



TRAFFORD
COUNCIL

**Medium Term
Financial Strategy
2010/13**

October 2009

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2. Foreword and Executive Summary

I am please to present Trafford Council's fourth update to its Medium Term Financial Strategy (MTFS), for the period 2010 to 2013.

Trafford is relatively under-funded by central Government in comparison to other local authorities, and has the nineteenth lowest Council Tax in England. Though low-funded, year after year the Council is independently assessed as offering good value for money, high performing quality services and consistently exceeds the minimum national standards for financial management.

The objectives and supporting policies of the MTFS are designed to assist the Council in ensuring that the people of Trafford will continue to be provided high performing, efficient and effective services for now and into the future, whilst avoiding unnecessary tax burdens and ensuring best value for money. These objectives are:

- **Keeping the Council Tax low**
- **Increasing the resources available to the Council**
- **Delivering value for money**
- **Delivering a robust, balanced and sustainable budget (both capital and revenue)**

A review of achievement against the MTFS objectives for the last three years shows that the Council is successfully delivering on its financial intentions, after taking into account the short term effects of the economy.

The current economic climate represents a period of uncertainty and instability which will affect both service demand and financial planning in the medium term. Whilst not a long term issue, dealing with the impact of the current economic climate on the Borough is an additional priority for the Council in the short term and a special feature of this MTFS. In particular to assist residents the planning assumption for council tax increases has been halved to 2.5%.

In order to continue to deliver on our financial targets, the medium term policies reinforce the need for collaboration with partners, outcome-based effectiveness reviews, improved management information systems, transformational and customer-focused services, and higher goals in financial management across the Council.

I would like to thank my Executive colleagues, the Corporate Management Team and the Director of Finance for their assistance in the development and formulation of the Medium Term Financial Strategy 2010/13, and submit it to Council for approval.

*John Tolhurst
Executive Member for Finance
Trafford Metropolitan Borough Council
26 October 2009*

3. Introduction

1.1 Section Outline

- **What is the purpose of a medium Term Financial Strategy (MTFS)?**
- **How does the MTFS link to other Strategies and Plans?**
- **What are the Objectives of Trafford Council's MTFS?**
- **What would you expect to find in a MTFS?**

What is the purpose of a Medium Term Financial Strategy?

3.1 The purpose of the Medium Term Financial Strategy is:

“To identify how the Council wishes to structure and manage available resources over the medium term (3 years), and to ensure that resource allocation is aligned with and supports Council priorities, and objectives contained within the Corporate Plan.”

3.2 Details of the Council's objectives and priorities can be found in the Corporate Plan, the Community Strategy, and the Local and Multi-Area Agreements. The main objectives are:

Low Council Tax and Ensuring Value for Money:

To ensure that the Council can demonstrate it provides efficient, value for money services to the people of Trafford

Quality Care for Adults:

To use our resources in a fair and equitable way to meet the needs of the most vulnerable people in our community

Fighting Crime:

To reduce the impact of crime on the lives of people in the Borough by working with partners to reduce crime and to tackle the perception of crime

Preserving and Improving Educational Excellence:

Ensure that from a person's early years, education and personal development opportunities are accessible in order for them to realise their full potential.

Better Roads and Pavements:

To identify, provide and deploy significantly increased investment to improve roads and pavements.

A Cleaner, Greener Borough:

To deliver the cleaner and green agenda, incorporating the waste management strategy, recycling targets and awards for parks.

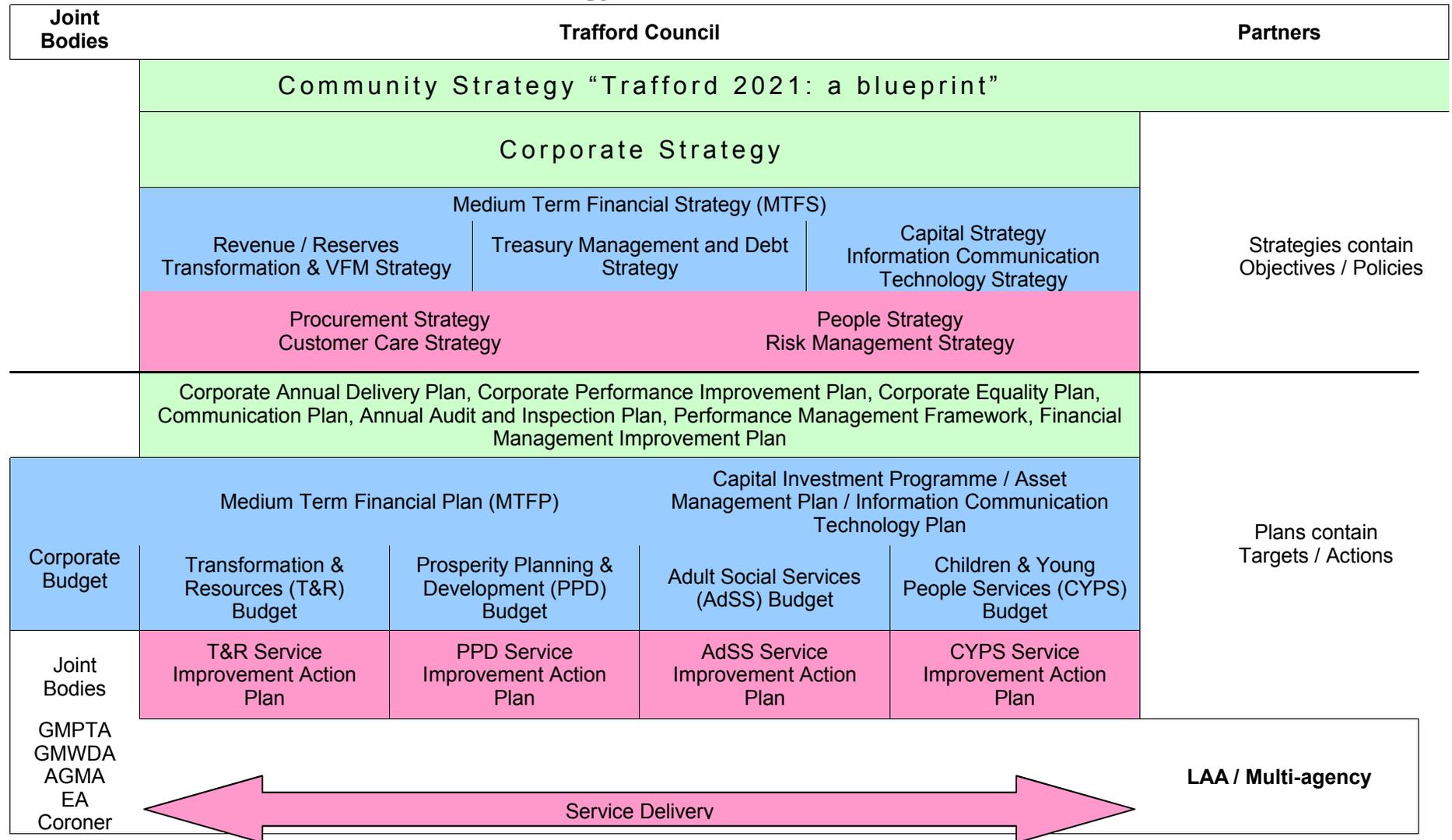
3.3 The Medium Term Financial Strategy is orientated towards the analysis and allocation of revenue budgets and reserves. The Capital Strategy and Treasury Management Strategy deal in more detail with capital assets and the consequences of borrowing for capital purposes. There are other associated strategies, each dealing with particular elements of the Council's overall business activity:

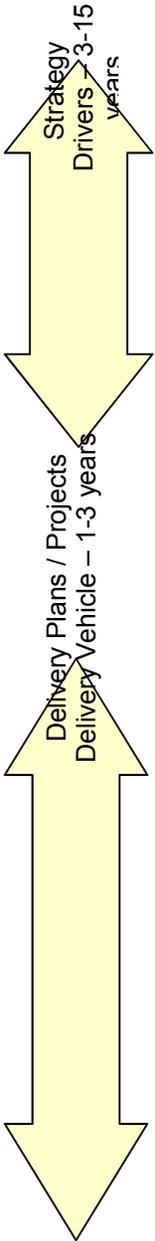
- Capital Strategy
- Treasury Management & Debt Strategy
- Transformation and Value for Money Strategy
- Procurement Strategy
- People Strategy
- ICT Strategy

How does the MTFs link to other Strategies and Plans?

