

Agenda Item No:

Title: **Medium Term Financial Plan**

Portfolio Holder: **Cllr Carbin – Finance Portfolio Holder**

Reporting Officer: **Ian Jamieson – Head of Finance**

Key Decision: **No**

1 Introduction

The purpose of this document is to update the 4 year financial plan agreed by members in September 2004. This is an annual update to the 4 year rolling plan. The plan covers revenue and capital and will assist members and officers in decision making for the next 4 years.

The Corporate Plan provides strategic direction over the coming years. The Medium Term Financial Plan provides the financial framework for resourcing 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 more waste	➤ A focus on priorities
➤ Meeting housing need	➤ Strong community leadership
➤ Access to recreation	➤ Efficient and effective services
➤ Improve our market towns	➤ Valued and well supported staff
➤ Putting customers first	➤ A well planned approach
	➤ Accessible democratic 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 'scaling mechanism', which will only add further pressure to our limited financial resources.

The mechanism for distributing government grant is under review and out to consultation until 10 October. One of the main changes being considered is the introduction of 3 year financial settlements. The concern for this Council is the data selected on which to base the 3 year settlement. This introduces a higher degree of uncertainty and 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 2005/06

- Gross Spend £45m
- Net General Fund Revenue Budget £12.4m
- Funded from 51% Central Government and 49% local Council Tax
- Reserves £1.2m
- Capital programme £2.6m
- Capital Resources £5m
- Every £1m spent on capital will reduce revenue investment interest by £45k pa
- Investment Fund balance £12m
- Investment Fund interest £305k
- Band D average Council Tax £127.88
- Every 1% increase in council tax will raise around £60k

4 Key Issues

- ***Spending Review 2004***

This review announced in July 2004 painted a fairly pessimistic picture in terms of future grant. However, it was overridden by the actual settlement in December 2004, when more money was received by District Council's following a successful lobbying campaign by the LGA. The government have announced that the latest spending review will be delayed due to the current consultation on future funding and have declined to update previous spending review projections.

- ***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 £15.2m (covers Parishes and Towns who currently spend around £2.3m) for 2005/2006, compared to the annual budget of £12.382m.

A government imposed ceiling has restricted the amount of grant West Wiltshire received for 2003/04, 2004/05 and 2005/06.

Around £714k was withheld in 2003/04, £753k in 2004/05 and £555k in 2005/06. West Wilts is one of 161 local authorities in this position of which we are the 3rd worst funded in cash terms. The Council has actively lobbied for 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 scaling for future years and the level of local council tax will determine how quickly West Wiltshire reaches the government measure for distributing resources.

- ***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 revenue	414	311	162	120
On-going in Revenue budget 2008/09	150	162	162	162
Available for 'one off' revenue	264	149	0	(42)
Planning Delivery Grant capital	0	104	54	40
Available for capital	0	104	54	40

Implementing Electronic Govt	2004/05	2005/06	2006/07	2007/08
	£k	£k	£k	£k
Implementing Electronic Govt Grant	350	150	nil	Nil
On-going in Revenue budget 2005/06	50	0	50	50
Available for 'one off'	300	150	(50)	(50)

The Planning Delivery Grant is closely linked to achieving targets, which means the grant can also go down. From 2005/06 the grant is made up of 75% revenue and 25% capital. This volatility needs to be recognised in setting budgets particularly contractual commitments.

In 2005/06 we received Waste Performance and Efficiency Grant of £39k. No grant has been included for future years although the scheme will run in 2006/07 and 2007/08 but the method of allocation has yet to be determined.

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 September 2006, given the size of figures involved this represents a significant risk.

- **Reviews**

The Service and Financial Planning process is underway for 2006/07 and this will result in a number of reviews being carried out.

- **Future Commitments**

Pay Reform

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 pay bills. An amount of £135k per year has been included as an on-going revenue cost from 2007/08.

An amount of £50k has been budgeted in 2005/06 for start up costs and review.

Asset Management

The Asset Management Plan is in the process of being updated. One of the key areas of work will be a fully costed planned maintenance schedule for all Council assets. A separate piece of work will also be required around the depot. **No increase has been allowed for any additional resources that may be required.**

Leisure and Recreational Needs Assessment

The detailed financial implications arising from this report are in the process of being worked up and may give rise to the need for additional revenue and capital resources. An estimate of £500k capital resources has been allowed for £250k in 2006/07 and £250k in 2007/08. **No increase has been allowed for any additional revenue that may be required.**

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.

	2004/05	2005/06	2006/07	2007/08	2008/09
	£k	£k	£k	£k	£k
Recycling Set-up costs	25	25	0	0	0
Recycling continuation existing	108	111	114	117	120
Recycling kerbside extension	nil	165	169	173	177
Trowbridge HWRC	83	83	28	0	0
Rural Black Boxes	0	0	0	38	78
Total	216	384	311	328	375

Grounds Maintenance

No increase has been included for the letting of the Grounds

Maintenance Contract. 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	2008/09
	£k	£k	£k	£k	£k
Set up costs	101	159	161	78	0
Lost income	0	0	0	13	38
On-going running costs - 30 years	nil	nil	nil	90	221

The set up costs were based on the Outline Business case submitted September 2005.

