

TORBAY COUNCIL

Report No: **F/62/04**

Title: **Medium Term Financial Plan**

To: Executive on 12 October 2004
Scrutiny and Overview Board on 13 October 2004

1. **Purpose**

- 1.1 To inform Members on the projected position for future years based upon later and more up-to-date information than was previously available.

2. **Relationship to Corporate Priorities**

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

3. **Recommendation(s)**

- 3.1 That the latest financial projections for the Council for the 2005-06 and later years be noted.
- 3.2 That Members indicate any additional areas of work which they wish to be undertaken whilst the budgets for the years in question are prepared.

4. **Reason for Recommendation(s)**

- 4.1 The Medium Term Financial Plan is the fundamental element in setting the Council's budget for future years and ties in with the Council's strategic plan

5. **Key Risks associated with the Recommendation(s)**

- 5.1 Failure at this stage to ignore the warnings being included in this report would leave the Council facing significant financial work in a very short space of time. It could also inevitably result in decisions being taken without taking full account of the Council's stated aims and objectives and without possibly appreciating all the risks and implications of any decisions taken.

Likelihood	6	6	12	18	24
	5	5	10	15	20
	4	4	8	12	16
	3	3	6	9	X12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
		Impact			

 Low risk  Intermediate risk  High risk

The "x" in the above matrix denotes where the author has assessed the level of final risk to fall

6. **Summary of the Current Plan**

- 6.1 Attached as an appendix to this report is the latest detailed Medium Term Financial Plan (MTFP). The previous version of this plan was circulated to all Members of the Council in March and a copy was bound into the annual budget digest. That version of the plan indicated it was estimated there was a gap of £3.1m between the continuation of existing services and available income in 2005-06, rising to £6.3m in 2007-08.
- 6.2 The latest version of the plan has updated these estimates to reflect national changes to the assumptions made, local changes in priorities and assumptions about possible levels of Council Tax increases in future years.
- 6.3 In summary it is now estimated that the gap between service demands and potential income in 2005-06 is £4.5m and stays at this level over the medium term. The detail behind this "bottom line" statement is included in the plan.
- 6.4 The plan indicates that Members and Directors are working on policy options that will both allow the delivery of services which fulfil the Council's commitment to the eight objectives of the Community Plan, which will shortly be adopted as the Council's objectives for 2005-06 and later years, and contain spending within the parameters and assumptions included in the plan

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IMPLICATIONS, CONSULTATION AND OTHER INFORMATION

Part 1

These sections may have been completed by the Report author but must have been agreed by the named officers in the Legal, Finance, Human Resources and Property Divisions.

Does the proposal have implications for the following issues? If "Yes" - give details. <i>delete as appropriate</i>		Name of responsible officer
Legal	Not at this stage	Bill Norman
Financial – Revenue	Covered in the body of the report	Richard Thorpe
Financial – Capital Plan	The financial implications of the capital plan will feed into the MTFP. Similarly there may be an impact on the Capital Plan arising from decisions taken on the MTFP	Richard Thorpe
Human resources	These will be identified as various options are assessed	Clare Armour
Property	Not at this stage	Richard Thorpe

Part 2

The author of the report must complete these sections.

Could this proposal realistically be achieved in a manner that would more effectively: <i>delete as appropriate</i>		
(i)	promote environmental sustainability?	No
(ii)	reduce crime and disorder?	No
(iii)	promote good community relations?	No
(iv)	promote equality of opportunity on grounds of race, gender, disability, age, sexual orientation, religion or belief?	No
(v)	reduce (or eliminate) unlawful discrimination (including indirect discrimination)?	No

If the answer to any of the above questions is "Yes" the author must have addressed the relevant issue/s in the main report and have included a full justification and, where appropriate, an impact assessment.

Part 3

The author of the report must complete this section.

	<i>delete as appropriate</i>	If "Yes", give details
Does the proposal have implications for any other Directorates?	Yes	The revenue budget will impact on all departments and services of the Council.

