

Report of the Director of Resources

Medium Term Financial Strategy 2009/10 to 2011/12

Summary

1. This report covers both the council's financial position for the next three years (the Medium Term Financial Forecast or MTFF) and potential options for bridging the gap between the expected budgetary position and the funding available. It also identifies a number of longer term improvements to the financial planning and budget process that will help to secure the Council's financial position in the future and the Executive are asked to endorse these.
2. The report provides not only the MTFF but also details of the proposed methodology and timescales for addressing these pressures. It also outlines options in terms of closing the budget gap for 2009/10.
3. As part of moves to address future funding gaps the report explores the options available for moving to a more strategic approach to meeting future budget pressures and for delivering efficiency improvements across the council's services. The need for efficiency savings is set out in detail in the report, including consideration of the Government's national targets. Successful achievement of efficiency will not only assist the budget process but, over time will drive it, enabling a better deployment of resources to meet the ever present need to reprioritise the council's efforts. This process will be a key element in meeting the commitment to the priority for improvement *"Encouraging improvement in everything we do"*.

Background

Elements of a good financial strategy

4. The Council must embrace the key features of good financial planning and these need to be adhered to if it is to deliver its priorities and ensure good value for money.
5. It is important that the financial strategy seeks to ensure the following;
 - It must be long term (a five year period for example), with a focus upon the strategic business objectives of the Council
 - It must be on-going, the process of setting one years budget should begin almost immediately after the previous one has been set

- There needs to be clear Member involvement
- It must seek to redistribute resources to ensure alignment of priorities
- It needs to be prudent and flexible to changes in circumstances
- Clear targets need to be established over a number of years, with these subject to review
- The strategy needs to be understood within the organisation and owned by senior managers
- It needs to be informed by good information and understanding of the issues facing the council
- The strategy should incorporate an ongoing Corporate Efficiency Programme
 - It is clear that not all of the above can happen immediately however the above represent some fundamental issues and principles which need Executive endorsement.

Efficiency and Value for Money

6. The efficiency agenda is evolving and has become much more challenging from 2008/09 onwards. This section will give a brief background and position statement of where the council currently is and what is needed to drive the efficiency agenda forward.

Background

7. The initial efficiency agenda that was introduced as part of the Comprehensive Spending Review (CSR) in 2004 came to an end in 2007/08, an amended process has been introduced as part of CSR07 for 2008/09 which will run until 2010/11.
8. The initial scheme, which was originally known as 'Gershon' had cashable and non-cashable targets totalling 2.5% per annum against a Government prescribed baseline of which at least half had to be cashable i.e. cash releasing savings. The Council's cumulative target for the 3 years was £8.8m and the Council to achieved £10.9m, an over achievement of £2.1m. The £10.9m comprises of £9.6m cashable and £1.3m non-cashable savings.
9. The whole of the cashable savings declared to date have originated as part of the annual budget process as savings proposals to balance the budget which, after scrutiny, have also met the Governments criteria to be classed as an efficiency saving. The annual value of cashable efficiencies achieved is shown in the table below.

	2005/06	2006/07	2007/08	Total
	£000	£000	£000	£000
Annual Target	2,587	3,284	2,935	8,806
Cashable Achieved	3,749	3,046	2,841	9,636
Surplus	1,162	-238	-94	830

10. In an effort to review efficiency outside of the budget setting process the council put together two programmes, a corporate efficiency review programme and a corporate procurement strategy which were approved by the Executive in September 2007. The programmes were compiled from the following areas;
- Results from Audit Commission benchmarking
 - Results from CYC benchmarking work
 - Existing efficiency focussed reviews and projects
 - Suggestions made at staff workshops
 - Financial performance within some services
11. A review of these programmes is showing that there is unlikely to be any large cashable efficiencies coming through over the next 3 years. The major initiatives such as the move to the new office accommodation and the Easy at York project should produce some significant efficiencies but not within the 3 years of this review. Other projects are more directorate based and as such any savings will come through the budget process.