3.4 The MTFs along with its associated strategies contains the fundamental and over-arching policies to ensure that available resources are aligned to the achievement of the Council's goals and objectives:

Strategy and Plan Overview





Key: Strategy Plan	Vision Standards	Resource Budget	Behaviour Action
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What are the objectives of Trafford Council's MTFS?

- 3.5 The Council's objectives remain unchanged and are (policies supporting the objectives are listed at Annexes A to D):

Objective 1: Keeping Council Tax (or other forms of local taxation) low; to keep Trafford within the lowest local taxation areas in the Country:

Objective 2: Increasing the resources available; to enable the delivery of the corporate plan and the overall Community Strategy

Objective 3: Delivering Value for Money; to obtain the highest benefit from all resources used in pursuit of the Corporate Plan and Community Strategy

Objective 4: Delivering a Robust, Balanced and Sustainable Budget and Asset Base; so that sufficient resources are allocated to priority services so that they can deliver essential services to customers at the required standard for the medium and into the longer term.

What would you expect to find in an MTFS?

- 3.6 In addition to the Objectives and policies of the MTFS you would also expect to find:
- A review of progress against the MTFS objectives (section 4)
 - An assessment of the current financial position (section 5)
 - A review of the Medium Term Environment and how that may impact on the Council (section 6)
 - For planning purposes, an estimate of the amount of resources available to the Council in the medium term ("Resource Envelope"), this will include (section 7):
 - A Council Tax Strategy (annex E)
 - A Fees and Charges Strategy (contained within the VFM Strategy)
 - A Prudential Borrowing Policy and Methodology (annex F)
 - A review of Financial Management (section 8)
 - An assessment of Risks and Opportunities and how policies are changing (section 9)

4. Review of the Achievement of MTFS Objectives

Section Outline

- To identify how the Council has performed against the MTFS objectives over the last three years
- To raise any future issues concerning performance against the MTFS objectives and targets

- 4.1 Generally the Council has and is performing well against its MTFS objectives. Management action has been taken to control and reduce unit/costs in demand led budgets, though the volatility in demand still poses issues. More recently the recession has impacted on the budget in a number of ways. Primarily is the reduction in both revenue and capital income. Some of this has been mitigated by the use of reserves to support sustainable budget whilst the economy recovers, however, the levels of loss have proved to be higher than expected impacting yet further on the 2009/10 forecasted outturn.

Objective 1: Keeping Council Tax Low

- 4.2 When compared to the 326 district areas in the country, has currently and has historically a very low Council Tax payable at Band D. The Council has slowly been moving up the league table over the last four years as higher than inflation tax rises have been necessitated by the change in how national funding is distributed and to ensure that there was sufficient investment in high quality essential public services. However, Trafford is 19th lowest in the country, being at the bottom end of the first quartile:

	2006/0 7	2007/0 8	2008/0 9	2009/1 0	Lowest Quartile
Council Tax comparative ranking with all other districts in England	(actual) 8 th	(actual) 8 th	(actual) 11 th	(actual) 19 th	82 nd

- 4.3 The Council Tax policy is to use annual increases of 2.5% for planning purposes, though this is subject to annual budget consultation and central Government's capping regime. This is a change to the previous MTFS policy, reflecting the immediate need to reduce the impact of the recession on tax payers.
- 4.4 Due to reduced central Government support, Council Tax increases are the main source of new sustainable funding (see section 7), especially now that the Government assumes high levels of annual efficiencies before awarding grants.

Maintaining and investing in high quality essential public services is reliant on the annual increase in Council Tax as it becomes the only increase in sustainable funding over the medium term.

- 4.5 Until recently the total revenue from Council Tax was not only increased by the annual tax level, but also by growth in the tax base, which is the number of taxable properties in the Borough (measured in Band D property equivalents). As Trafford is a desirable place to live, previously there has been steady growth in the building of new properties and an increase in total tax revenues. However, the current economic climate has impacted on new housing build, reducing tax base growth to nil.

Objective 2: Increasing Resources available

- 4.6 The Council can only spend as much as it receives, and the following table shows the growth in total annual revenue above inflation:

	2006/07	2007/08	2008/09	2009/10	Target
Real terms growth in the Council's budget year-on-year	(actual) 2.9%	(actual) 2.5%	(actual) 3.7%	(actual) 3.4%	< 1.0%

- 4.7 There has been significant real terms growth in Council services over the last four years. The current economic climate will have a significant impact on income and funding sources, as well as the needs of many vulnerable people for essential high quality public services.

Objective 3: Delivering Value for Money

- 4.8 The Audit Commission has independently assessed the Council to have good systems and processes to identify and realise efficiency savings, and also that it has a good track record of delivering efficiencies:

	2006/07	2007/08	2008/09	2009/10	Target
Audit Commission Use of Resources scores (out of 4)	(final) 3	(final) 3	(final) 3	(draft) 3* (see 4.11)	3

- 4.9 At the time of publication the Use of Resources score was subject to national moderation. The Use of Resources assessment radically changed for 2009/10, and included for other areas such as sustainability. Managing Resources, which is the relevant comparison for the above indicator, was a score of 3.

- 4.10 In partnership with external experts the Council has engaged on an ambitious efficiency agenda over the last few years which has released a significant amount of resources to support Council priorities. In the future, it is hoped that partnership with other Greater Manchester Authorities and other public sector bodies within the Borough (such as the Primary Care Trust) will continue to generate even higher levels of savings:

	2006/07	2007/08	2008/09	2009/10	Target
	7	8			

Real cash savings delivered or expected	(actual) £2.0m	(actual) £3.4m	(actual) £5.3m	(estimate)) £6.5m	< £3.5m
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- 4.11 As a “low-tax and low-spending” authority, the Council has always been relatively efficient, and the table above clearly shows the improving success in becoming more and more efficient every year.
- 4.12 The Government has set increased efficiency targets for the medium term; however, the need to identify efficiencies to maintain essential high quality public services is clear. The challenge in the future will be in identifying, realising and maintaining efficiencies in a cost-effective manner, and particularly above Government funding assumed target levels (see Transformation and Value for Money Strategy).

Objective 4: Delivering a Robust, Balanced and Sustainable Budget and Asset Base

- 4.13 The capital needs of the Council are discussed in detail in the Capital Strategy, and the information technology needs or infrastructure is contained within the ICT Strategy.
- 4.14 The primary test for “robustness and balanced” is whether the annual plan is delivered within the agreed budget. The following table summarises the out-turn or forecasted out-turn for the last four years:

	2006/07	2007/08	2008/09	2009/10	Target
Out-turn variance against the agreed Budget	(actual) £(1.9)m Under	(actual) £(2.1)m Under	(actual) £(1.6)m Under	(forecast) £0.5m Over	> 0.0m Nil or under

- 4.15 The forecasted overspend for 2009/10 is at the end of August 2009. Management action will continue throughout the year to address this overspending position. Contained within the 2009/10 forecast is an unexpected reduction of £1.9m in income as a direct consequence of the economy. Discounting the short term effects of the economy, a like-for-like comparison of the 2009/10 forecast would be £(1.4)m under.
- 4.16 A “sustainable” budget ensures that services which are to be delivered into the medium term and longer are not reliant on one-off funding sources such as reserves. The following table shows that there has been a steady reduction in the use of reserves to support base budget expenditure:

	2006/07	2007/08	2008/09	2009/10	Target
One-off funding used to support base budget	(actual) £2.0m	(actual) £1.3m	(actual) £0.9m	(actual) £1.3m	0.0m Nil

- 4.17 It was originally planned to use little to no reserves for the 2009/10 budget. However, the consequence of the economy in suppressing incomes and investment interest has made it necessary to use reserves to prevent

reductions in sustainable services. This temporary increase in the use of reserves is in line with the current 2009/12 MTFS policy.

