

West Wiltshire District Council

Cabinet

29 September 2004

Medium Term Financial Plan

This report outlines the medium term financial plan for the years 2004-2008

1 Introduction

The purpose of this document is to set out a financial plan covering revenue and capital that will assist members and officers in decision making for the next 4 years. The Corporate Plan is now in draft form and will provide strategic direction over the coming years. The Medium Term Financial Plan provides the financial framework for the delivery of the Corporate Plan.

The figures do not represent a committed budget but outline a framework within which decisions relating to future service provision should be taken. Looking into the future is always difficult and this plan is based upon the best available information at the time. It is inevitable that circumstances will change and the plan will be subject to regular review.

The financial position of the Council has been difficult over the past few years with increasing expectations and pressures to deliver more with less. The Service and Resource Planning process has clearly helped and will continue to develop enabling resources to be targeted to the Council's spotlight areas and getting the job done as detailed below:

<i>Spotlight</i>	<i>Getting the job done</i>
➤ Development control	➤ Sound Financial Management
➤ Recycling	➤ A focus on priorities
➤ Affordable Housing	➤ Strong community leadership
➤ Access to recreation	➤ Efficient and effective services
➤ Market Town Regeneration	➤ Valued and well supported staff
➤ Customers First	➤ A well planned approach
	➤ Accessible decision making
	➤ High quality communication with the public

Against a background of limited resources, managing within our means will be a key challenge. It is recognised that the Council can not do everything, and deciding upon which service areas not to allocate resources to will continue to be a very important part of the financial management process in the years ahead.

2 Financial Background

Historically, poor central government funding led to the problem of delivering a wide range of services against a background of reducing resources. This has been the situation for the past decade and is the main reason for the difficult financial position that the Council finds itself in today. Overspends in recent years have reduced reserves and continuous pressures on resources have resulted in very tight budgets being set.

The Council is a beneficiary of the new system for distributing central government grant. However, the Government is controlling the speed at which full grant entitlement is received through a 'ceiling mechanism', which will only add further pressure to our limited financial resources.

It is against this background that the financial plan has been prepared, evaluating both short and long-term options.

3 Key Financial Facts as at 2004/05

- Gross Spend £45m
- Net General Fund Revenue Budget £11.4m
- Funded from 51% Central Government and 49% local Council Tax
- Reserves £1.2m
- Capital programme £4.8m
- Capital Resources £9m
- Every £1m spent on capital will reduce revenue investment interest by £45k pa
- Investment Fund balance £12m
- Investment Fund interest £500k
- Band D average Council Tax £122.38
- Every 1% increase in council tax will raise around £50k

4 Key Issues

• *Spending Review 2004*

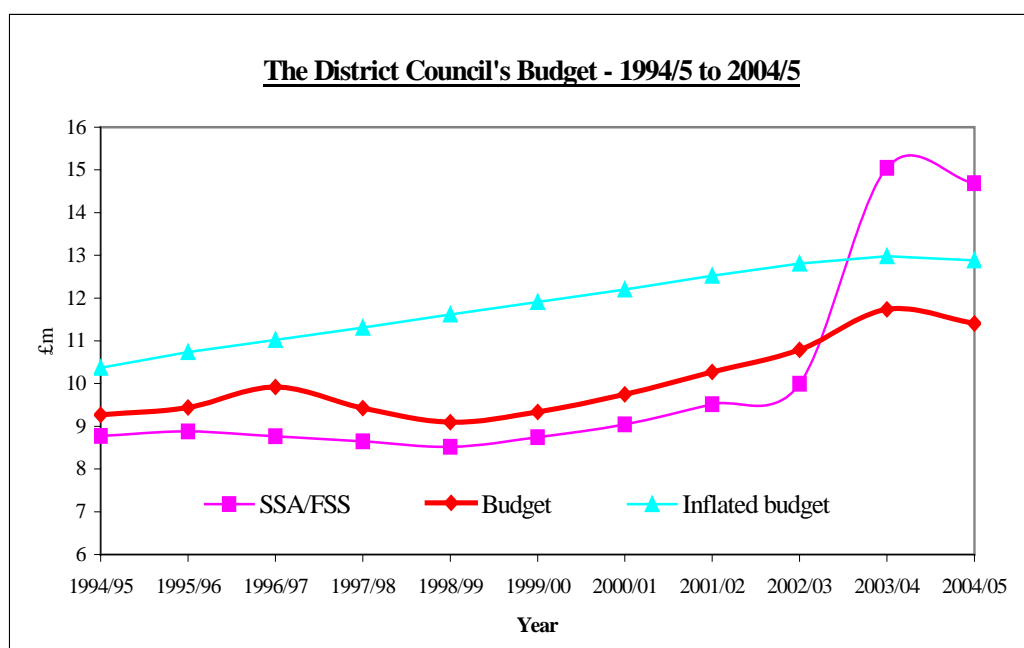
The latest review setting out the governments spending plans for financial years 2005-2007 was announced by the Chancellor on 12 July. It is not good news for District Council's with growth in resources forecast at **0.6% for 05/06**, 3.5% for 06/07 and 3.7% for 07/08. The high growth areas being Education and Social Services. The review also implies Council tax increases of **6.7% in 05/06**, 5.5% in 06/07 and 5.1% in 07/08, which is not consistent with the Governments wish for a 3% increase in 05/06. For West Wiltshire this represents a significant reduction for 2005/06 and places additional pressure on local council tax levels.