Part 4

Is this proposal in accordance with (i.e. not contrary to) the Council's budget or its Policy Framework?	<i>delete as appropriate</i>
	Yes
1.	If "No" - give details of the nature and extent of consultation with stakeholders and the relevant overview and scrutiny body.
2.	If "Yes" - details and outcome of consultation, if appropriate. Stakeholders and residents are forming part of the consultation process for the future budgets of the Council. A number of meetings have already been held and more will be held as the process continues.

Part 5

Is the proposal a Key Decision in relation to an Executive function?	<i>delete as appropriate</i>	If "Yes" - give Reference Number
	No	

Part 6

Wards

All

Appendices

Appendix 1 Medium Term Financial Plan

Documents available in Members' Room

Background Papers:

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

TORBAY COUNCIL

MEDIUM TERM FINANCIAL PLAN

(as at September 2004)

1 Introduction

- 1.1 Following approval of the Council budget, all Members of the Council received a copy of the latest Medium Term Financial Plan (MTFP.). A copy was also bound into the published budget digest for reference purposes. In summary the report indicated, based upon the assumptions being applied at that time, that there was a gap of £3.1m between the continuation of existing services and potential income in 2005-06 rising to £6.3m in 2007-08.
- 1.2 This latest update identifies the assumptions included in the original plan and updates it for new changes and any possible impact these may have on Torbay. This update also outlines the action the Council has taken since the last report.
- 1.3 This latest version of the plan will be used to inform the early part of the budget planning process for 2005-06 until firm figures issued by the Government are available, which is not expected until mid-November. Whilst inevitably there will be some uncertainty over the figures as, at best, the figures appearing in the plan will be informed and educated "guesses", there will certainly be clear direction as to the likely issues the Council will be facing over the three years of the plan.
- 1.4 It is expected that a revised version of this plan will be published at the end of the 2005-06 budget round when the actual changes projected in this version are known and it will also be projected forward for a further year.

2 Changes to assumptions included in previous versions

- 2.1 By the very nature of local government finance, it is not a steady state and assumptions are changing, whilst not on a daily basis, certainly on a regular basis and all these impact on Torbay in one way or another. This section of the plan deals with the changes that have taken place over the six month period since the plan was last updated.
- 2.2 The first change to impact upon the Council's plans was the decision of the Secretary of State to "cap" Torbay in 2004-05. The Council decided to meet the impact of capping in this year by funding the shortfall from reserves rather than implement mid-year service reductions. However there is a longer term impact in that the expenditure base for the start of the financial plan remains the same but the Council Tax level will be lower.
- 2.3 The most significant impact of this is when it comes to measuring the actual year-on-year increases. Members will recall that the Council was capped against two criteria, namely

- (a) budget requirement increase and
- (b) Council Tax increase

It is assumed these will be the measures used next year and thus these will need to be kept under review as the budget cycles evolve.

- 2.4 The next major issue that has an impact upon the Council's plan is the Chancellor's Spending Review announcement, made in early July. There were a number of "headline" issues which will affect this Council in due course, as indeed they will affect all local councils, and some which will impact in the near future. The long-term issues include:
 - (a) Increase in Housing expenditure, probably through capital and Registered Social Landlords and thus may not improve the Council's position in respect of Homelessness.

- (b) Similar improvements in Transport but once again probably through capital or investment in the Rail network rather than revenue expenditure through the Council.
- (c) Efficiency savings of 7.5% by 2007-08 (50% of which is in Schools, Children's PSS and LEA's) and approximately half is estimated to be achieved by changes in procurement methods.