5. Assessment of the current financial position of the Council

Section Outline

- How much does the Council spend?
- Where does the money to finance the budget come from?
- How well is the Council controlling spending?
- What reserves does the Council have?
- What future pressures does the Council face?

Expenditure and Income

- 5.1 Details of the current budget and a summary of the Medium Term Financial Plan can be found in “Budget Book 2009/10 and Medium Term Financial Plan 2009/12”, however, in summary:
- Over 90% of the Council’s budget is orientated to mandatory services, such as Education, Social Services and Benefits. It is a legal requirement of the Council to provide these services to specified levels.
 - This leaves little of the budget for discretionary services, such as parks, sport, culture, leisure where either the need to provide the service and/or the service level is determined by the Council and not enforced by statute.
- 5.2 The gross expenditure budget is bounded by the amount of income and funding available, i.e., the Council can only spend the income it has:
- 72% (£333m) of income is determined by the Government in the form of specific and general grants
 - Trafford receives the lowest increase in Government funding, and has done for some years
 - 8% (£38m) of the Council’s income comes from fees and charges, which is a 1% increase on last year and in-line with the Council’s MTFs policy to raise more money locally. However, a significant number of fees and charges are determined by statute or regulation of central Government and not determined locally
 - 1% (£5m) of income comes from investment income and the use of reserves. Whilst there has been a slight increase in the use of reserves to support sustainable services during the recession, there has also been a significant drop in available investment rates, and also institutions with adequate credit rating to invest with. Details can be found in the Treasury Management Strategy.

- 19% (£86m) of income comes from Council Tax, and although tax levels are determined locally by the Council, the Government reserves the power to prevent high Council Tax rises. Recently the Council Tax 'cap' has been around 5%, however this level may reduce as a consequence of the recession and a General Election not being far away.

The majority of the Council's budget is spent on statutory services, most of the total amount of budget available is determined by the Government, Trafford is one of the lowest funded Council's in the country, and one of the lowest Council Tax levels, which is restricted by Government capping.

Budget Monitoring

- 5.3 Current expenditure is monitored on a monthly basis starting in July for the first quarter (April to June). Revenue monitoring is done on a forecast to year end basis, including activity forecasting for those budgets which are sensitive to changing customer demand. Monitoring reports are available on the Council's web site.
- 5.4 Monthly review of Council activities has historically been finance led in terms of expenditure in relation to approved budget. Over the last few years more and more performance data has been used in the overall assessment of the Council's business, and current monitoring reports reflect both financial and non-financial data to give a more rounded assessment of how the Council is performing against its targets. Those targets of course include keeping spending within the Council approved budget.

Reserves

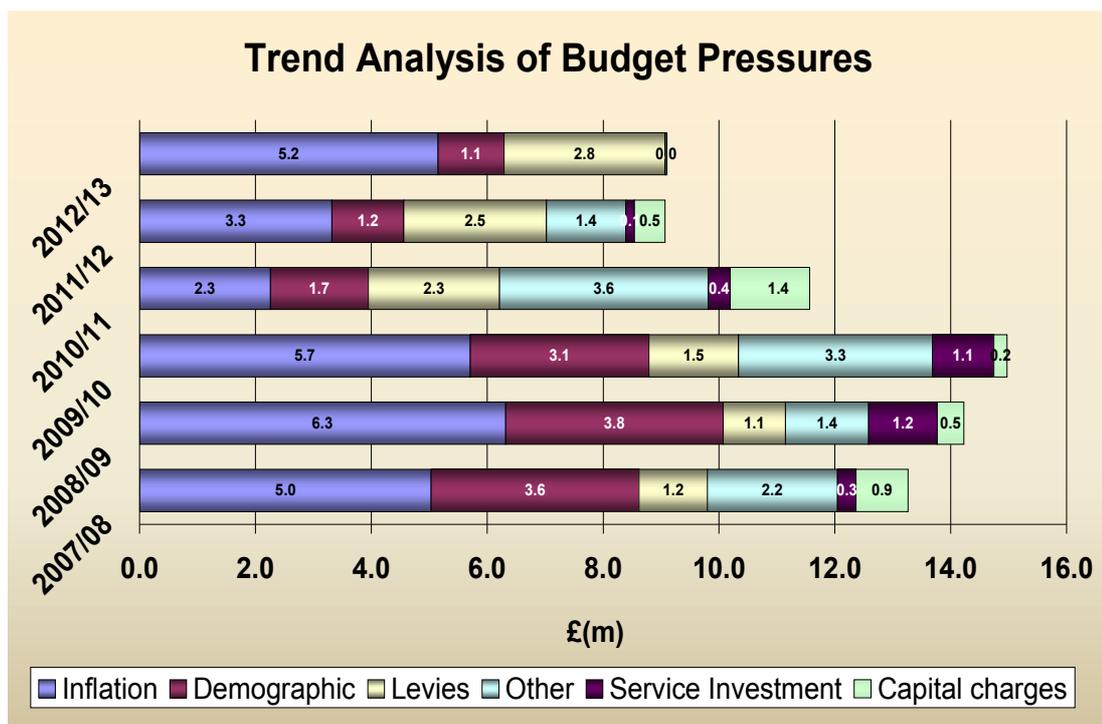
- 5.5 The Council holds a number of reserves, most of which are committed to future expected expenditure:

Table 1: Summary of reserve balances as at 31 March 2009

Reserve	Balance 31/3/2009 (£m)	Comment
Schools	12.1	The majority of these reserves are delegated to schools and the money can only be used for schools related expenditure
Capital Projects	2.4	To finance schemes committed in the Capital Investment programme
Insurance	5.2	To meet the costs of insurable claims for which the Council has self-insured
Revenue Projects		
- Local Area Agreement	0.5	Pump priming monies supporting achievement of reward targets
- Service carry forwards	1.0	Underspend from previous years
- Smoothing Reserves	1.0	To maintain average budget levels over medium term
- Corporate projects	0.5	Maintenance and replacement programmes
- Invest-to-save	2.9	To pump prime efficiency projects
General	7.3	Minimum reserve level set at £5.0m
Total	32.9	Of which £25.6m is committed, and £5.0m held as minimum working balance

- 5.6 Not included in the above are reserves to support expenditure as a consequence of Equal Pay legislation. Some of this expenditure is for the implementation of job evaluation and some is for the capitalisation costs of equal pay claims which have yet to be settled.
- 5.7 The General Reserve is held as a minimum working balance and also contains provisions to mitigate unexpected expenditure demands and emergencies that would not be covered by Government support or insurance.
- 5.8 The current end-of-year forecast for the General Reserve is £5.5m after taking into account the forecasted out-turn for 2009/10. However, a review of earmarked reserves as part of the budget process may release resources.
- 5.9 In addition, the minimum reserve level is yet to be assessed as part of the 2009/10 budget process. The need to mitigate reduced investment income and the potential service issues arising from an uncertain period of economic instability will have a bearing on that assessment.

