

## TORBAY COUNCIL

Report No: F/19/04

Title: **Medium Term Financial Plan 2005 - 2008**

To: EXECUTIVE  
COUNCIL

on 16th February 2004  
on 4th March 2004

---

### 1. **Purpose**

- 1.1 To inform Members of the projected position for future years and to enable Members to plan financially with a degree of certainty.

### 2. **Relationship to Corporate Priorities**

- 2.1 The financial plan is core to the delivery as the Council's priorities.

### 3. **Recommendation**

- 3.1 that the Director of Finance, after consultation with the Leader of the Council and the Executive Member for Finance, be given delegated authority to publish the Medium Term Financial Plan which should include the financial implications of any policy direction changes the Council wishes implement over the life of the plan.
- 3.2 that the Executive Indicates whether it wishes the Overview and Scrutiny Board to undertake any reviews of service provision or receive reports on the impact of the new procurement strategy.

### 4. **Reason for Recommendation**

- 4.1 The Council needs to have certainty over the long term service delivery plans and the Medium Term Financial Plan will allow this to take place.

### 5. **Background**

- 5.1 The Executive, at its 22 July, 2003 meeting, considered a report on the Medium Term Financial Plan 2004-2007, which outlined some of the reasons for having such a plan, the main drivers and influences in developing the plan and the potential direction in which the council should consider moving. The recommendation was for services to develop plans which offered a range of service variations and these consequently formed part of the targets set for spending plans for the 2004/05 budget.
- 5.2 The Council now needs to move forward with the next forward plan covering the period from the 2005/06 financial year through to the 2007/08 financial year. For the reasons explained in the earlier report, namely the Government's reluctance to issue indicative figures for more than 3 years forward, this plan will only project forward 3 additional years over and above that recommended for the 2004/05 financial year. However, it should be noted that the Government's current Comprehensive Spending Review (CSR) only covers the first 2 years of the plan and certain assumptions are being made which will undoubtedly change when the Government next issues its CSR.
- 5.3 The starting points for the revised Medium Term Financial Plan (MTFP) will be the updated version of "Transforming Torbay" which will indicate the way the Council plan to move in terms of services and the Council's existing plans as represented in the 2004/05 draft budget. However in any forward projection of service planning it will be recognised that

resources will be a determining factor. To this end the MTFP starts by looking at the future income levels for the Council based upon known or anticipated income flows.

- 5.4 This report will not include the detailed calculations which result with the final projections and plan but will include the main headline assumptions which have formed the basis of the projection. Therefore the following factors or assumptions have been built into the forward projections.
- a) FSS increases will continue along the lines previously indicated in the Government's Comprehensive Spending Review (CSR) documents, but modified to reduced levels of increase for those years where the CSR does not yet project to.
  - b) There will be an expectation of the continuation of the shift away from central funding to local funding, as has been witnessed in recent years, with an assumption that the Treasury will factor in an assumed annual rise in Council Tax yield of about 7%, including an increase in the base number of properties, although the ODPM estimates for grant calculation purposes will be lower.
  - c) Holiday homes income will be retained by Torbay Council and not subsumed into the Council Tax base, as some authorities fear.
  - d) The additional £0.8m grant aid in the form of Revenue Support Grant received for 2004/05 is a one-off and will not be repeated, even though this will automatically add approximately 2% to the Council Tax bills for Torbay.
  - e) The suggestion by the Government that it will impose a cap on Council Tax rises is a serious one and there is the strong possibility that Councils may have some imposition placed upon them if increases are too high.
  - f) Consequentially it has been assumed that any Council Tax rise in Torbay will be in line with the Government targets.
- 5.5 A significant risk in the assumptions above relate to the future increases in FSS. The Government is due to publish a revised CSR later this year and the indications are that the monies being made available to local Government in the future may be less than those which are currently being forecast. Assumptions for Highways, EPCS and Capital are based upon standstill figures i.e. 2½% increase for inflation only, and therefore no adjustment is being made to current guideline figures. The education growth figure though has been reduced from the current level of 5% to 4%. A similar argument could be mounted for Social Services but it is also known that there is revised data arising from the 2001 census which, when fed into the FSS formula, could add in excess of £1m to the Social Services FSS. As it is not known how or when this data will be introduced, the assumption applied is that Social Services will be maintained at the higher rate to compensate for the impact of the census data.
- 5.6 Using these assumptions result in possible income levels of approximately £150m in 2005/06 rising to £169m in 2007/08. This though assumes no resources being applied, other than external grant and Council Tax income.
- 5.7 Turning to existing expenditure plans, Members are well aware of the budget build up process, including the impact of committed expenditure arising from existing plans. Members are also aware of the impact of the demographic growth within Torbay, especially within the Social Services budget but to a lesser extent within the Environment budget also. These have been factored into the spending plans, as have assumptions on future pay and price increases. It has also been assumed that any increase in Education FSS will be passported through to the Education budget.
- 5.8 Clearly there are a number of risks which have to be taken into account when projecting forward, especially towards the end of this plan period. Inflation and Interest rate assumptions are two such factors and are, to a degree, linked. Specialist commentators and