2.5 In looking at the detail of the FSS increases included in the statement over the three years, which is what will drive the Council's funding over this period, there are some changes to the assumptions which had previously been used. These are:

- (a) Education increases are now slightly higher than those previously used. For the moment those increases are assumed to be passed directly through into schools and the LEA spending plans.
- (b) Children's PSS will show a larger than expected increase in the next two years but then fall back significantly in the third year.
- (c) Adults Social Services will show a dramatic increase in 2005-06 but will then halve in the following years. This initial increase is largely due to the transfer of expenditure currently funded by grant into the formula. This will have a significant impact on Torbay, with a net expenditure increase of about £0.7m, although this assumes "Preserved Rights" grant will continue as present.
- (d) Highway maintenance shows an inflationary increase for 2005-06 but then is held at the same cash level, which is a deterioration of the assumed position.
- (e) EPCS. This shows a 0.6% increase for 2005-06 which, after allowing for the change in responsibilities in respect of Magistrates Courts, is still less than an inflationary increase but then rises to slightly above inflationary increases in the following years.
- (f) The national figures for capital financing shows rises in double figures year in year but these will tend to be scheme/allocation specific and will be heavily influenced by items such as PFI schemes. Accordingly the Council's assumed increase in FSS reflects the assumed cost of the capital programme.

2.6 Linked in with the Spending Review are the assumptions regarding Council Tax yield. Members will be very aware of the Prime Minister's desire for Council Tax rises next year to be in the region of about 3%. However the Spending Review suggests Council Tax yield is expected to be about 6.7% in 2005-06 which, after allowing for new properties, infers Council Tax rises of about 6%. Assumptions on Council Tax levels are shown later in the report but, as an indication, if 6% had been used across all years then income levels would have increased by approximately a further £0.450m in the first year to over £3.1m in the third year compared to those eventually shown.

2.7 Following the announcement of the Spending Review, the LGA called for an additional £700m grant to maintain low Council Tax increases, which it is assumed is the consolidation of the £340m used for the 2004-05 Council Tax and a similar amount again in 2005-06. The £340m in 2004-05 brought £0.8m to Torbay and a similar amount again would be inferred by any further increase. Whilst most commentators believe that if the Government wishes to maintain low Council Tax increases and not see significant reductions in services then additional funding of the level indicated above would be needed. No assumption on extra grant income though has been built into the current plan.

- 2.8 Subsequently the LGA has also called for an extra £300m to be included in the Government's spending plans to meet urgent pressures which, although not specifically identified, are probably seen as adult social care, pensions, waste management and recycling.
- 2.9 It is still too early in the 2005-06 budget cycle to expect many Government exemplifications to have been issued using meaningful data. The Government though has proposed a number of changes and it is not expected many, if any, of these will benefit Torbay. Initially it was proposed to transfer Preserved Rights expenditure into the FSS formula and in a recent exemplification this was forecast to cost Torbay £1.5m. A number of authorities expressed concern over this transfer, including some of the groups representing whole classes of authority, such as the Unitary Treasurers and County Council Network. The Government appears to have taken these representations into account as a recent proposal suggests alternative ways of dealing with this issue. However it has merely proposed an alternative in respect of Residential Allowances which move from direct grant to FSS funding but this is still under consideration. The current proposal is a phased introduction of this but this will still "cost" the Council some £0.7m in increased net expenditure.
- 2.10 Members will also be aware of the reduction in grant for Supporting People for 2004-05 and further reductions in the grant are expected in future years. At this stage it is assumed these reductions can be identified as part of the contract reviews currently under way.
- 2.11 The Council is also aware that the census data collected by the Government in 2001 has not been fully applied in the funding formula. On exemplifications Torbay would receive an extra £1.5m to fund existing services which are already being provided. The Government has recently announced it is still not intending to fully apply the 2001 data to the FSS formulae despite academic research suggesting that it would not seriously impact upon the formulae. This is clearly disappointing and the LGA, on behalf of all authorities, has registered its disappointment on this matter.
- 2.12 The Government has confirmed that the funding for Magistrates Courts will now come direct from the Lord Chancellor's department rather than through local government sources. Accordingly the funding has been removed from the FSS formulae, which explains the rise of only 0.6% nationally in the EPCS block, but it is also means that the Council can reduce its planned expenditure by £0.236m.
- 2.13 The detail of the Spending Review and subsequent press announcements indicated that there may be funding made available for the impact of Home Information Packs and the move to "Whole Government Accounts" but these have not been quantified as yet.
- 2.14 At this stage most other assumptions have not significantly changed but the area which still gives greatest concern relates to the impact of the actuarial valuation, the preliminary results of which are not expected until November. At this stage though the assumption remains that the Actuary will require the authority to "make good" the losses incurred by the falling Stock Market over the last 3 years but the period over which recovery is made increases to some 25 years.