The LGA has responded stating that additional grant support of around £700m is needed to limit Council Tax increases and has called for a further £300m to meet urgent spending pressures such as waste and recycling.

This will clearly make 2005/2006 a difficult year and will not help the Council reach its full grant entitlement as referred to below.

- **Local Government Grant Settlement**

The new system introduced from 1 April 2003 is based around a 'Formula Spending Share' (FSS) which is the government measure for distributing resources. For West Wiltshire the FSS was set at £14.7m (covers Parishes and Towns who currently spend around £2.1m) for 2004/2005, compared to the annual budget of £11.439m. The significance of this change can be seen in the graph below, the inflated budget started in 1991/92.



A government imposed ceiling has restricted the amount of grant West Wiltshire received for 2003/04 and for 2004/05.

Around £714k was withheld in 2003/04 and a further £753k in 2004/05. West Wilts is one of 142 local authorities in this position of which we are the 7th worst funded in cash terms. The Leader and Head of Finance have actively lobbied for our full entitlement through MP's, LGA, SWRA and Town Councils and together with other similar authorities and have put the case to the Government

Clearly the level of ceiling for future years and the level of local council tax will determine how quickly West Wiltshire reaches the government measure for distributing resources. (FSS)

- **Local Authority Social Housing Grant (LASHG)**

On 1 April 2003 the LASHG scheme ceased. This means that cash spent on new schemes will not be reimbursed. There were transitional arrangements to honour schemes committed by 30 June 2003.

The ability to deliver affordable housing will also have an impact on our homelessness temporary accommodation revenue budget. Alternative ways are being explored to deliver with a reduced level of capital resources. The main one being PFI, which will

require the submission of an outline business case to the ODPM in December 2004. However, this will take time and to safeguard existing commitments a capital contribution of £1m a year for 2 years has been included within the financial plan for 2004 to 2006.

- ***The Prudential Code***

The new prudential code was introduced from 1 April 2004. The new system based largely on self-regulation and is potentially the most significant and positive change in local authority finance for many years.

The basic principle is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. This will be decided by reference to a number of indicators measuring expenditure, debt and interest rate. The Council still has the ability to finance its capital programme from capital receipts.

The shaping of the Capital Programme will take place against the background of the Corporate Plan and all Capital projects will be evaluated as part of the 'Service and Resource Planning' process. How the project is financed is a separate decision and will need to consider the use of capital receipts and/or borrowing. A decision to borrow will need to be supported by a cash flow statement and undertaken as a treasury management decision. There will be revenue consequences arising from any capital project and this will need to be built into the revenue budget.

- ***Specific Grant Funding***

The plan includes grant funding estimates and commitments as follows:

Planning Delivery Grant	2004/05	2005/06	2006/07	2007/08
	£k	£k	£k	£k
Planning Delivery Grant	414	500	400	300
On-going in Revenue budget 2008/09	150	150	150	150
Available for 'one off'	264	350	250	150

Implementing Electronic Grant	2004/05	2005/06	2006/07	2007/08
	£k	£k	£k	£k
Implementing Electronic Gov	350	150	nil	nil
On-going in Revenue budget 2005/06	50	Nil	nil	nil
Available for 'one off'	300	150	nil	nil

The Planning Delivery Grant is closely linked to achieving targets, which means the grant can also go down. This volatility needs to be recognised in setting budgets particularly contractual commitments.