Expenditure Pressures



5.10 The above chart shows the trend in expenditure pressures from 2007/08 and forecasts them over the coming medium term to 2012/13 (as estimated at September 2009). At the time of writing the costs for 2010/13 are subject to the medium term planning process, and whilst new costs may be identified as work continues, equally costs may be managed out as a pressure. The above chart does demonstrate that:

- Inflation; is much reduced as a consequence of the recession, however, rises again into the medium term as the economy is anticipated to recover. It remains a significant cost pressure, if not the most significant. New

business delivery models and improved procurement practices will be employed to reduce this pressure into the longer term.

- Demography; primarily relates to the increasing numbers and degree of care required in all social services. In previous years this has been a major draw on available resources, however, whilst client numbers will continue to rise the many efficiencies and cost control measures introduced have reduced unit costs.
- Levies; are charges made by joint boards that operate on behalf of a number of Greater Manchester Councils providing services such as Waste Disposal and Passenger Transport. These costs are scrutinised and the Council has representation on the governing body, however, the increase in service need such as the costs of waste and the extension of the Metrolink system, means the levies are rising higher than the rate of inflation even after efficiencies are taken into account. The extremely successful recycling programme in Trafford has significantly reduced these costs.
- Service Investment; would appear to be reducing into the medium term, however, the traditional practice of identifying efficiencies to fund service investment has now been overtaken by transformation. Transformation is discussed in more detail in the Transformation and VFM Strategy, but in summary it is a method of review which improves customer focused service outcomes and reduces costs at the same time.
- Capital charges; are reducing over the medium term as the need to borrow money reduces as a consequence of the Government providing funding more in terms of cash grant than borrowing approvals. Essentially debt charges will now be paid by the Government for long term building projects, which reduces what has previously been a significant cost pressure to the Council.

5.11 The chart also clearly shows that cost pressures are expected to peak in 2009/10, with the full year effect of higher inflation and increasing demands caused by increasing numbers of children requiring social care support. Into the medium term, control of demographic pressures and limiting “other” expenditure will mitigate the increase in inflation and are set to reduce unavoidable expenditure pressures by 32%. In addition, costs will be reduced further by the Transformation Programme.

5.12 In the current economic climate however, it is difficult to be certain about future interest rates, levels of inflation, and the needs of clients. It is possible that the review of 2011/12 and 2012/13 forecasts in 2009 may identify further expenditure pressures. Until there is more economical stability and certainty it is likely that minimum reserve levels will need to reflect current circumstances.

6. Medium Term Environment

Section Outline

- To review the possible environmental factors that may affect service demand or income levels in the medium term.
- To identify policies for all other plans and strategies that will assist the Council to realise potential opportunities whilst avoiding possible threats
- To identify risks to the MTFs and the achievement of its objectives, and the medium term financial plan

Medium Term Economic Climate

- 6.1 Measures were taken in the 2009/10 budget to mitigate the impact of the recession on the Council, and also to stimulate economic growth and to assist the people of Trafford.
- 6.2 The details of the measures taken to support the people of and businesses of Trafford are detailed, monitored and reviewed in a quarterly report to the Executive, which are available on the Council's web site. These measures include for:
- assistance to find work, stay in work, or to deal with being made redundant
 - assistance to keep your home
 - promoting Trafford as an attractive investment to the wider European and Global business community
 - support to Credit Unions to improve the supply of loans to the most vulnerable, and support to the Citizens Advice Bureau to provide advice on debt management
 - reducing fees, charges and rents to support businesses dependent upon the Council
 - improving speed of invoice payments to reduce cash flow concerns for local businesses
 - employing more benefit staff to ensure speedy and accurate processing, and the provision of advice and assistance
 - encouraging the take up of business rate relief to those that are eligible
 - overall £0.5m of new investment and the re-prioritisation of services to target the impact of the recession was made

- 6.3 The impact of the recession on the Council was underestimated in the 2009/10 budget process, particularly in the case of a number of income streams (more details can be found in the monthly Revenue Budget Monitoring Reports and the Quarterly Capital Investment Programme Monitoring Reports to the Executive that are available on the Council's web site):
- Investment interest, £1.0m
 - Planning and Building Control income, £0.5m
 - Parking charges, £0.4m
 - Other revenue fees and charges £0.3m
 - Capital receipts (sale of land and buildings) £4.3m
- 6.4 There has also been increased demand for the need of public services, most notably in the case of Children's Services.
- 6.5 It is clear that the recession has had a major impact on the community and businesses of the Borough, as well as the Council, and those measures to mitigate those impacts will be a major consideration during the medium term.
- 6.6 To allow for further discretion in being able to help residents during the recession, the Council Tax increase used for planning purposes across the medium term has been halved from 5% to 2.5%. The actual determination of the Council Tax is made towards the end of each year's business planning cycle (around January/February) and will be subject to a number of considerations, for example:
- The cost pressures on key essential public services
 - The level of savings identified in terms of efficiency and/or through the Transformation process
 - The level of reduction in Government support
 - The rate of economic recovery

Value for Money – Economy, Efficiency and Effectiveness

- 6.7 In association with the MTFS, the Transformation and VFM Strategy contains more detail as to how the Council intends to both reduce costs and make significant improvements to customer focused service.
- 6.8 In 2005/06 the Council made Value for Money a key priority, and savings by way of efficiency was a specific financial objective. An ambitious efficiency agenda has been vigorously pursued, and to date is set to deliver £12.9m with a further £6.5m expected in 2009/10 and further Transformation efficiencies into the medium and longer term. Without this planned contribution to cost reduction the Council would not be able to balance the budget whilst avoiding significant reductions in services and/or service quality.

Local Area Agreement and Multi-Area Agreement

- 6.9 A Local Area Agreement (LAA), is an agreement between a Council and the Government to deliver improvements, or 'stretch-targets', on specific national and local service indicators over a three year period. A Multi-Area Agreement (MAA) is similar to an LAA where one or more targets are shared across a number of authorities' areas.
- 6.10 The delivery of LAA's and MAA's is not solely the responsibility of the Council, and in fact are delivered through the Trafford Partnership (Trafford Borough Local Strategic Partnership, more detail can be found on their web page).
- 6.11 The planning process for LAA's and MAA's has now been established as part of normal medium term planning. The goals and objectives of the authority inform the choice of national and local indicators set for improvement, and once chosen these indicators form part of the Council's service priorities.

Collaboration and Partnership Working

- 6.12 The future of generating efficiencies may be reliant to a significant degree on collaborative working with other authorities in Greater Manchester, and/or with other authorities and partners.
- 6.13 Collaborative working can take many forms, from sharing initial development costs and capacity, to services being delivered on other Council's behalf by one or more others.
- 6.14 Through the Association of Greater Manchester Authorities (AGMA), a project office for collaborative working has already been established at Salford Council, and at Trafford Council the Procurement Hub for AGMA has been set up.

Working in collaboration with partners, whether it is to deliver on stretch targets for the MAA which will bring in reward grant and improved services, or in order to generate efficiencies will be a main theme and driver of both the MTFs and much of the Council's activity in the medium term.

