenditure threats are Job Evaluation (JE), potentially enhanced by future pay awards. The Executive has established a specialist team (PARIS) to identify the consequences of JE at as early a stage as possible, and particular attention will be paid during the 2008/09 Business Planning process and the implementation of the efficiency agenda. One of the objectives of the PARIS team is to ensure that any increase caused by JE deliver a commensurate increase in service delivery.

3.3 The main income threat relates to Government Funding and the results of SR2007, which unfortunately will not be known until 'the Autumn'. There is also the need to maintain dialogue with the PCT regarding the level of pooled contributions for the learning disability service in particular.

Table 5: Sensitivity Analysis of 2007/10 MTFP basic assumptions

Changes to MTFP assumptions	2007/08 £m	2008/09 £m	2009/10 £m
Expenditure assumptions:			
- Variation in Job Evaluation costs of 2%	±0.424	±1.276	
- 0.5% variance in Pay Award 2008/09 and 2009/10		±0.397	±0.399
- 0.5% decrease in investment rates 2008/09 and 2009/10		0.333	0.309
- 0.5% increase in borrowing rates 2008/09 and 2009/10		0.056	0.064
Income assumptions:			
- Government introduces a 0% floor in SR2007		0.939	0.953
- PCT funding increases		(0.931)	(0.663)
- Variation in level of Council Tax by 1%		±0.780	±0.857

4. Integrated Planning and Review Cycle

4.1 The Executive is currently in the process of reviewing the current Corporate Plan 2005-08 to reflect the current planned activities towards the achievement of the stated aims. Following this it will be necessary to consider a revised set of aims and objectives for the planning period 2008-11, which will neatly coincide with the government's own planning horizon in the spending review 2007. This new corporate plan will take into account matters such as:

- The Community Strategy ('*Trafford 2021 - a blueprint*')
- The Local Area Agreement (LAA)
- Resident's views on services, informed by the recent Mori survey
- Any prescribed government priorities
- Other local priorities
- Likely resource envelope available to Trafford

4.2 The Executive will agree a budget setting process which will set out the steps which will lead ultimately to proposals being made to the Overview and Scrutiny Management Committee and the full Council in February 2008.

5. Conclusions & Considerations for the 2008/09 Business Planning Process

5.1 The report identifies a number of issues that the Council will face over the medium term. The Executive are fully aware of these challenges and are planning a number of actions to ensure a draft balanced budget is prepared in sufficient time for consultation ahead of final decisions in February 2008.

5.2 It is already clear from the indicative figures for 2008 -10 (para 2.5) that the push for efficiency savings needs to remain a high priority. The Council has already established an earmarked reserve to pump prime the Service Improvement Programme initiative (balance remaining approx. £1.4m). It is further recommended that the contingency of £0.595m included in the 2007/08 revenue budget be earmarked for the Improvement Programme.

5.3 To ensure a robust and sustainable budget is produced in February the following activities will be carried out:

- Reviewing the achievement of the Community Strategy;
- Reviewing both the performance and financial out-turn for 2006/07 for both capital and revenue plans;
- Reviewing objectives and key priorities for both the medium term and the 2008/09 Business Planning process;
- Lobbying the Government to secure additional funding through such schemes as LABGIS, the opportunities arising from the Lyon's Review, and securing the best deal possible through SR2007;
- Reviewing and recalculating the resource envelope for the medium term in light of the SR2007 and assigning new cash limits to all Directorates;
- Continuing the dialogue with the PCT to secure funding or better ways of working in partnership to mitigate the demographic pressures, particularly with regard to Learning Disabilities;

- Collating unit cost and other value for money data, and reviewing benchmarking exercises;
- Review demand-led budget client number forecasting methodologies in light of the 2006/07 out-turn;
- Determining methods and options for specific and continuous consultation;
- Determining options and methods to balance the budget in 2008/09, and to secure greater levels of base budget investment in key priority areas in the medium term;
- Reviewing and publishing the Medium Term Financial Strategy as a consequence of the above, and;
- Issuing new guidance to all managers on the 2008/09 Budget and 2008/11 MTFP Business Planning process.

6. Recommendation

6.1 Members are requested to:

(a) note the current forecasted financial position;

(b) agree the planned activities outlined above (see 5.3);

(c) prioritise the use of the budgeted contingency of £0.595m for the Service Improvement Programme.