The use of grant will need to be carefully managed to ensure that there is a clear exit strategy and that there are no unplanned long-term permanent commitments.

- ***Rent Allowances benefit subsidy***

A new system was introduced in 2004/05, removing rent allowances from the main grant system to be dealt with by the Department of Work and Pensions (DWP).

The new system operates around 'floors and ceilings', grant will be finalised at a later date with the possibility of subsidy being repaid. This means we will not know our full 2004/05 subsidy entitlement until December 2005 or January 2006, given the size of figures involved this represents a significant risk.

- ***Reviews***

A number of reviews are underway or nearing completion the details of which are listed below. No allowance has been made within the medium term financial plan for the outcome of the reviews.

Car Parking

Car Parking income has been subject to a review and a detailed report will be presented at the October Cabinet meeting. Fees have not been increased since 2000 and fee increases to bring us in line with other Wiltshire Districts are estimated to generate additional income of £80k. Options in the review consider providing a 'free hour', which could cost between £45k to £80k.

Tourist Information Centres

This has been the subject of a best value review to be concluded with a report to Cabinet in October 2004. A number of options exist for the future delivery of the service, which will need to take into account the Council's difficult financial position.

Arts Development

This is the subject of a policy project group set up to look at the arts development service. A number of options exist for the future delivery of this service, which will need to take into account the Council's difficult financial position.

Temporary Accommodation

This is the subject of a separate report to Cabinet to approve a strategy for the future provision of temporary accommodation in West Wiltshire. This report generates capital and revenue options for the Council, which are currently being evaluated.

Pay Review

The Council is required to carry out a local pay review by 31 March 2007. The Employers Organisation estimates the cost will add on average 1.5% per annum to paybills, the likely cost for West Wiltshire is £90k per annum.

- ***Future Commitments***

Sewerage Works

Following the housing stock transfer the Council accepted liability for sewerage schemes until 2031. This could give rise to capital expenditure, but the amounts and frequency are at this point in time unknown. A capital contingency fund will be created as part of the 2005-06 'Service and Resource Planning' process.

Refuse and Recycling

This continues to be a growth area with Council responding to meet national government targets working in partnership with Wiltshire County Council on a

Wiltshire wide initiative. This has resulted in the following revenue expenditure being included within the plan in particular an additional £185k in 2005/06.

	2004/05	2005/06	2006/07	2007/08
	£k	£k	£k	£k
Recycling continuation existing	200	200	175	175
Recycling kerbside extension	nil	185	128	100

Grounds Maintenance

No increase has been included for the letting of the Grounds Maintenance Contract in November 2005. Any change to the contract could give rise to residual support service costs that may have to be absorbed by the Council's budget. This can not be estimated until the arrangements are known.

Public Finance Initiative (PFI)

It has been assumed that the project will be successful and expenditure has been budgeted as follows:

	2004/05	2005/06	2006/07	2007/08
	£k	£k	£k	£k
Set up costs	98	210	80	nil
On-going running costs - 30 years	nil	nil	195	195

The set up costs were based on the draft model submitted with the expression of interest in December 2003. This has now been updated following the appointment of a project manager and financial and housing advisors. A more accurate estimate will be available with the submission of the outline business case in December 2004.

- ***Budget Robustness***

The revenue and capital budget process for 2004/2005 reviewed the high-risk areas and budget pressure points, allowing the resources to be targeted to traditional problem areas. The main changes were the reduction of the Planning fee income budget by £100k and an increase in the contingency fund to £100k.

- ***Capital and Revenue relationship***

There is a direct relationship between the reduction in capital resources and our investment fund balance. Surplus capital resources are held in our investment fund, earning interest for the general fund. As capital resources reduce each year through the capital programme, this will impact on the level of investment income received by the general fund. Based on current levels of investment returns, £1m of capital resources generates £45k of revenue resources, supporting the revenue budget for current and future years. New capital expenditure may generate other revenue consequences, which will need to be included in the plan.