7. Availability of future funding: the “Resource Envelope”

Section Outline

- A review of the sources of income and funding and how they may behave during the medium term
- To identify policies for all other plans and strategies that will assist the Council to realise potential opportunities whilst avoiding possible threats
- To identify risks to the MTFs and the achievement of its objectives, and the medium term financial plan
- Statement of available resources in the medium term

Interest Rates

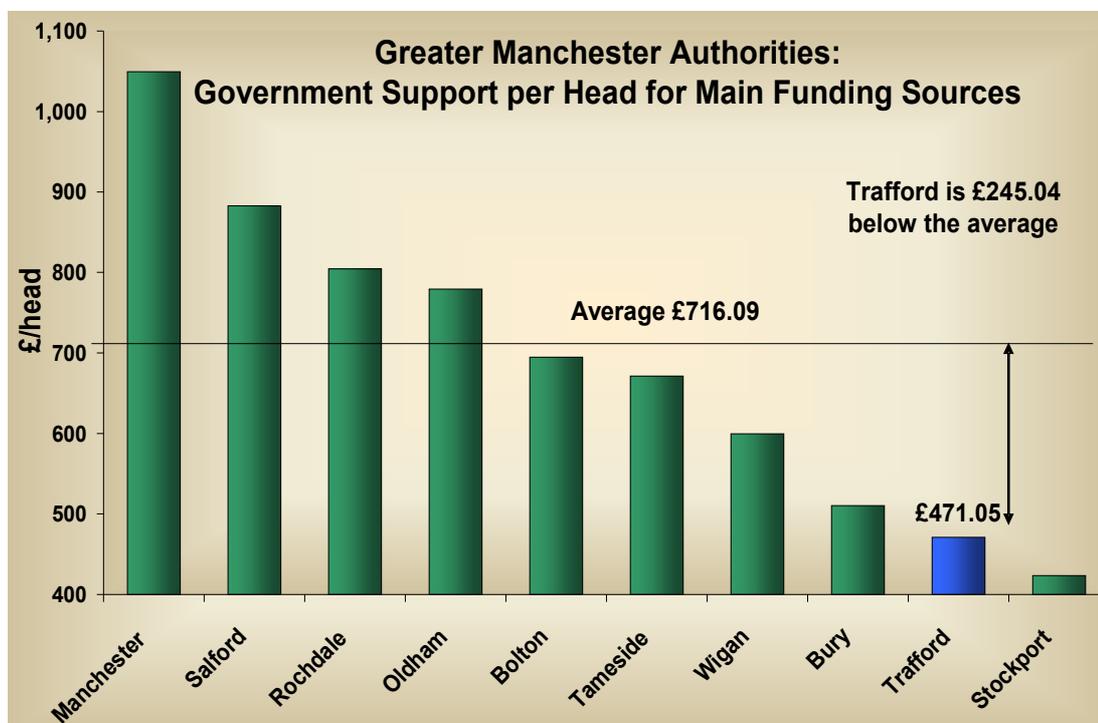
- 7.1 The effect of interest rate changes is discussed at greater length in the Treasury Management and Debt Strategy which forms part of the overall Medium Term Financial Strategy. The summary conclusions of the Treasury Management and Debt Strategy are:
- Predictions of interest rates is less certain than in previous years, however, the forecast suggests lower investment rates and therefore lower income through the medium term.
 - With borrowing rates significantly higher than income rates throughout the medium term the Debt Strategy suggests borrowing in the short to medium term from internal balances, until long term rates are either stable or reach an advantageous low before undertaking external borrowing of 20 years plus.

Fees and Charges

- 7.2 Income from Fees and Charges represents £38m (8%) of total funding. It is the MTFs objective of the Council to increase total resource availability and therefore a specific policy to maximise revenues by way of fees and charges. Achieving this policy is discussed in the Transformation and VFM Strategy.
- 7.3 The Fees and Charges Strategy is supported by a management guide which was first issued in 2005, and will be reviewed in 2009 so that it is in line with best practice as published by the Audit Commission (“Positively Charged”).

Government Support – Non-Schools Grants

- 7.4 The Government provided a three year forecast of minimum general grant support following the Comprehensive Spending Review (CSR) of 2007, and the funding levels up to 2010/11 have been confirmed. Trafford will receive the lowest increase in Formula Grant, or the ‘floor’, in 2010/11.



- 7.5 It is likely that Government funding will reduce in the medium term, probably significantly, as a consequence of the recession and substantial increases in national debt. 2010/11 is the final year of the last Comprehensive Spending Review (2007), and therefore there are no forecasts for (general) Formula Grant for 2011//12 and 2012/13, and limited knowledge on the changes to Area Based Grant in 2010/11 and no information thereafter.
- 7.6 It is unlikely that any forecast data will be available until after the next General Election, and prudent forecasts of minus 5% have therefore been taken into the medium term:

Table 2: Formula Grant assumptions

Government support to fund (non-schools related) net budget	2010/11 (£m)	20010/11 (£m)	2011/12 (£m)
Total estimated Formula Grant	69.822	66.332	63.015
Increase on previous year	1.009	(3.490)	(3.317)
	1.5%	(5.0)%	(5.0)%

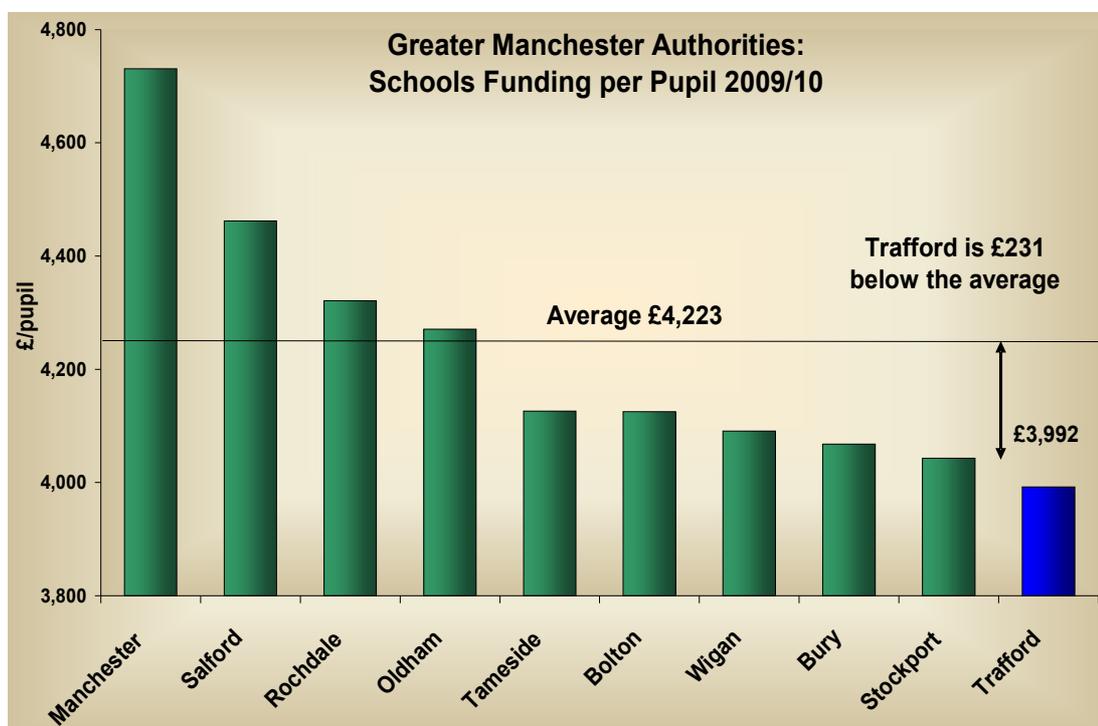
7.7 It is also likely that the Government will significantly reduce specific grants, due to both reductions in Government Departmental expenditure and a desire to encourage efficiency throughout the public sector. Trafford does receive a number of specific grants, and it is yet to be announced what the funding level for many of them will be in 2010/11. Funding levels for 2011/12 or later are not expected to be announced as these will be determined after the national election.

7.8 It is also possible that some specific grants will be moved into general grant, either Formula or ABG, and/or that the two general grants will merge. The grants have different distribution mechanisms and some are more favourable than others, and a change in the grants status can therefore lead to cash losses.

Dedicated Schools Grant

7.9 The Council's largest grant, and the main source of funding for Schools, is the Dedicated Schools Grant or DSG. In 2009/10 the DSG is £134.6m, other education related grants sum to £28.3m, which funds the delegated schools budgets of £150.7m leaving £12.2m for Local Education Authority responsibilities.

7.10 Trafford receives the lowest DSG funding in Greater Manchester and the difference between the average funding and what is actually received is worth nearly £8m.