The Amended Efficiency Process

12. As part of CSR 07 it was announced that the efficiency agenda would continue although there will be several key amendments to the process, these are as follows.
- The non-cashable element has been removed and all efficiencies have now to be cashable.
 - The cashable savings are set against a 3% per annum national target although officially there is no requirement to set a target at individual local authority level.
 - An amendment to the calculation of the baseline removes the credit for capital receipts and increases the baseline accordingly
 - The reporting of efficiencies achieved to Government has been made less onerous.
 - The whole efficiency approach adopted by the authority will be subject to enhanced scrutiny through the new Comprehensive Area Assessment process which will focus on how the council is tackling efficiency and getting full engagement with partners as opposed to how much of the target has been achieved.
13. Under the rules of the new scheme Local Authorities are allowed to carry forward any surplus cashable savings from the previous three year period, in York's case this is £830k as shown in the table above. The baseline for 2008/09 for the Council is £140.3m so to achieve 3% efficiencies would mean finding

£4.2m less the £830k gives a target for 2008/09 of £3.4m. The efficiencies identified from the 2008/09 budget process are £1.9m which gives a shortfall of £1.5m.

14. Although the Government have said that there are no local targets the Minister for Local Government John Healy has been quoted several times saying that the target is 3% per annum for council's and to not achieve this would need some strong justification. Therefore for illustrative purposes in this report a 3% per annum target has been used.
15. The budget savings that are classed as efficiencies are showing a decreasing trend which perhaps is highlighting that the departmental inward looking approach is exhausting the efficiencies at that level. Assuming that the budget process continues in its current form and efficiencies of £1.9m continue for the next 2 years, which in itself is a big assumption, the shortfall in meeting a 3% efficiency target will be £6m as shown in the table below.

	2008/09	2009/10	2010/11	Total
	£000	£000	£000	£000
Annual Target	4,200	4,200	4,200	12,600
B/fwd	830			830
Estimated Cashable	1,900	1,900	1,900	5,700
Shortfall	1,470	2,300	2,300	6,070

16. To find £4.2m each year for the next 3 years is an enormous task for the council as the current process of backward looking from what has been put forward for the budget is not adequate. To find £12.6m over this period needs a rigorous review of key council functions and some major corporate initiatives are needed to deliver some large cashable savings.
17. To assist Local Authorities the Government will be allocating £185m nationally via the new Regional Improvement and Efficiency Partnerships (RIEP's) which are an amalgamation of the Regional Centres of Excellence and the Regional Local Government bodies. Yorkshire and the Humber has been allocated £17.4m and therefore the Council will need to monitor progress as to how this resource is going to be used to assist the region in achieving the efficiency target.

Actions to drive forward the efficiency agenda

18. There is a need to kick start the efficiency programme and ensure it receives the attention and focus required to deliver the savings. The Corporate Efficiency Programme will be led by the Director of Resources, but will require Corporate ownership throughout the organisation. Specifically it is proposed to:-
 - Create an officer Corporate Efficiency Board who will oversee the delivery of the various projects supported by a dedicated team of officers.
 - Procure an external Performance Partner to conduct a scoping exercise to identify areas where large efficiencies can be made then look to implement a

series of efficiency reviews. The procurement process will focus on the prospective partners' risk and reward model with the objective of having no risk to the council and agreeing a rebate of fees if the efficiencies are not delivered. This approach has been used with the performance partners who are undertaking the review of client transport.

- Authorise the CEB to be responsible for the allocation of the £1m efficiency fund (subject to council approval of the £1m being transferred from reserves).

An ongoing budget process

19. Whilst there will be a need to address the 2009/10 budget in coming months, it is considered that as from early 2009 an ongoing mechanism needs to be put in place, involving senior members and Officers. One option would be to create a group that oversees on an ongoing basis the implementation of the Single Improvement Plan, key Council priorities, and develops the Medium Term Financial Strategy, ensuring links with Corporate priorities. Further discussions will be held with members to agree the precise nature of this, but it is considered that this needs to be an ongoing process.

The Underlying Financial Position

20. The financial strategy is a key element of how the council plans for the future. To be truly effective it needs to map potential positive and negative impacts on the council's finances and, in so doing, identify the scale of the challenges facing the organisation.
21. The MTFP shows that over the medium term, even with potential funding for council priorities and service improvements excluded, growth pressures will continue to outstrip the levels of funding available by nearly £6m in 2009/10 and £5.5m and £3.8m in the two following years. The figures in this table assume:
- a. council tax increase of 5% each year
 - b. A 1% increase in the council tax property base
 - c. Revenue Support Grant (RSG) at provisional levels from the 3 year settlement
 - d. One off budget pressures are funded from reserves in each year (2009/10 £1,351k, 2010/11 £698k, £2011/12 £651k)
 - e. No contribution from the collection fund surplus in any year