Concessionary Fares

The introduction of free travel announced by the Chancellor in the last budget will give rise to additional costs for the Council. However, this will be supported by government grant but the exact amount will not be known until December 2005. ***We have assumed this will not add additional net cost***

Local Authority Business Growth Incentive (LABGI)

The Government has introduced a scheme that will give a local authority a share of the additional growth in business rate income that is achieved each year, provided that it has achieved a minimum level. The minimum has been set below the average level of growth is achieved in previous years. ***No income has been included in the forecast given below.***

- ***Budget Robustness***

The revenue and capital budget process for 2005/2006 reviewed the high-risk areas and budget pressure points, allowing the resources to be targeted to traditional problem areas. The main changes were the increase in pension contributions £194k, fall in investment income £205k and extension of the recycling scheme £185k.

- ***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	-	-	-	-	-
Street Cleansing	-	0.6	-	-	-	-	-
Refuse	-	1.4	-	-	-	-	-
Computer	-	-	0.5	-	-	-	-
Leisure	-	-	-	-	-	-	1.6
Public conveniences	-	-	-	-	-	0.3	-
Insurance	-	0.3	-	-	-	-	0.3

5 General Fund Revenue Assumptions

The general fund model has been set up using the 2005/06 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 2.95% for 2006/07, 2007/08 and 2008/09. 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.

- **Pension**

Increases to recover the existing shortfall have been built in taking contributions from 25.5% in 2005/06 to 32.3% in 2006/07. These increases are based on actuarial advice and are required to manage the pension fund deficit. The next actuarial valuation of the pension fund is due in 2007 and will report on the state of the fund as at 31 March 2007. This information will be available for the 2008-09 budget process, probably late October. Currently the WWDC scheme is 63% funded. **We have not assumed any further increase in employers' contributions from 2007/08 onwards.**

- **Investment Income**

The investment fund is now managed in-house with external professional advice from Butlers. 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	2008-2009
4.50%	4.50%	4.00%	4.00%	4.00%

- **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 Councils receive a minimum increase (floor). Unfortunately, this is funded by reducing the grant of other Councils, in particular those who are due a significant increase, by a scaling factor, which is the position of West Wiltshire.

In 2005/06 a 9.1% grant increase was achieved, mainly due to the additional distribution announced by the Chancellor in December. In view of the recent grant consultation and continued uncertainty an estimate of 0.0% has been made for 2006/07 and 2.5% for future years.

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 £890k for service growth.

- **Council Tax**

The growth in the number of properties that give rise to the tax base has been estimated at 1%. Other than this, **no increase in Council tax has been assumed in the forecast given below.**

- **Efficiency savings**

The Government has set a national target of 2.5% over 3 years in key areas of back office functions, procurement and transactional services. The Council must achieve £1.02m over 3 years from 2005/06 to 2007/08 and submit Annual Efficiency statements for each of these years. As a concession a backward looking 2004/05 Annual Efficiency Statement has been allowed. The Council is well on the way to achieving the target with over £847k declared to date.

In the past the Council has contributed towards this by absorbing non-contractual inflation within existing budgets, for 2005/06 this amounted to around £84,000. 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 before any council tax increase is as follows:

	2004/05	2005/06	2006/07	2007/08	2008/09
Estimated Grant Settlement	6.8%	9.1%	0%	2.5%	2.5%
Revenue Budget Projection	£m	£m	£m	£m	£m
Projected budget	11,439	12,382	13,823	14,991	15,852
Projected resources	11,439	12,382	12,834	14,133	15,263
Surplus/(Shortfall)	0	0	(989)	(858)	(589)

It is important to note that any changes to 2006/07 will amend the 2007/08 and 2008/09 figures.

Corporate Management Team (CMT) is currently working on options to balance the budget. A list of areas to explore is 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.

6 Balances

A review of the level of the Council's reserves was undertaken in June 2005 in accordance with the latest professional guidance. 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 reviewed increasing with inflation and updated for any changes in risk. ***The contingency fund of £100k has an uncommitted balance of £77k.***

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.

Capital Budget Projection	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
Projected budget	3.1	4.6	2.4	1.8	1.8
Resources balance (start of year)	9.2	6.3	3.0	0.6	0

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		2005/06 £k	2006/07 £k	2007/08 £k	2008/09 £k
Customer First		0	100	100	
Five Towns		100	100	100	
Housing Renewal		675	775	675	
Affordable Housing		1408	200	100	
Hostels		333	29		
Recycling		500	200	200	
Sewerage		210	110	110	
Leisure Joint Venture DC leisure		200	200		
IT		262	200	200	
Bradley Road maintenance		97	65	91	
Other property		99	92	92	
Play areas		226	77	148	
Election		40	0	0	
Vehicles		223	200	0	
Recreational Needs		0	250	250	
Less external funding		(1,472)	(231)	(258)	
Total		2,901	2,367	1,808	

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 2009/10, 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 update is draft and is subject to the final determination of the 2006/07 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.

There is a clear need to review the revenue options to balance the budget for 2006/2007 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

Sarah Content
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Andrew Pate
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Ian Jamieson
Head of Finance

Plain English guidance given

7 September 2005

Background Papers – files held in room F33

Filename – \\wwbrfs01\Finance\Cabinet Reports\2005-2006\28 September\medtermfp28-09-05.doc