3 The Council's current Strategic Plan and Service Business Plans

- 3.1 The previous MTFP had been prepared before departments and services had completed their respective business plans, although it began to reflect some of the priorities included in the Council's Strategic Plan. Services have now completed their business plans, and a number of spending pressures which were included in these now need to be reflected in the MTFP.
- 3.2 Subsequently the Council has recently adopted the 8 themes included in the Community Plan and will use these for planning purposes for 2005-06 and later years. These are not

significantly different from those to which the Council is currently working but they will inform the business planning process for this coming budget round.

- 3.3 The Business Plans of the Education side of Learning and Cultural Services all make reference to the amalgamation of services under the Children's Trust and until this has been resolved there is a degree of uncertainty about future developments in these areas.
- 3.4 The Library Service Position Statement has identified growth items of some £0.130m, the principal items being additional opening hours and a joint SW Libraries project. The Museum Service had identified issues surrounding the closure of Torre Abbey in preparation for the restoration scheme but any revenue savings arising from the closure are being applied to the capital project.
- 3.5 Social Services business plans made reference to the Hollicombe site and residential facilities generally but whilst the Council is engaged with the P.C.T. regarding the formation of the Adult Trust, then these will be put "on-hold".
- 3.6 Within the corporate departments, a number of issues were raised that will have an impact on the departments. These include the outcome of the next corporate governance inspection, service improvement plans arising from the Customer Focus and Support Service best value reviews, job evaluation, decriminalised parking, supporting the audit programme, implementation of the new financial systems and delivering the E-Government programme. These have all been taken into account in projecting spending levels forward into the future.
- 3.7 Departments and services are currently working up their budget developments in preparation for the 2005-06 budgets. In all cases they are being asked to identify where each development fits in terms of the strategic plan, the risks associated with the development both in terms of going ahead and not undertaking the development and whether the development can be deferred.
- 3.8 At this stage most developments being identified are additions to existing services but in due course services will be identifying those areas which can be reduced, with the attendant risks and consequences similarly being identified.
- 3.9 The information provided will then be used to allow Members to make informed decisions on service variations.

4 Potential Resources

- 4.1 In the previous report, the section on potential resources made reference to a number of assumptions. Most of these still hold good but clearly the final determinant of income will be how the relative data changes in the FSS system impacts upon Torbay relative to the rest of the country.
- 4.2 The changes in the general FSS assumptions have been built into the Torbay model. However an additional element has been built into the Social Services figures to reflect the specific transfer of Preserved Rights and Residential Care.
- 4.3 In the previous report, reference was also made to an assumption, now accepted as extremely optimistic, that the Government would fully reflect 2001 census data in the 2005-06 funding. This has now been deleted as an assumption for that year but has been moved into 2006-07 as a recognition that the funding should come at some point in the future.
- 4.4 The Office of National Statistics has both recently issued some draft population estimates covering the period mid 2002 to mid 2007 and also the mid year figures for 2003 which will be used for the 2005-06 FSS formulae. In the longer term the estimate

suggest Torbay's population will rise to nearly 160,000 by 2027 and will rise by over 1,000 each year from the current base of 131,000. However the mid year figure for 2003 has been set at 131,300 which is an increase of approximately 0.5% but this about half the national change. The analysis shows some large variations when looking at the age profiles, especially where the Council is "out performing" the national trend for all groups over 60 which is where there is additional financial weighting in the formulae. Whether this is enough to maintain our relative position and compensate for the "under performance" of the under 60 groups will only be seen when the FSS is announced.

- 4.5 This analysis of the age variations will impact on the service delivery of the Council services and would suggest Torbay will need to put more into the elderly related services and less into the "younger focused" services compared to the national picture.
- 4.6 Linked in with the population figures and the impact on grant is the outcome of certain local authorities appeals against the ONS data used for the 2001 census. It was claimed by some 15 city councils that the census had underestimated the populations in these areas and as a consequence the authorities had not received the full allocation of grant. The Government appear to have accepted this point and have indicated that these authorities will receive their "back funding" by top slicing the grant to other authorities in 2005-06. This means Torbay will not receive its full allocation but the shortfall has not been identified.
- 4.7 A strategic part of the plan will be the assumptions on Council Tax income. It has been assumed that the trend in the growth in the Council tax base will continue and this is justified by the continuing housing developments around Torbay. In terms of actual tax increases, the table below indicates the assumptions used:

Assumed levels of Council Tax increase

	2005-06	2006-07	2007-08
Assumed level of Council Tax increase.	5%	4%	3%

The rates used in the plan are at a lower level than the Chancellor of the Exchequer has assumed in the spending review, where an assumption has been inferred of 6% increases. This though conflicts with the Prime Ministers wish that Councils will increase the Council Tax levels by only 3%.

- 4.8 Similarly as indicated earlier no assumption has been made that Councils will receive additional funding to maintain Council Tax levels down as was the case in the 2004-05 budget. In this instance the Council received an extra £0.8m which is the equivalent of a Council Tax increase of just under 2%.
- 4.9 In 2004-05, for the first time, the Council reduced the discount on second homes to 10% and estimated the impact would be about £0.4m. It was assumed that there would be some loss of income due to people claiming other discounts but this turned out to be not as great as originally feared. Therefore it is likely that the Council will be able to plan on at least £0.5m from this source in future years and this has been built into the assumptions.
- 4.10 When these factors and assumptions are taken into consideration, it is reasonable for the Council to plan on income levels of £148.0m in 2005-06 rising to £166.2m in 2007-08.

5 Expenditure Projection

- 5.1 As was indicated in Section 2 above, there have been a number of changes to the expenditure plans which have been built into the overall plan including
- (a) Contribution to reserves arising from the decision to meet the reduction in expenditure in 2004-05 resulting from capping from reserves
 - (b) Increased spending on Education arising from the assumption that the FSS increase will be greater and this will be passported through direct to the service.
 - (c) Loss of Preserved Rights funding and Residential Care Phase 2 whilst still having to maintain the service.
 - (d) The removal of responsibility for the payment of Magistrates Courts
- 5.2 In the case of business plan expenditure, nominal sums have been entered to reflect the items raised.
- 5.3 Members will be aware of the interest within Torbay for there to be a directly elected Mayor and a campaign is being mounted to get the requisite number of voters to sign up. The organiser of the campaign has indicated he expects to achieve the total by October or November. Once this has been achieved then the Council will have 6 months in which, amongst other things, to organise a referendum on the matter. Based upon the cost of organising local elections, this is likely to cost about £60,000 and this has been reflected in the plan for 2005-06.
- 5.4 Taking the above factors into account, expenditure plans suggest possible spending levels of £152.5m in 2005-06 rising to £170.8m in 2007-08.

6 Summary Position

- 6.1 The table below shows a summary position of the spending plans and potential income over the three-year period covered by the plan. Members will note that the potential shortfall in 2005-06 has risen from £3.1m to £4.5m and remains at this level over the medium term.
- 6.2 The rise of £1.4m for 2005-06 is clearly concerning and is of little consolation that it is mainly caused by Government actions such as
- (a) proposing to transfer Residential Care Allowance payments into FSS, and
 - (b) stating that the full implementation of 2001 census data will be delayed.

These two items alone have “cost” Torbay £2.3m and to put into context is the equivalent of a 5% Council Tax rise. Both changes are Social Services issues and are going to cause more problems in a service already under considerable pressure.

Summary Table of properties Income and Expenditure

	2005-06	2006-07	2007-08
	£m	£m	£m
Potential Expenditure	152.5	162.0	170.8
Potential Income	<u>148.0</u>	<u>158.1</u>	<u>166.2</u>
<u>Potential Shortfall</u>	<u>4.5</u>	<u>3.9</u>	<u>4.6</u>

6.3 Reference was made earlier to the capping criteria which included a measure of increased budget requirement. Although there is a gap between the spending level and the expected income levels, which requires addressing, the increase in the budget requirement is well above the measure set for the current financial year. Indeed unless some adjustment was made to reflect the transfer of grant, the Council would need to reduce the expenditure level down to the potential income level.