7.11 Increases in per pupil funding are dependent upon DSG increases, which for 2009/10 is £3,992/pupil, an increase of £168/pupil, or 4.2%, for Trafford.

7.12 The Government has significantly increased funding for Education as a key national priority over the last ten years, this trend may change given the

current economic climate. The Department for Children, Schools and Families is reviewing the distribution mechanism of Government funding for schools, with a view to introducing a new scheme in April 2011. This scheme is anticipated to include;

- Reduced year-on-year increases in DSG
- A reduced level of Minimum Funding Guarantee (MFG) increase per pupil, and perhaps the MFG being abolished

Business Rates

7.13 The Council receives a per capita redistribution of National Non-Domestic Rates (NNDR) through the Formula Grant. There are a number of opportunities where the Council may obtain additional funding:

- Business Investment Districts (BIDs); legislation already exists to enable local businesses to increase the amount of NNDR they pay in order to fund specific initiatives. To date the Council does not have any BID's and there are no requests to have one established.
- Local Authority Business Growth Incentive Scheme (LABGIS); this national scheme has been in operation for the last three years. However, out of the national award of £850m Trafford has not received any money during this period. The scheme has been reviewed so that Trafford will receive some award, however, the national total has been reduced to only £100m over two years, and Trafford has only received £0.255m In 2009/10. The future of the scheme is likely to be affected by the recession.
- Supplementary Rate; local businesses can elect for an additional levy of 2p in the business rate rateable value. Forecasts suggest that this could be worth around £4.7m of additional revenue across the Borough, however, any increased revenues must be spent on economic regeneration programmes and are subject to a vote by the business community to accept the additional charge. The recession has a significant bearing on the current applicability of the scheme.

7.14 Formula Grant is 69% NNDR receipts. In the current economic climate, significant reductions in NNDR would mean the Government reducing support to Local Authorities or supplementing this reduction in terms of other taxation or increasing national debt. The possibility of reduced NNDR receipts adds weight to the possibility of low or reduced Formula Grant awards into the medium term.

Council Tax

- 7.15 Historically the Borough of Trafford has one of the lowest Council Taxes in England (annex E), and has always been significantly below the national average and more recently below that assumed by the Government when determining general funding support. Currently Trafford has the 19th lowest Council Tax in the country.
- 7.16 Increases in Council Tax revenues can be achieved in two ways:
- Increase in the amount of Council Tax payable per band of property, where each 1% rise generates around £0.8m of funding
 - Increase in the total number of taxable properties (known as the tax base), which is mostly influenced by private sector house building, and to a small extent by the number of qualifying discounts and exemptions.
- 7.17 Whilst Trafford remains a very attractive place to live, the current economic conditions have reduced growth in the tax base to nil. This leaves increasing the tax rate as the only means of raising additional revenues.
- 7.18 The ability to raise income locally is subject to capping powers, where the Government can prevent Council tax rises above a level of its choosing. The Government has generally used its capping powers to prevent rises of more than 5% in recent past. It is possible that in the current economic climate the 'cap' level may be lowered to encourage funding by way of efficiencies, and to reduce the burden on tax payers.
- 7.19 For planning purposes, the policy of the Council is therefore to assume an annual 2.5% increase. This will be balanced, following consultation, with the needs of services before the final Council Tax increase proposal is put to Council each year.

Table 3: Council Tax income assumptions

	2010/11 (£m)	2011/12 (£m)	2012/13 (£m)
Total revenue from Council Tax	88.236	90.442	92.703
Increase on previous year (includes for growth/decline in Tax base)	2.152 2.5%	2.206 2.5%	2.261 2.5%

- 7.20 Steps will be taken to ensure that the Council Tax base is maximised, whilst ensuring that as much of the revenues due are collected.

Resource Envelope

- 7.21 For the 2009/12 medium term planning period, the estimated revenue resource envelope for the Council's sustainable base budget is summarised as:

Table 4: Revenue Resource Envelope (summary)

Revenue Base Budget	2009/10 (£m)	2010/11 (£m)	2011/12 (£m)
Government Formula Grant	69.822	66.332	63.015
Council Tax	88.236	90.442	92.703
Total	158.058	156.774	155.718
Increase	1.954 1.2%	(1.284) (0.8)%	(1.253) (0.8)%

- 7.22 Due to the forecasted reduction in Government support, it is expected that the budget will decrease in the medium term. This places greater emphasis on the challenge to deliver both service improvements and cost reductions through the Transformation Programme.

8. Financial Management

Section Outline

- Use of Resources scores and statements
- Financial Management Improvement plan
- Financial Literacy and connection to People Strategy through competencies and improved training

Use of Resources and Financial Management Improvement Plan

- 8.1 In 2005/06 the Council undertook to improve financial management across the authority as a both a corporate key priority and an MTFS objective. Sponsored and governed by the Accounts and Audit Committee a financial improvement plan was drafted with the assistance of the Council's independent external auditors, the Audit Commission, via the Improvement through Better Financial Management (IBFM) programme.
- 8.2 The IBFM programme has been run twice with the support and assistance of the Audit Commission to identify actions that would improve financial literacy and management across all Council directorate and services. The process takes the form of a cross-Council survey of key officers, including Members, senior management, and operational management (those with budget responsibility, as well as finance professionals). This survey assesses all aspects of financial management against approved best practice, determined by the Chartered Institute of Public Finance and Accountancy.
- 8.3 The success of the plan has been measured by the Audit Commission through their annual Use of Resources (UoR) assessment which forms part of the Comprehensive Area Assessment (CAA).
- 8.4 The UoR methodology changed for the 2008/09 assessment to include for more areas such as the use and sustainability of natural surroundings. The Council has maintained a rating 3 out of 4 stars for Managing Resources.
- 8.5 The Financial Management Improvement Plan, sponsored and monitored by the Council's Accounts & Audit Committee, includes for:
- establishing financial competencies for all relevant staff (this is being done as part of the overall People Strategy and the implementation of Job Evaluation)
 - provision of a comprehensive training programme for both officers and Members (again being implemented as part of the People Strategy and the Council's new appraisal process)
 - making the best use of financial and management information systems
 - improving communication both internally and externally with the public and partners

9. Opportunities, Risks and updated Policies

9.1 Having reviewed the progress against MTFS objectives for the last four years, the current financial position of the Council and the medium term environment facing the authority there are a number of opportunities and risks facing the Council. However, it is determined that the current supporting policies to the MTFS objectives are adequate to ensure that the Council mitigates threats and exploits opportunities, and no amendments to policies are proposed:

Opportunity / Risk	Policy update
<p data-bbox="288 472 1010 506">Central Government</p> <p data-bbox="288 546 1010 689">The Resource Envelope has assumed a reduction in Government support in 2011/12, and the ability to raise Council Tax by 2.5% for all three years of the medium term. However:</p> <ul style="list-style-type: none"> <li data-bbox="312 725 1010 792">➤ Government could set a cap at lower than 2.5% <li data-bbox="312 797 1010 900">➤ Until the CSR2010 there is no indication of Government support for 2011/12, the floor could be less than minus 5% <li data-bbox="312 904 1010 1008">➤ There may be a possible review of the funding regime for Local Authorities by April 2011, which will alter the distribution of grant <li data-bbox="312 1012 1010 1227">➤ The overall economy will affect Government decisions on public sector and borrowing which may impact on available funding, but the precise nature of this is unlikely to be known with certainty until after the next general election <li data-bbox="312 1232 1010 1335">➤ Falling NNDR receipts will put pressure on the Government to maintain current funding levels with other taxation <li data-bbox="312 1339 1010 1406">➤ There may be further increases in Government set efficiency targets <p data-bbox="288 1442 1010 1644">Financial planning for Council Tax, and particularly Government support in 2011/12 and 2012/13, is uncertain. Although this presents a risk, it also presents an opportunity as the Government may be persuaded to increase funding above the cautious assumption levels.</p>	<p data-bbox="1010 546 1409 828">No updated policies are required. Current funding assumptions are cautious, and maintenance of adequate reserves during this time of relative uncertainty will also assist.</p> <p data-bbox="1010 864 1409 1079">There is already a policy on influencing the Government with regard to funding, and recognising Trafford's unique needs.</p>

Opportunity / Risk	Policy update
<p data-bbox="300 255 679 291">Current Economic Climate</p> <p data-bbox="300 327 989 398">The current economic climate presents a period of instability and uncertainty:</p> <ul style="list-style-type: none"> <li data-bbox="311 434 989 539">➤ Service demands are difficult to forecast as the previous economic environment is so different to the future medium term <li data-bbox="311 539 989 685">➤ Interest rates may take some time to recover and may not recover fully. In the meantime they could also be subject to significant fluctuation. <li data-bbox="311 685 989 860">➤ It is uncertain when growth in the Council Tax base will be experienced again, and in the mean time it is possible that there could be a degree of fluctuation which is difficult to forecast <li data-bbox="311 860 989 1034">➤ If inflation rates have peaked the Council could enjoy a reduction in significant base costs during the medium term, however, it is possible that there could still be significant fluctuation 	<p data-bbox="1021 327 1398 577">Policies were strengthened last year to allow use of one-off funding to support those budgets adversely affected by the temporary nature of the recession.</p>

Opportunity / Risk	Policy update
<p data-bbox="300 1178 469 1214">Efficiencies</p> <p data-bbox="300 1249 970 1424">With increased national targets being set, and Government support likely to fall over the medium term, it is clear that the Council needs to achieve efficiency savings if it is to avoid affecting service quality.</p> <p data-bbox="300 1460 979 1606">Cost-effective realisation of cost savings based on assessments of economy, efficiency and effectiveness of outputs are becoming more difficult to identify.</p> <p data-bbox="300 1641 986 1816">Future cost reductions are likely to rely more on reducing overheads by working in collaboration, using alternative delivery or business models through transforming services, or sharing realisation costs and capacity with partners.</p>	<p data-bbox="1021 1249 1382 1424">The Council has introduced specific assistance in the form of a Transformation and VFM strategy.</p>

Annex A: Objective 1; Keeping Local Taxation Low, Policies

Objective 1: Keeping Council Tax (or other forms of local taxation) low; to keep Trafford within the lowest local taxation areas in the Country:

Continuing Policies

- Minimising Council Tax increases wherever possible, but not at the expense of seriously affecting the delivery of statutory services or Council priorities
- Regularly reviewing the cost of Council priorities
- Raise public awareness of the Council's poor resource base, particularly with regard to central Government support, and the associated financial constraints
- Regularly consulting the public and partners on Council Tax levels and priorities

Annex B: Objective 2; Increasing Resources Available, Policies

Objective 2: Increasing the resources available; to enable the delivery of the corporate plan and the overall Community Strategy

Continuing Policies

- Lobbying Government for more resources, particularly with regard to the redistribution of business rates and the Local Authority Business Growth Incentive Scheme
- Seeking to reduce overheads, including in partnership with others
- Maximising the Council Tax Base
- Reviewing or introducing fees and charges, and ensuring that credit terms are appropriate and debt recovery is optimised, which will include maximum recovery of costs from slow payers
- Seeking sponsorship and encouraging investment in the Borough either directly through the Council or its partners or otherwise
- Working with partners to equip and encourage a thriving and successful voluntary sector
- Where consistent with achieving the Council's priorities:
 - bidding for competitive grants, and otherwise ensuring that all monies available to the Council by way of grant are obtained, and
 - supporting partners, stakeholders, voluntary and community groups to seek and secure funding

Annex C: Objective 3; Delivering Value for Money, Policies

Objective 3: Delivering Value for Money; to obtain the highest benefit from all resources used in pursuit of the Corporate Plan and Community Strategy

Continuing Polices

- Ensuring the best use of capital resources and reserves by evaluating the cost of borrowing (prudential or otherwise) or loss of income from investments against the long term benefits or return on proposed schemes
- Improved procurement practices
- Embedding challenge such as benchmarking within management and planning processes
- Planning processes to include a review of all businesses and practices, with specific challenge as to whether the service could be delivered more economically, efficiently or effectively through different delivery models and/or in collaboration with partners
- Those responsible for service delivery and/or budget management should seek every opportunity to engage collaboratively with partners where it is economical, efficient or more effective to do so
- To review management information systems to ensure that they are adequate in providing data to identify efficiencies and to ensure customer-focused innovative services
- Zero base budgeting techniques to be employed on a rolling programme basis, focused on those areas most likely to produce economies, efficiencies or service improvement by way of effectiveness
- To strive for efficiency levels above that set by the Government
- To evidence efficiency levels and gains
- Specific Value for Money and service Transformation strategies to be developed

Annex D: Objective 4; Delivering a Robust, Balanced and Sustainable Budget and Asset Base, Policies

Objective 4: Delivering a Robust, Balanced and Sustainable Budget and Asset Base; so that sufficient resources are allocated to priority services so that they can deliver essential services to customers at the required standard for the medium and into the longer term.

Continuing Policies

- Maintaining a Medium Term Financial Plan strategic model, supported by regular reviews of key pressures, performance and priorities, as new information becomes available. This model to feed into a more detailed resource allocation model that will ensure available resources are aligned to priorities and legal requirements.
- Continuous improvement in the MTFP (trend analysis, activity forecasting, option appraisal, performance management and risk management)
- Reviewing levels of subsidy in fees and charges to ensure that resources are targeted to priority services or those services which will deliver Community Strategy, Corporate Plan or Local Area Agreement objectives.
- Cash limiting budgets.
- All under-spends achieved through direct management action and all overspends will be carried forward into the relevant service's accounts to be recouped or targeted as additional priority investment in the following year.
- Regular (monthly for 10 months) revenue budget monitoring, combined with quarterly capital and performance monitoring to take place, with overall spending being controlled within the budget set by Council
- Corporate Directors and Directors having financial management of all budgets under their control including the achievement of savings or efficiency targets which will be assigned to specific officers to deliver.
- Corporate Directors will ensure that all of their delivery plans will balance with available resources across the whole of the medium term.
- All relevant staff will have financial competencies identified within their contract of employment and will be annually assessed against the successful discharge of their financial responsibilities.
- All savings and efficiency proposals shall be subject to robustness testing, risk assessment and a detailed milestone plan, which will be regularly monitored.
- All unsustainable funding sources, and in particular grants, will have an exit strategy such that the reduction or removal of funding will not necessarily impact on base sustainable resources. In no circumstances will the ending or reduction of a grant be mainstreamed unless there is prior approval to do so (this does not effect funding transfers between specific and general grant).