the Council's treasury advisers are indicating that the economy is in a relatively stable state and therefore significant movements has been witnessed in the past are not likely to be seen. Therefore it has been assumed that existing rates will continue and any variations will be relatively small.

- 5.9 There is clearly an issue of risk in relation to the demographic growth assumptions built into the budget, especially into the Social Services elements. In terms of new clients for Social Services there is no database which can currently be used to verify this figure and it can only be formulated based upon the past experience. Members will be fully aware of the growth that has taken place in this area in recent years and will also recognise the volatility of the budget. Therefore whilst a sum of £0.5m has been included in the forward projection for each year, there is a significant risk that this may be an understatement of the future position. Conversely, but with a lower level of risk, is that the figure could possibly be an overstatement.
- 5.10 Another item worthy of specific mention is the Capital Programme. It is a reasonable assumption that the Council will continue to receive supported borrowing through the Single Capital Pot for the Government's priority services, These, in capital terms, are Education, Housing and Transport. In the overall planning exercise it is assumed that firstly the Council will want to avail itself of these powers and secondly the revenue costs of borrowing will be broadly offset by additional FSS for these services. In terms of on-going maintenance, premises and staffing costs, it is assumed that these will be found from within existing resources, as most schemes in Torbay are replacement rather than totally new build and therefore no specific growth has been built into either the income or expenditure plans for these issues.
- 5.11 There are though a number of other specific issues which have to be taken on board. Firstly an actuarial valuation is due to be undertaken of the Pension fund as at 31 March 2004 and the impact of this valuation will be felt in 2005/06, i.e. the first year of the Plan, and later years. At the moment the impact cannot be accurately assessed but is likely to be significant given the collapse of the Stock Market since the last valuation. I am aware that options are being considered to alleviate the impact e.g. lengthening the period over which the shortfall can be recovered, but until these have been agreed then no change in assumptions have been made. At the moment a notional £1m one-off uplift of the base has been included, which could represent an increase in payments of upto 20%.
- 5.12 When these assumptions are applied to the data held, the result indication is that the Council is, at least, going to be facing a standstill position and may be facing reductions in net expenditure for services in future years. What is quite clear though is that the Council will not be able to develop new or improved services without first making compensating reductions in existing service provision.

## **6. Future Policy Considerations**

- 6.1 The conclusion drawn in the final paragraph of the above section will clearly be disappointing but not a great surprise to Members. The implication is that to move service provision to those areas indicated in "Transforming Torbay", the Council will need to address its current and future spending plans.
- 6.2 Since the publication of the CPA Report the Council has begun to address the issues raised in the document. The report expressed concerns about the strategic capacity of the organisation to meet the governance issues and, to an extent, about the prioritisation of services within the Council. To this end the Council undertook a restructuring exercise of the organisation and has invested in the staffing to address the capacity issue and has identified Education and Housing as two of its priority services.
- 6.3 Whilst these changes were implemented in the 2003/04 financial year, the full year impact was not seen until 2004/05 which has resulted in a potentially significant increase in Council Tax. This increase should have addressed, as a one-off increase, many of the capacity issues, and gone some way to move resources towards the priority services.