- ***Key contracts***

The table below highlights the main contracts, value and renewal year.

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	£m	£m	£m	£m	£m	£m	£m
Grounds Maintenance	0.3	-	-	-	-	-	-
Refuse	-	1.4	-	-	-	-	-
Computer	-	-	0.5	-	-	-	-
Leisure	-	-	-	-	-	-	1.6
Public convenience	-	-	0.3	-	-	-	-
Insurance	-	0.3	-	-	-	-	-

5 General Fund Revenue Assumptions

The general fund model has been set up using the 2004/05 budget as the starting point, focusing on the main 'cost drivers' of employees, premises, transport, supplies and services, contract, treasury costs and income. Flexibility has been catered for, allowing 'what if' and 'sensitivity' calculations to be made. Information will be updated from the Service and Resource Planning process.

With any model attempting to predict the future, there is an element of uncertainty and a number of assumptions have been made. The main ones are described below:

- ***Inflation***

Inflation has been included in the calculations for salaries and wages at 2.75% 2004/05 and 2.95% for 2005/06 and 2006/07. Contractual expenditure and fees and charges have been increased at 2.5%.

No increase has been made to Planning fees, which are currently set by central government.

No allowance has been made for any additional costs resulting from the implementation of the new Licensing system as the government statement made it clear that 'costs of the licensing system are to be fully covered by fees'.

- ***Pension***

Increases to recover the existing shortfall have been built in taking contributions from 19.8% in 2002/03 to 22.2% in 2004/05. The next actuarial valuation of the pension fund is due in 2004 and will report on the state of the fund as at 31 March 2004. This information will be available for the 2005-06 budget process, probably late October. Currently the WWDC scheme is 66% funded. ***We have not assumed any further increase in employers' contributions from 2005/06 onwards.***

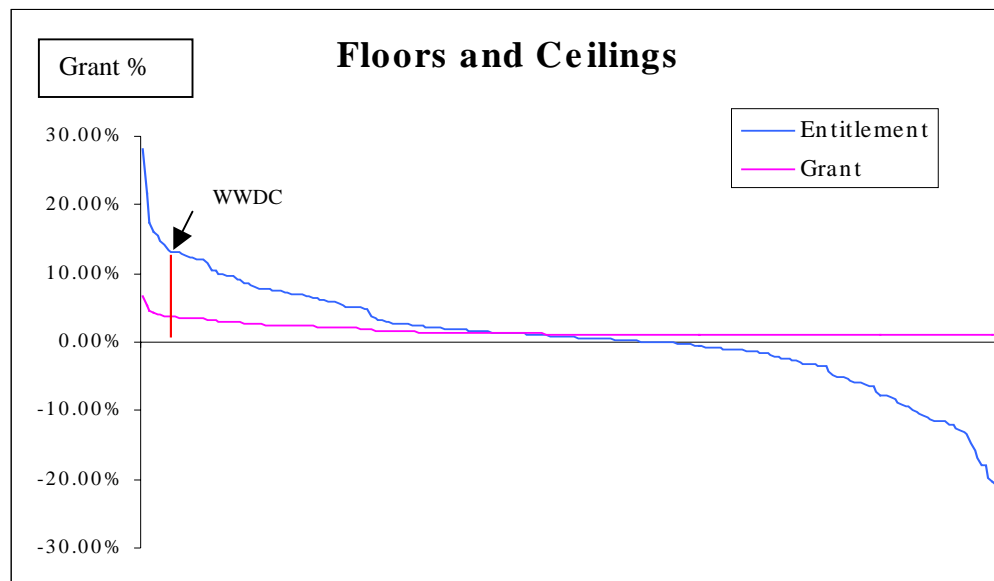
- ***Investment Income***

The investment fund is now managed in-house with external professional advice from Sector. The investment strategy seeks to maximise returns whilst providing certainty of capital. Estimated returns are as follows:

2004-2005	2005-2006	2006-2007	2007-2008
4.50%	4.75%	4.50%	4.50%

- **Government Grant**

This is a major area of uncertainty due to the amount of money available, the system of allocating grant and advising of grant on a yearly basis. The system for calculating grant due to the Council is being overridden by an additional system, to ensure that all Council's receive a minimum increase (floor). Unfortunately, this is funded by reducing the grant of other Council's, in particular those at the other end of the scale (ceiling), which is the position of West Wiltshire. An illustration of the system is given below:



In 2004/05 a 6.8% grant increase was achieved, mainly due to the additional distribution announced by the Chancellor in December. In view of the recent Government spending review outcome and continued uncertainty an estimate of 1% has been made for 2005/06 and 3% for future years in line with the Governments spending plans.