- Any schools related overspends will be the first call on future Dedicated Schools Grant (DSG).
- To move towards using only unsustainable funding sources for one-off initiatives or investment.
- To continue to improve financial management and control, maintaining expenditure within budget and to reduce capital investment programme slippage.
- To undertake an annual Council-wide review of financial management and develop an action plan for improvement
- To maintain adequate reserves at or above the minimum determined by the Council and as advised by the Chief Finance Officer (Director of Finance).
- Continuously reviewing the asset base to ensure that it is fit for purpose for now and into the future for the delivery of services by the Council or its partners, and to quickly rationalise other capital assets for future capital investment balanced with achieving best possible price
- Introduce continuous activity forecasting for all relevant services, and to proactively introduce plans which will reduce demand and the cost of demand
- The use of reserves to support base budget expenditure to be eliminated, except where reserves are used to mitigate unusual temporary market conditions which would otherwise impact on the long term sustainability of services

Annex E: Council Tax Strategy

- In 2009/10 the Borough of Trafford was ranked by the Government as having the nineteenth lowest Council Tax in England (326 Authority areas), which is thirteen rankings up from 2005/06 when the MTFS objective of keeping Council Tax low was adopted:

Table 5: Council Tax Rankings

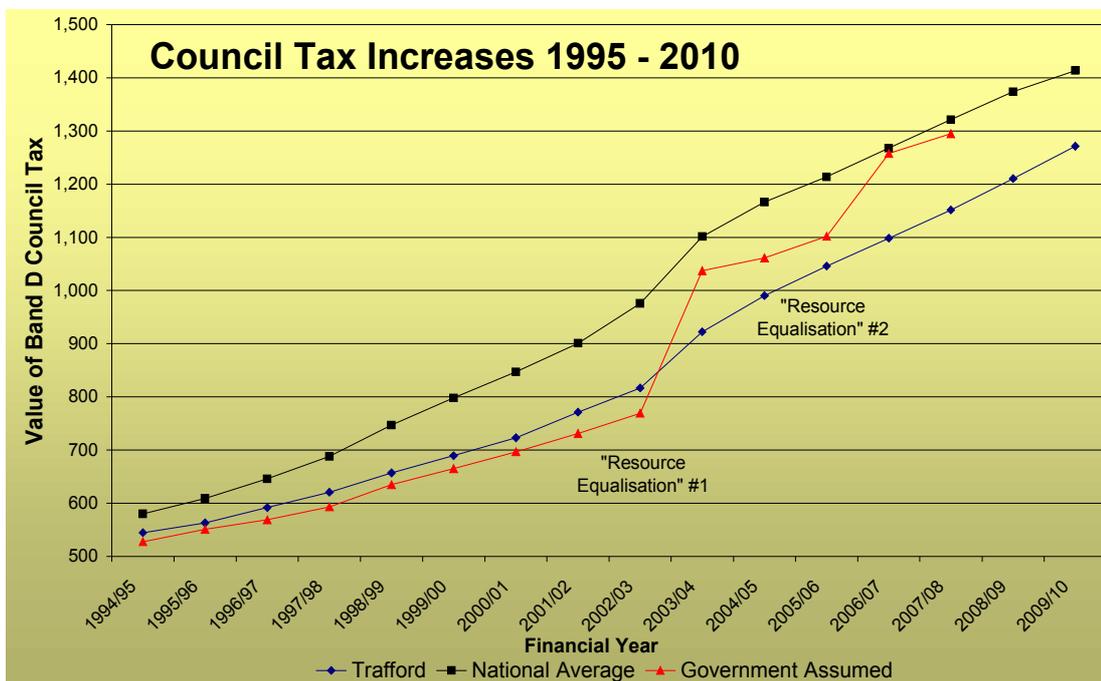
Council Tax "on the doormat" Levels 2009/10 (includes Police, Fire and excludes Parish precepts)		
Authority	Council Tax (Band 'D')	Rank
Wandsworth	687.07	1
Westminster	687.84	2
City of London	894.77	3
Kensington & Chelsea	1,092.27	4
Isles of Scilly	1,135.00	5
Hammersmith & Fulham	1,146.71	6
Tower Hamlets	1,195.34	7
Southwark	1,221.96	8
Lambeth	1,235.11	9
Birmingham	1,237.79	10
Wakefield	1,253.50	11
Dudley	1,253.53	12
Newham	1,255.45	13
Doncaster	1,257.21	14
Windsor & Maidenhead	1,260.60	15
Bradford	1,263.27	16
Thurrock	1,266.30	17
Bracknell Forest	1,269.01	18
Trafford	1,270.47	19
Islington	1,271.69	20
Leeds	1,274.31	21
Southend-on-Sea	1,278.72	22
Bromley	1,288.98	23
Peterborough	1,290.03	24
Greenwich	1,290.85	25
Solihull	1,292.82	26
Medway	1,293.04	27
East Northamptonshire	1,296.56	28
Milton Keynes	1,303.34	29
Wellingborough	1,306.37	30

- Historically Trafford Council has been low tax setting, low spending yet relatively high service providing. Up to 2003/04 although Trafford still had a very low Council Tax it was higher than the Government's nationally assumed level of Council Tax. In 2003/04 the Government altered the basis for its assumed level of Council Tax it expected the average authority to raise, but Trafford's actual Council Tax level was significantly below this new assumption.

The effect of this change in assumption is that the Government has reduced the amount of general (Formula) grant to the Council as it assumes Trafford will raise more in local revenues than it actually does.

- This change in the level of Government assumed national average Council Tax in 2003/04, known as “Resource Equalisation”, was repeated in 2006/07 which compounded the reduction in Trafford’s allocation of Formula Grant. Out of all the main factors that reduce the annual increase in Trafford’s calculation for Formula Grant Resource Equalisation has the greatest effect (the others being a lack of recognition of the specific Area Cost Adjustment for the district, and relatively too much recognition in the formula for deprivation indicators).

It is inherent within the Government’s own assumptions that the Trafford tax payer should pay considerably more towards public services. However, universal capping threshold does not allow the Council to raise the money that the Government expects.



- A combination of this change in 2003/04 and 2006/07, combined with the imposition of capping powers, which fail to take into account local circumstances, have led to the Council suffering a significant resource shortfall. Effectively the Council is being penalised in grant settlements for its previous prudent rises in Council Tax.
- The Council Tax base is the number of chargeable properties within the Borough translated into Band Ds (the middle Council Tax banding charge), and is another element of the total revenue gained from Council Tax. However, due to the recession this annual rise in tax base has been reduced to nil.
- The Council has collected more Council Tax than expected in previous years mostly due to the rapidly increasing number of properties in the borough as well as having a higher collection rate for bad or doubtful debts. This money forms the Collection Fund surplus and is used in future years to support the budget.

7. Given:

- Government support is thought to reduce substantially over the medium term as a consequence of the recession and the need to pay for and reduce national debt
- Council Tax increases will be the only sustainable funding increases to the Council, however, they will be reduced to compensate for the reduction in Government support
- Natural increases in Council Tax caused by new house builds in the Borough are not expected until the recession is over
- Trafford enjoys the nineteenth lowest Council Tax in the country and,
- The Government is likely to set a cap threshold of lower than 5%
- The impact on the local community of the recession must also not be overlooked, and at this difficult time for everyone there needs to be an equitable and understandable balance between Council Tax increases and the needs of service users

The Council Tax Strategy will be to:

- Maximise the tax base by ensuring all properties are brought onto the register as soon as possible. The Council has already taken steps to reduce the Council Tax discount for second homes and empty properties in the Borough from 50% to the minimum 10%.
- Maximise income collection by improving both in year and overall collection rates
- Set the increase in Council Tax for planning purposes within underlying Government assumptions, which at present is estimated at 2.5% each year, subject to final public consultation and budgetary review every December, for approval by Council in February

Annex F: Prudential Borrowing Policy & Methodology

Prudential Borrowing Policy and Methodology

1. As mentioned above, borrowing for service investment purposes will only be undertaken when the rate of return, in terms of achieving the Council's objectives, is greater than alternative financing options, and when there are sufficient revenue resources to repay the cost of borrowing.
2. No scheme shall be allowed into the Capital Investment Programme until it is demonstrated that the long term costs of the scheme have sustainable funding in the revenue budget.
3. Sufficient base budget will either be additionally approved or moved from the Service Budget to the Corporate Treasury Management Budget. Whether the money is borrowed from internal or external funds and for what period will be determined by the Treasury Management function according to the Treasury Management Strategy.
4. The Treasury Management function may also maintain a Prudential Borrowing fund to smooth the potential difference between actual costs to the Council or service Directorate and the accounting costs required by regulations.