

Agenda Item 8

Financial Services
Salisbury District Council, Bourne Hill
Salisbury, Wiltshire, SP1 3UZ

direct line: 01722 434393
email: aosborne@salisbury.gov.uk
web: www.salisbury.gov.uk

Report

Subject : Medium Term Financial Strategy - Update

Report to : The Cabinet

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Author : Alan Osborne

Cabinet Member for Resources: Councillor Culver

EXECUTIVE SUMMARY

The Council's medium term financial strategy (MTFS) is a three year financial strategy integral to its corporate plan designed to support the priorities of the Council as well as achieving sustainable budgets and reserves.

The key features of the strategy are to:

- Sustain council tax in the lower quartile nationally
- Keep revenue reserves at a level conducive to the underlying financial risks
- Use reserves as contingency and for one off investments
- Levy fees and charges at upper quartile prices where the quality of the service is high
- Look for opportunities for new income streams and external funding
- Maximise value for money
- Maximise efficiencies beyond Government targets
- Utilise efficiency gains to support investment in priority services
- Grow priority services only from compensating savings
- Utilise capital investment to save ongoing costs
- Use standstill budgets only funding unavoidable costs
- A system of ongoing vacancy management
- Utilise natural wastage where it occurs
- Spread any severance costs over three years

The Council has no existing capital financing requirement (Debt) although current policy is to use prudential borrowing powers where it is in the Councils financial interests to do so.

The strategy will be reviewed annually and at any other time that there is a material change in financial circumstances that requires a review.



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Cabinet is recommended to approve the updated strategy and note the principal risks and potential external drivers for a comprehensive review of the strategy.

1. BACKGROUND AND EXISTING STRATEGY

- 1.1 The basis of good financial management is accurate budgeting and budgetary control, the Council has an integrated performance and financial reporting system and has set up a board, The Improving the Performance and Finance of the Council Board (IPFCB) to oversee finance, performance and procurement in addition to overseeing the Councils capital programme.
- 1.2 All changes to budgets are subject to the portfolio planning and budget setting process, which, after consultation with stakeholders is concluded in February each year at Council where the council tax for the following year is set. The MTFS is a general policy, which provides a framework for three-year budgets in line with the Corporate Plan.
- 1.3 The existing MTFS was updated by Cabinet in January 2006 and set the strategy for the period 2006/7 to 2008/9. A series of stringent measures was put in place to bridge a revenue deficit in the region of £400,000 per annum.
- 1.4 In 2006/7 a total of £1.75m of savings and additional income was identified. The Council is materially on course to achieve the value of these savings in year. There is a projected difference of less than £80,000 (largely as a result of ongoing negotiations with unions on premium payments) although non-recurring savings look set to offset the difference in year.
- 1.5 The Council has a current policy of maintaining un-earmarked reserves broadly at a level of 10% of net spend across the life of the strategy (Approximately £1.3m). Earmarked reserves are subject to individual policies.

2. REVENUE BUDGET

- 2.1 Each year the Council faces unavoidable cost increases to the order of £1m to fund pay awards and inflation on contracts, goods and services. In addition the corporate plan sets out priority areas for investment.
- 2.2 The Council has, in addition to the general fund, a Housing Revenue Account (HRA) which is a statutorily ring fenced account for the provision of council housing. There are some management and support services that are charged to the HRA and the HRA has some £3m of debt outstanding to the general fund on which interest is charged in line with statute.
- 2.3 The Council is in the process of undertaking a ballot of tenants to determine whether a housing stock transfer will be undertaken or whether the stock will remain with the council. The current MTFS does not make any assumptions on the outcome of the vote and will require some review in either event.
- 2.4 The Council runs a "Parking Revenue Account" which is non-statutory and forms a subsection of the general fund. This account was set up to manage the change in parking policy towards park and ride, protecting the general fund and council tax from swings in revenue year on year. The account is designed to be self-sustaining by the end of this MTFS, although this will depend on future demand for parking services.
- 2.5 The Council has revenue reserves as a contingency and also utilises reserves to deal with non-recurring investments. The current MTFS identified the use of some £400,000 per year Planning Delivery Grant (PDG) for the last two years of the grant (2006/7 and 2007/8). The MTFS assumes no replacement for PDG in future years.

3. VALUE FOR MONEY

- 3.1 The Council is in a position of having its council tax in the lower quartile with the majority of its principal services in the upper quartiles for performance.
- 3.2 The Council's efficiency agenda recognises that cashable efficiency gains are more important than non-cashable gains.
- 3.3 The Council has an efficiency programme, which is set at a level beyond Government targets and is weighted in favour of cashable efficiencies, which can be utilised to deal with cost pressures and priority areas where additional funding is required. The Annual Efficiency Statement is agreed annually and signed by the Leader and Chief Executive.
- 3.4 As the efficiency agenda has been gathering pace the Council has already realised over £1.5m of real recurring savings over the last three years via its portfolio planning and budget setting:

2004/05 - £202,000

2005/06 - £380,000

2006/07 - £975,000

Of these savings over £700,000 have been generated by the integrated improvement programme (principally via customer services migration, the office project and e-government)

- 3.5 These savings have been made against a backdrop of service performance improvement.
- 3.6 The Council was marked 3 out of a possible 4 (performing strongly) on the value for money element of the annual use of resources assessment by the Audit Commission for 2005/6. The 2006/7 self-assessment was submitted to the Commission for inspection in September.