Due to the number of factors influencing the final grant outcome it is difficult to estimate additional resources available should the grant be better than expected.

- **Service Growth**

No allowance for new money has been assumed in future years. Services will be subject to on-going review and where possible resources redistributed to priority areas. This approach was adopted for the current year and enabled £450k for service growth.

- **Council Tax**

The growth in the number of properties that give rise to the tax base has been estimated at 1%.

- **Efficiency savings**

The Government has indicated a future national target of 2.5% expected in key areas of back office functions, procurement and transactional services. The Portfolio Holder will provide a separate briefing note on this key area.

In the past the Council has contributed towards this by absorbing non-contractual inflation within existing budgets, for 2004/05 this amounted to around £77,000. However, this is now creating difficulties for many revenue budgets.

The Council has signed a Public Service Agreement with Wiltshire County Council, which specifically targets changes in cost effectiveness and is in the process of developing a further agreement PSA2. The money allocated for the successful completion of PSA1 is likely to be received at the end of 2005-06 and 2006-07. It is estimated at £150k split equally between capital and revenue and is currently planned to reallocate back through the LSP. ***This is not included in the estimates given below.***

After considering all the above the projected revenue outturn is as follows:

	2004/05	2005/06	2006/07	2007/08
Estimated Grant Settlement	6.8%	1%	3%	3%
Revenue Budget Projection	£m	£m	£m	£m
Projected budget	11,439	12,547	13,009	13,599
Projected resources	11,439	11,822	12,904	13,365
Surplus/(Shortfall)	0	(725)	(105)	(234)

It is important to note that any changes to 2005/06 will amend the 2006/07 and 2007/08 figures.

Corporate Management Team (CMT) is currently working on options to balance the budget. A list of areas to explore has been drawn up ranging from short to medium term covering efficiency savings, changes to service delivery, financing, asset disposal, income generation and external grant. Each suggestion is in the process of being evaluated and costed and for presentation at a Cabinet/CMT away day in early October.

A number of scenarios exist to balance the budget ranging from:

Council tax increase 3% requiring redistribution of resources £575k

Council tax increase 6% requiring redistribution of resources £425k

Council tax increase 12% requiring redistribution of resources £125k

6 Balances

A review of the level of the Council's reserves was undertaken in August 2003 in accordance with the latest professional guidance and updated in May 2004.

The annual budget was reviewed and adjusted for likely overspends and what could go wrong based on past experience. This allowed a risk % to be calculated which, when applied to the budget figures and the history of overspends in the past few years gives a prudent forecast recommending a general fund reserve balance of £1.2m.

The calculation is annually increasing with inflation and updated for any changes in risk. *The contingency fund is fully committed for 2004/2005 and the sum proposed in the 2005/2006 has been provisionally set to one side.*

7 Capital

The projected capital programmes result in dwindling capital receipts. This clearly needs to be managed, as by 2007/2008 capital receipts will be exhausted. Whilst the new prudential code gives opportunities to borrow this can only be taken up if it is affordable, sustainable and prudent. The most significant areas of expenditure are in respect of social housing and housing grants, which account for around 60% of available resources.

