

Committee: OPERATIONS
Date: 29 June 2006
Title: Medium Term Financial Strategy and
2007/08 Budget Outlook
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Agenda Item

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Summary

1. This report provides a brief introduction and context for the forthcoming budget process for both revenue and capital spending and proposes a timetable for the months ahead. It also proposes the development of a Medium Term Financial Strategy to steer the Council's finances over the medium to long term.

Recommendations

2. That this Committee approves the timetable proposed for the preparation of the 2007/08 General Fund budget, the 2007/08 – 2009/10 Capital Programme, the 2007/08 Housing Revenue Account, and the development of a Medium Term Financial Strategy.

Background Papers Background Papers

3. Background Papers: Budget Book 2006/07. Annual Audit Letter 2004/05

Impact

Communication/Consultation	The public will be consulted on the Council's budget options in a timely and effective fashion
Community Safety	There are no specific community safety implications contained in this report
Equalities	There are no specific equalities implications contained in this report.
Finance	This report proposes a timetable and approach to development of the Council's General Fund budget, Capital Programme, Housing Revenue Account and Medium Term Financial Strategy

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Human Rights	There are no specific human rights implications contained in this report.
Legal implications	The timetable proposed for the budget complies with the Council’s legal requirements to set budgets within certain timescales
Ward-specific impacts	There are no specific ward implications contained in this report.
Workforce/Workplace	Full information and consultation on budget issues will take place with staff and unions

Situation

General Fund

4. The starting point for preparation of the 2007/08 General Fund budget is a need to find savings of approximately £408,000 to achieve a standstill budget in service delivery terms, with no new spending pressures allowed for. This figure is shown on page 14 of the Council’s Budget Book. Members will recall that this time last year the Council faced a savings target of over £1m to balance the base budget in the medium term and a two year approach to achieving this sum was agreed. One factor which for the first time is known at this stage is the external funding which will be received from the Government. Members may recall that the 2007/08 announcement was made alongside the figure for the current financial year and gives the Council an increase of approximately £70,000 or 1.78% compared to this year. This figure has already been included in the projections contained in this report.
5. The savings required are based on an assumed increase of 4.5% in the council tax level for 2007/08 and an overall increase in the yield from fees and charges of 3%.Both of these assumptions can of course be changed during the budget process. The Government did use its council tax capping powers to limit increases for a limited number of councils during the last budget cycle and guidance will no doubt be issued in the coming months regarding any similar approach for 2007/08 budget setting purposes.
6. Members will recall that the 2006/07 budget setting process was dominated by the need to provide additional funding for both the Council’s new Waste Management Strategy and the pension fund deficit. The early indications are that there is nothing of a similar magnitude in the likely spending pressures for 2007/08, but the following are worthy of note:
 - Pressures arising from staff recruitment and retention problems around the Council, where several services are having to pay market supplements to obtain and keep key staff

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- A potential specific requirement for more planning staff, as well as a need to develop a financial strategy to cope with the end of Planning Delivery Grant when it ends after the 2007/08 financial year
- Potential increases in resources to meet more fully the requirements of the Comprehensive Performance Assessment regime, and in particular the Use of Resources Assessment elements. The resource needs here may be met through temporary increases, but there could be ongoing requirements as well
- Potential pressures arising from the implementation of Council's Corporate Plan. Initial work indicates that most of the Plan will be achievable within current resources, but detailed planning is being undertaken regarding the 11 major projects and themes in the Plan, and this may indicate the need for either one-off or ongoing resources
- Potential legislative changes and other pressures which may arise from Service Plans put forward from each Executive Unit.
- The Integrated Customer Management initiative is progressing on the basis of an expected £200,000 full year saving in the Council's General Fund budget. Any failure to achieve this will create an unfunded spending pressure in the budget. On the other hand, savings in excess of this figure will help with the overall budget savings required

Capital Programme

7. In the next few months work needs to be undertaken to establish the Council's medium to long term capital financing requirements and in particular whether current and projected future capital receipts are sufficient to sustain the likely capital investment needs over the next three years. If this is not the case the Council will need to consider the merits of borrowing or alternative financing options.

Medium Term Financial Strategy

8. A Medium Term Financial Strategy (MTFS) is a document which pulls together a council's financial plans, policies and priorities. It contains much more than a tentative budget forecast, which is what the Council's current Budget Book does for years 2 and 3 of the financial planning cycle. A MTFS:
 - Spells out the assumptions on which the Council's medium to long term spending plans are based, including Council priorities, demographic and legislative changes, external funding expectations, and financial and economic factors
 - Contains an agreed approach to dealing with the effects of any of the assumptions being wrong
 - Includes a phased programme of future spending pressures which are intended for inclusion in the budget for those years

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- Specifies multi-year proposals for changes in the Council's fees and charges, with an agreed mechanism for doing so
- Identifies a programme of efficiency activities for the period of the strategy
- Lays down a clear process for budgets to be prepared from year to year within strict cash limits
- Provides protocols for dealing with new or urgent items within year
- Specifies accountabilities for achievement of the strategy, with associated rewards and penalties for non-achievement
- Makes explicit the approach to budget consultation

9. Comments made in the 2004/05 Annual Audit Letter make it clear that a MTFS is an essential factor in receiving improved scoring under the Use of Resources element of the Comprehensive Performance Assessment regime.

Budget Prioritisation

10. The Committee will recall that the last two budget processes have involved use of prioritisation to inform decisions. This process has helped with re-aligning the Council's budgets to its priorities and it is likely that the Executive Management Team will propose some continuing prioritisation approach when it brings forward a draft MTFS.

Proposed Timetable

11. The following summarises the timetable proposed for the next budget process:

July/August	Executive Management Team to work up a format for a Medium Term Financial Strategy, incorporating multi-year spending pressures
September	Committees to receive full details of new spending pressures, fees and charges proposals and early ideas on efficiencies and to asked to endorse these for public consultation.
November	Feedback from public consultation to go to committees, which then make clear their views to the Operations Committee on 16 th November. This Committee looks at the overall position and issues guidance on spending pressures, efficiencies and fees and charges, using prioritisation

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December	Officers to finalise base budgets, options to achieve savings required, further examine new spending pressures, review fees and charges, prepare Capital Programme.
January	Committees to consider base budgets, proposals regarding spending pressures, savings options, fees and charges and Capital Programme items and submit an overall approach to Operations Committee consistent with the guidelines previously issued Community Committee to agree Housing Revenue Account budget and rent levels
February	Operations Committee to monitor compliance with the guidelines it issued and to recommend a General Fund Budget, Capital Programme and Medium Term Financial Strategy to Full Council

Risk Analysis

Risk	Likelihood	Impact	Mitigating Actions
Failure to identify all new spending pressures	Low	Medium	Continual review of likely spending pressures for each service
Failure to agree sustainable budgets	Low	High	Robust challenge of new spending plans plus statutory report requirement for Chief Financial Officer to inform the Council of affordability and sustainability of budget