4. MAIN REVISIONS TO THE STRATEGY

- 4.1 The revised strategy is summarised in **Appendix 1**. The strategy encompasses investments in the following priority areas:
- Waste Management - The move towards alternative weekly collection planned for 2007/8
 - Customer Services – The migration of services to customers from individual Service Units to the establishment of a customer contact centre and multi access channels.
- 4.2 Included in the strategy are further known or predicted unavoidable costs:
- Demand for the concessionary fares scheme
 - Income reduction at the Guildhall with the planned vacation by the Magistrates
 - Further increases in employers pension contributions of £100,000 per annum
- 4.3 In addition the following assumptions have been made/ revised:
- Pay awards to average 2.5% over the three years (Previously 3%) following ministerial announcements over public sector pay.
 - The original savings target on premium payment reductions has been reduced from £240,000 to £135,000 in line with the current offer to trades unions
 - The transfer of responsibilities for local services to the larger parish councils will take place over a further three years (previously a further two years)
- 4.4 The forecast level of general revenue reserves is shown at **Appendix 2**.

5. PRINCIPAL RISKS AND RISK MANAGEMENT OF THE MTF5

- 5.1 Any strategy has risks associated with it and the MTF5 is no different. Inflation and interest rates are inherent risks in financial strategies and the results of changes in these can affect items such as pay awards and pension contributions in time.
- 5.2 A sensitivity analysis has been carried out against the principal components of the strategy on **appendix 1**, to quantify the risk potential associated with the assumptions made.
- 5.3 The use of reserves (such as the parking reserve) and integrated regular monitoring of financial and service performance are designed to aid risk management of the strategy. The IPFCB oversees the MTF5 bi-monthly as a standing item on the agenda.
- 5.4 The forthcoming ballot to tenants on a possible stock transfer and elections in May 2007 are examples of potential internal material changes that will require a revision to the strategy.
- 5.5 External drivers for further fundamental changes to the main strategy include:
 - The White Paper on Strong and Prosperous Communities
 - The Comprehensive Spending Review 2007
 - The Lyons review and subsequent legislation
- 5.6 Other risks to the strategy are principally around the will of the Council to push through the change agenda. Premium payments and Parish/District responsibilities being the most obvious examples.

6. RECOMMENDATIONS

It is recommended that Cabinet:

- 6.1 Approves the updated MTF5.
- 6.2 Notes the principal risks and drivers for change.
- 6.3 Notes that the strategy will require a comprehensive review following conclusion of events outlined in 5.4 to 5.6

7. IMPLICATIONS

Financial	-	As set out in the report
Legal	-	The Council has to set a balanced budget and have adequate levels of reserves.
Human Rights	-	None
Personnel	-	The managed vacancy levels and premium payments review will have an impact on staff.
Environmental	-	None
Community Safety	-	None
Council's Core Values	-	Statutory Requirement
Wards Affected	-	District Wide

Appendix 1

	2007/08 £'000	2008/09 £'000	2009/10 £'000	Sensitivity
Unavoidable costs				
Pay award	425	425	425	1% Additional pay award = c£150,000 per annum
Pensions	125	100	100	1% Additional Employer contributions = c£125,000
Inflation-contracts	100	100	100	Assumes RPI at 2.5% - 1% = c£40,000
Inflation - services	150	150	150	Assumes RPI at 2.5% - 1% = c£60,000
Capital financing	175	100	0	Assumes interest rates at 4.75% (Increases /Decreases offset by investment returns)
Concessionary fares	182	0	0	Assume 10% increase plus all day scheme - 1% increase in take up =c£10,000
Other	39	0	0	n/a
Guildhall income loss	0	140	0	Assumes 100% of Magistrates income reduction
TOTAL	1,196	1,015	775	
Service Growth				
Growth -waste strategy	200	330	200	n/a
Customer services -base budget	137	0	0	n/a
Customer services transition-cost	277	106	0	Assumes costs offset by savings over 3 years
Customer services transition-savings	(83)	(100)	(200)	"
TOTAL	531	336	0	
Total increase in budgets	1,727	1,351	775	
Savings				
Staffing	(78)	(225)	0	n/a
Internal efficiencies	(599)	(55)	(254)	n/a
New sources of income	(20)	(20)	0	n/a
Reduction in service	0	(50)	0	n/a
Partnership and procurement	(50)	(100)	0	n/a
Parish/District costs	(150)	(110)	(40)	n/a
Total Savings	(897)	(560)	(294)	
Net increase in budget	830	791	481	
Financed By:				
Fees and charges increases	(150)	(150)	(150)	Assumes average in line with RPI 2.5% (Excludes carparking and Planning fees)
Grant increase	(393)	(300)	(300)	Assumes 4% increase, 2007/8 Provisionally announced, 1% =c£75,000
Council Tax increase	(264)	(276)	(290)	Assumes 5% per annum , 1% = £53,000
Draw from reserves	(23)	(65)	259	Assumes no use of reserves in 2009/10
Total increase in Funding	(830)	(791)	(481)	

Projected levels of reserves

Appendix 2

	2007/2008	2008/2009	2009/2010
	£'000	£'000	£'000
General Fund			
General reserves brought forward	(1,421)	(1,547)	(1,288)
Non recurring expenditure	80	0	0
Balance of PDG	(400)	0	0
Use of reserves	194	259	0
Balance to carry forward at year end	(1,547)	(1,288)	(1,288)
Transportation Reserve			
Transportation Reserve brought forward	(540)	(280)	(137)
Budgeted movement in reserves	260	143	113
Balance to Carry forward at year end	(280)	(137)	(24)
City Area Reserve			
City general reserve brought forward	(129)	(122)	(109)
Special levy	(581)	(610)	(640)
Budget requirement	575	610	610
Deficit on allotment revenue account	13	13	13
Balance to Carry forward at year end	(122)	(109)	(126)
Housing Revenue Account			
HRA brought forward	(6,855)	(7,231)	(7,197)
Contribution (to) from reserve	(376)	34	653
Balance to carry forward at year end	(7,231)	(7,197)	(6,544)