Capital Budget Projection	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Projected budget	5.1	2.4	1.1	0.9
Resources balance (start of year)	9.1	4.0	1.6	0.5

The Capital Programme for future years will need to be developed. However, an analysis of likely future capital schemes based on previous year's information is given below:

Capital Programme	2004/05 £k	2005/06 £k	2006/07 £k	2007/08 £k
Commercial properties - crusader park	50			
Property maintenance - cladding bradley road	20	10		
Property maintenance - council chamber roof		23		
Property maintenance - one stop shop Warm		37		
Property maintenance - backlog operational	75			
Property maintenance refurbishment	20	30		
Car Park/Community Safety - lighting	25	30		
Grounds maintenance - 2 highway sweepers		110		
Parks&Open Spaces - replace play equip	25	25	25	25
Parks&Open Spaces - special needs equip	19			
Parks&Open Spaces - mobile steam equip	13			
Play area grants	21	21	21	21
Commercial services - wheeled bin compost	370			
Housing - choice based letting	75			
Housing renewal	659	650	650	650
Social Housing	2,286	1,000		
Sewerage schemes	391	110	110	110
Five towns initiative	100	100	100	100
Tech services - disabled access	20			
Revenues and benefits - swipe cards		24		
Revenues and benefits - auto BACS collection	13			
ICT - councillors on line equipment	10			
ICT - elec doc mgmt dev	10			
ICT - e-democracy		20		
ICT - local network phased implementation	20			
ICT - MS licence upgrade	12			
ICT - replace sun server revenues	50			
Leisure Joint Venture DC leisure	200	200	200	

8 Policies to underpin 'Sound Financial Management'

Revenue

- General inflation to be applied to contractual commitments only
- Pay budgets to be increased in line with projected pay award
- Pension costs to be increased in line with latest actuarial valuation
- Exit strategy to be agreed before any permanent unplanned long term commitments are entered into for example use of external funding and government grant
- Service improvement/growth to be funded from redistribution of existing resources
- Windfall revenue savings are to be held in a central corporate account for consideration by Corporate Management Team.
- Council tax increase to be kept to single figure increases subject to annual government settlement
- Council tax increase of % £ to fund spotlight areas

Capital

- Asset Management Plan will be reviewed annually to identify surplus assets to generate new capital resources for future capital projects
- Capital receipts are to be held in a central corporate account to be allocated in accordance with the Council's 'spotlight and getting the job done' priorities and the Service Financial Planning process.
- Investment income that exceeds the budget should be used to support the capital programme subject to a balanced revenue budget

Reserves

- Revenue reserves will be reviewed at least annually
- Working balances to be maintained between 8% and 10% of the net revenue budget subject to the annual risk assessed calculation

9 Other Considerations

Constructing an accurate three-year financial forecast for the future of the local authority is very difficult. This report is heavily qualified, but members are able to see all the uncertainties and assumptions that have been made in producing this forecast. However, there are some very positive and certain things that should reassure members.

- ***Certainty***

In the case of waste, recycling, the management and maintenance of our eight leisure buildings, and ICT the letting of contracts has delivered price stability and certainty in the longer-term.

- ***Reductions***

In the case of the leisure contract a reduction in capital expenditure of £200,000 per annum will take place in financial year 2007/08. Other reductions in the budget are feeding through on a piecemeal basis, relating to the transfer of our five civic halls.

The full impact of this will be felt in 2006/07, when an overall reduction of £250,000 would have been achieved compared with 1999/2000.

- ***Government Policy***

This is the big uncertainty and will determine the flow of resources in particular how quickly we reach our full grant entitlement. This is currently announced annually, making any sort of forward planning with certainty difficult to achieve.

10 Implications

In preparing this report, we have had regard to community safety, environmental, equality, financial, sustainability, human rights and legal implications. The report deals with those issues where there are relevant matters to be considered or noted.

11 The Way Forward

This is a draft plan and is subject to the final determination of the 2005/06 local government finance settlement.

However, the draft shows that budgets over the life of this plan will be challenging, although projections show that single figure Council tax increases are achievable from 2006 onwards. The big area of uncertainty continues to be the level of central government support.

Further scrutiny of the underlying assumptions will take place between now and the Cabinet meeting on 29 September.

There is a clear need to review the revenue options to balance the budget for 2005/2006 and a look at the overall shape of the capital programme to ensure the best use of our capital resources. Corporate Management Team and Cabinet are working together over the coming months to tackle this issue.

12 Recommendations

- The Cabinet notes the current position and agrees the medium term financial plan

Tony Phillips OBE
Leader

Andrew Pate
Chief Executive

Roy While
Portfolio Holder

Ian Jamieson
Head of Finance

Plain English guidance given
Background Papers – files held in room F33
Filename – N:\Budget\medtermfp 01-09-04

20 September 2004