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Unavoidable Expenditure Pressures	9,570	9,362	7,855
Contingency Provision	1,000	1,000	1,000
TOTAL BUDGET PRESSURES	10,570	10,362	8,855
Estimated Increase in RSG	(1,159)	(1,108)	(1,108)
Increase in Council Tax (5%)	(3,490)	(3,690)	(3,900)
BUDGET GAP TO BE FUNDED	5,921	5,564	3847

22. Table 1 demonstrates that, in 2009/10 the council faces spending pressures of just under £6m and that whilst the gap is forecast to reduce in 2010/11 and 2011/12, the residual gaps will remain a major challenge for the council. It should be noted that this gap represents the level of saving which will have to be made for the council to merely stand still financially. There is also an exercise currently underway to identify cost pressures within Service Areas which are not included in the table above and in some cases these could be significant. A more detailed analysis of the financial position excluding departmental cost pressures is attached at Annex 1

Addressing the Gap

23. There are a number of ways in which the council can meet these financial pressures. These approaches have already been endorsed by the Council in the past and include:
- a. Controlling growth so that only the truly unavoidable is funded.
 - b. Critically evaluating directorate requests for the reprioritisation of resources so that the council's scarce resources are focussed in those areas that have the highest impact on our priorities.
 - c. Requiring all Assistant Directors to identify potential efficiency savings within their areas.
 - d. Requiring all Directors to identify potential efficiency savings or service reductions across their areas of responsibility.¹
 - e. Bringing the achievement of additional income more clearly into the budget process.
 - f. Identifying invest to save opportunities;
 - g. Delivering on a programme of strategic efficiency reviews and strategic procurements based on that agreed by the Executive in September 2007.
 - h. Utilising reserves and time limited funding to support one off initiatives.
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Consultation

24. Consultation with key stakeholders and York Citizens is currently being planned and is likely to consist of a budget questionnaire being sent to each household and supplemented by meetings/forums with the business community, the voluntary sector and other key groups. As part of this process the impact of the equalities agenda is also being considered and appropriate measures to address these issues will be included in the final process.

Options

25. The primary focus of this report is to update the Executive about the council's projected financial position for the next three years and steps that could be taken to deal with the underlying pressures that have been identified.

Corporate Priorities

26. The financial strategy is the outline framework against which the council's priorities must be delivered. In addressing the underlying budget gap the council is ensuring the continued delivery of current services. Reprioritisation will enable the council to address its changing needs and objectives.

Implications

27. The following implications apply to this report:
 - **Financial.** Whilst it has no direct financial implications this report and the attached strategy present the Executive with an outline of the council's financial position for the next three years and potential actions available to it.
 - **Human Resources (HR).** None from this report. HR implications may arise as the result of actions taken during the budget process and these will be addressed at an appropriate stage in the process.
 - **Equalities.** None from this report.
 - **Legal.** None from this report.
 - **Crime and Disorder.** None from this report.
 - **Information Technology (IT).** None from this report.
 - **Property.** None from this report
 - **Other.** None from this report.

Risk Management

28. The development of a three year finance strategy is always subject to a degree of uncertainty. The principal risks and mitigating actions are identified below:
- **Government grant levels are different to those anticipated.** For 2009/10 the figure issued by DCLG have been used and as such it is unlikely that a smaller grant increase than that shown will be made.
 - **Additional spending pressures are not identified.** To minimise the risk of spending pressures not being identified the budget is developed in partnership between directorate management teams, directorate finance teams, and central finance staff.

Recommendations

29. The Executive is asked to:
- a. Endorse the fundamental principles of the future approach to the financial strategy and financial planning as highlighted in para 5.
 - b. Endorse the approach to addressing the efficiency agenda, and specifically the procurement of a performance partner to develop the process supported by an officer board who will manage the £1m invest to save efficiency fund and manage the process. (para 18)
 - c. Formally adopt the proposed approach to balancing the budget and to note the relevant savings targets:

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Report Approved *Yes* **Date** *12 September 2008*

Specialist Implications Officer(s) *n/a*

Wards Affected: *List wards or tick box to indicate all*

All *All*

For further information please contact the author of the report

Background Papers:

None