6.4 Conversely unless the Government made some adjustments for grant transfers into FSS, the Council could breach the ceiling for grant income increases from Government and thus not receive the full element of grant due.

7 Policy Action

7.1 Since the beginning of the financial year, Executive Members and officers have been looking into ways of reducing the Council's net expenditure without impacting on front line services. The focus of this work has concentrated on the procurement side with the recent creation of the Central Procurement Team. Whilst it is still early to assess results, the team has already established central contracts for certain items which will bring about significant reductions in costs in 2005-06, and they are currently working on other areas. In a similar vein the H.R. department is also looking at ways of reducing payments made to Agency staff through reducing general sickness levels in key areas and through arranging a central contract for agency staff on more favourable terms through "bulk purchasing" with one or two agencies. Also the I.T. Division continue to gain significant financial benefits from utilising the Governments Gcat contracts and the pan Devon I.T. purchasing agreements.

7.2 The Council has also employed, through funding from the ODPM, a consultant to look specifically at Social Services spending patterns. An initial report has been presented which suggests that Torbay is providing services to approximately twice the elderly population when compared to our comparator authorities. Further work has been commissioned to investigate this in order to see whether there is a problem within this area or whether this is a demographic issue specific to Torbay. However, the consultant has indicated that if Torbay's number of clients were nearer to the average then several million pounds could be saved from current expenditure plans.

7.3 At the same time Directors are examining existing work practices and structures to ensure that all services are delivered effectively and efficiently. Where improvements can be made through implementation of new systems etc., these will be applied and reflected in the budget estimates.

7.4 The Council has recently adopted the Community Plan and will be using this to identify the service priorities it will be taking forward for 2005-06. The eight themes which will now form the basis of developing the 2005-06 revenue budget are:

- (a) Making Torbay a safer place
- (b) Improving health and social care in Torbay
- (c) Improving access to good quality affordable homes

- (d) Improving Torbay's economy – towards a prosperous Torbay
- (e) Valuing our environment
- (f) Placing learning at the heart of our community
- (g) Developing Torbay's culture
- (h) Creating sustainable communities.

Executive members and Directors are currently mapping existing service provision against the objectives of the Community Plan. This will then identify those services which most closely match the proposed objectives of the Council for next year and contribute to the attainment of those objectives. Similarly it will identify those services where the match is not as great and could be subject to variation as part of the overall budget strategy. This exercise is on going and will be completed by December when the provisional FSS figures will have been announced.

- 7.5 The Council is also consulting with the wider public, as well as the LSP, and this is being undertaken through a series of town meetings. The first series were undertaken in June and a further round will be undertaken in October. These will produce the public's priorities across the whole range of the Council's services and the results will be used and considered by Executive Members when formulating the final budget strategy for the forthcoming budget round and into the future.
- 7.6 Each year the Council reviews the reserves and provisions being held and a report prepared for later in the budget round but at this stage it would be premature to prejudge the outcome of the review. Managers are being asked to justify the level of the reserve being held and circumstances may have changed since the last review such that some one-off funds may be available later in the current budget cycle.

8 Longer Term Outlook

- 8.1 When looking at the position regarding the second and third years the relative position improves. The figures suggest that if the potential shortfall in funding for the current level of services can be eliminated from the base, i.e. one-off funding is not used to close the gap, then there is potential for new resources to be applied for improved delivery of services.
- 8.2 There is equally an argument, using the figures in the projections, that suggest that spending of approximately £4.5m needs to be eliminated from the base permanently with one-off funding, if any is available, being used to close the gap in 2005-6.
- 8.3 However there has to be a clear health warning that there are still a lot of unknowns and assumption that have to be clarified before a clear position can be viewed. For example the 2006-07 budget projections assume that the Government will amend the census data anomalies but on past experience there must be some question over this happening.