- 6.4 In terms of service priorities, the Council also begun to address these in setting the targets for the 2004-05 budget when the targets for Education and Housing, at all levels, indicated more growth than was allowed in other services. It is recognised that this has not fully reflected the funding which the Council wishes to see in these services but has, at least, begun to move towards its stated aims and objectives.
- 6.5 Recognising, as was indicated in the base assumption, that having undertaken a significant one-off uplift in Council Tax the Council will need to plan on lower levels of Council Tax increases in future years. Therefore in order to move resources to the priorities the Council will need to look very closely at existing resources and spending plans in order to free up additional resources.
- 6.6 The Assistant Managing Director is recommending, and is being implemented, in the 2004/05 financial year, a procurement strategy which suggests that six figure savings could be achieved through different purchasing practices over the medium term. Members may wish to express a view on whether these savings when they accrue, should remain in the service in question or be redirected to other priority areas. It is recommended that as part of the scrutiny process, the Overview and Scrutiny Board should receive regular reports on the savings arising from this new strategy and the Executive may wish to make subsequent resource re-allocations on the back of these reports.
- 6.7 At the same time it should be recognised that there may be services which Members do not wish to deliver to the same extent at present and may wish to reduce net expenditure, either by reducing expenditure or increasing income, to free up resources.
- 6.8 To this end Members may wish to commission an exercise through the Overview and Scrutiny Board to assess current service provision and whether it accords with the current aims and objectives of the Council. At the same time, Executive Members, in conjunction with their respective Director, could be asked to identify savings of, say, 1% in their existing budget as a starting point for 2005/06 to identify possible low level priorities where resources could be redirected. If the Education service is excluded then this would generate savings in the region of £0.8m.
- 6.9 It is recognised that the central departments hold some corporate costs which cannot be reduced and therefore disproportionate savings in other services will have to be found. However if any headroom is to be found in the 2005/06 budget then savings on existing services, however unpalatable, will have to be identified.
- 6.10 From the above information Members will recognise that if they wish to change service provision over the medium term then early planning must start now if the Council is to manage its resources effectively. What is clearly evident is that whatever generalised assumptions have gone into the plan, the Council cannot afford to sit back and see if they are incorrect if they wish to change the way the Council operates and delivers its range of services.
- 6.11 The next version of the MTFP can not be updated until the 2004/05 budget has been approved and the implications carried through into later years. However Members will need to identify which services are to be developed over this period and which services are to receive reduced net resources. This is not a decision that can necessarily be taken today but will have to be addressed before the publication of the Strategic Plan. Therefore it is recommended that Members give the Director of Finance, after consultation with the Leader of the Council and Executive Member for Resources, delegated powers to publish the MTFP which will incorporate such reallocations. The intention will be to publish this revised plan early in the new financial year.

**RICHARD THORPE**  
**Director of Finance**

Contact Officer: Richard Thorpe  
Extension: 7280

## **IMPLICATIONS, CONSULTATION AND OTHER INFORMATION**

### Part 1

These sections may be completed by the Report author but must be agreed by named officers in the Legal, Finance, Human Resources and Property Divisions. If these are not completed and agreed the Report will not be included on the agenda.

Does the proposal have implications for the following issues?

Insert name of  
responsible officer

Legal (including Human Rights)	To be assessed on the publication of the report	Bill Norman
Financial – Revenue	Included in the body of the report	Richard Thorpe
Financial – Capital Plan	To be assessed on the publication of the report	Richard Thorpe
Human resources (including equal opportunities)	To be assessed on the publication of the report	Clare Armour
Property	To be assessed on the publication of the report	Sam Partridge

### Part 2

These sections must be completed by the author of the Report.

Does the proposal have implications for the following issues? Please give details as appropriate		
Sustainability	Yes	The budget has implications for all policies/strategies of the Council
Crime and Disorder	Yes	The budget has implications for all policies/strategies of the Council
*OfSTED Post Inspection Action Plan	Yes	The budget has implications for all policies/strategies of the Council
*Social Services Action Plan	Yes	The budget has implications for all policies/strategies of the Council
*Change Management Plan	Yes	The budget has implications for all policies/strategies of the Council

*\* not applicable to reports to Licensing, Development Control and Area Development Committees*

### Part 3

These sections must be completed by the author of the Report.

Does the proposal have implications for the following Directorates? If so, please inform the relevant Director. Please give details as appropriate	
Chief Executive/Corporate Services	Yes
Education Services	Yes
Environment Services	Yes
Social Services	Yes

#### Part 4

Is the proposal contrary to or does it propose amendment to the Policy Framework or contrary to (or not wholly in accordance with) the Council's budget?		No	Fill in Box 2
1. Details of the nature and extent of consultation with stakeholders and relevant select committees.			
2. Details and outcome of consultation, as appropriate.			

#### Part 5

Is the proposal a Key Decision in relation to an Executive function?	Reference Number	No
--	------------------	----

#### Part 6

##### **Wards**

##### **Background Papers:**

The following documents/files were used to compile this report: