

**CABINET – 10 JANUARY 2008**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**SUPPLEMENTARY REPORT**

**MEDIUM TERM FINANCIAL STRATEGY 2008/9-2010/11**

**PART A**

**Purpose of Report**

1. This report sets out the proposed Medium Term Financial Strategy (MTFS) for 2008/9 - 2010/11.

**Recommendation**

2. It is recommended that the proposed MTFS including the 2008/9 revenue budget be approved for consultation and referred for consideration to the Scrutiny Committees and Scrutiny Commission.

**Reasons for Recommendations**

3. To enable the County Council to meet its statutory requirements with respect to setting a budget and council tax precept and approving the MTFS including a 3 year capital programme.

**Timetable for Decisions**

4. The MTFS will be considered by the scrutiny process between 21 January and 30 January. Cabinet will then consider the comments of the Scrutiny and wider consultation processes. The County Council meets on 20 February to approve the MTFS.

**Policy Framework and Previous Decisions**

5. The MTFS has been developed alongside other service planning frameworks and will be aligned with the Sustainable Community Strategy (SCS) and Local Area Agreement (LAA) in June 2008.

**Circulation under Sensitive Procedures**

None.

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## **PART B**

### **Medium Term Financial Strategy 2008/9 to 2010/11**

6. The proposed MTFS has been developed from the current strategy approved by the Council in February 2007 and has the following key elements:-
- Reducing council tax increases  
(3.9% in 2008/9 and 3.5% in 2009/10 and 2010/11. The previous MTFS assumed increases of 4% in 2008/09 and 2009/10).
  - Retaining previously agreed savings  
(e.g. supported accommodation, school transport and adult social care charges and capitalisation of highways maintenance).
  - Incorporating challenging efficiency targets (see below)  
(2% in 2008/9, 3% in 2009/10 and 2010/11. The previous MTFS assumed 1.4% in 2008/09 and 2009/10).
  - Providing the majority of resources for service improvement including in particular the LAA.

### **Resources**

7. Following the Government's announcement of the provisional Local Government Financial Settlement the position is as follows:-
- (a) The Formula Grant will increase over the 3 year period (5.3%, 4.3%, 4.3%).
  - (b) There is a separate allocation of specific grants which have been grouped together in a new Area Based Grant (ABG). Most of these grants are at the level anticipated.
  - (c) Account has been taken of the district councils' provisional estimates of collection fund deficits/surpluses. In total this is a deficit of £0.5m compared with a surplus of £0.7m in the current year. Deficits from Melton (£0.402m), Blaby (£0.237m) and Oadby and Wigston (£0.131m) are partly offset by a surplus from Charnwood (£0.235m). The County Council will receive final information on the taxbase and surpluses/deficits by the end of January. The resources available to the County Council could change once the information is received.
  - (d) The County Council's response to the provisional settlement is detailed in Appendix A.

8. The three year budget summary (excluding schools) is given in table 1 and detailed below in Appendix B.

**Table 1 Budget Summary 2008/09 to 2010/11**

	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Updated Base	299.6	322.5	334.4
Contribution to Capital Programme	2.0	(2.0)	0.0
Transfers into Formula Grant	8.4	0.0	0.0
Growth	10.7	11.6	9.3
Efficiency Savings	(5.6)	(7.8)	(8.4)
Contingency	0.0	3.0	3.2
Other Savings	(1.4)	(1.4)	0.0
Budget Requirement	313.7	325.9	338.6
Resources	313.7	325.9	338.6
Surplus/(Deficit)	0.0	0.0	0.0

9. The proposed 2008/9 budget is detailed in Appendix C.
10. The budget is based on outturn prices and the following general assumptions:-

Pay @ 2.5%  
 Additional employer's pension contribution @ 1.2% of pay in 2008/9  
 Running costs @ 2.5%

11. The budget includes the full year effect of growth and savings decisions taken as part of the budget setting process in previous years and takes account of budget transfers.

### **Savings**

12. The MTFS incorporates over £21m (8%) of new efficiency savings over three years. These are in addition to savings of £13m made in previous years. The savings for 2008/9 have been identified. At this time very few savings have yet been identified for the later years. Resources from the Corporate Change Programme and departments are being allocated to identify and deliver projects to achieve cashable savings such as through better procurement, shared services and more efficient ways of working.
13. Other savings in total are £2.8m over the period of the MTFS and are detailed in Appendix D, the majority of which are identified in the current MTFS.

### **Growth**

14. In total £31.6m (net of grants transferred into Formula Grant) has been included in MTFS to meet demand and costs increases, reduced income and for service improvements.
15. Details of the growth items are shown in Appendix E. The main growth items are summarised below:-

- (a) Adult Social Care (£11.8m over three years) including independent home care £3.5m, direct payments £3.3m, residential learning disabilities £2.5m and independent day care £1.0 m.
- (b) Waste (£12.3m over three years) including increased landfill tax £5.8m and for the implementation of the waste strategy £5.5m.
- (c) General provision for service improvement and LAA priorities of £4.0m over three years.

### Corporate Change Programme

- 16. In the current year, £9.5m of resources have been made available for change management projects from various sources, primarily the PSA reward grant, the Local Authority Business Growth Incentive Scheme and reserves.
- 17. Given the planned implementation timetable for the various projects making up the programme, most of this resource will need to be carried forward to 2008/09 and 2009/10.
- 18. Ongoing revenue budgets of just over £1m per annum have previously been transferred to fund the Change Programme along with £1.3m already allocated as part of the existing capital programme for 2008/09 and 2009/10. The current MTFS allocates a further £1.2m in 2009/10 to meet the up front investment costs of the programme.
- 19. Over a five year period up to 2010/11, it is planned that £27m will have been spent on the change programme. The programme is about delivering both efficiencies and service improvements. Of this investment, £14m relates to the efficiency programme which is expected to generate £26m of efficiency cumulative savings over this period. Beyond 2010/11, ongoing net savings of £6m per annum are expected to be realised across the change programme as a whole.

### Central Items

- 20. Bank and other interest has increased by £0.5m reflecting higher cash balances and interest rates. Capital financing costs are expected to increase by £1m in 2008/9.

### Sustainable Community Strategy and Local Area Agreement

- 21. The MTFS needs to take account of the LAA and the SCS. However, timescales are a problem for 2008/9 with the LAA not due to be finalised until June 2008 in accordance with the Governments timetable. Therefore a general provision has been made for funding LAA priorities.

### Schools

- 22. Most schools funding will come in the form of a ring fenced grant to local authorities known as Dedicated Schools Grant (DSG). The grant covers funding allocated directly to schools and funding retained by the local authority to support pupil led provision, such as early years and excluded pupils.

23. DSG continues to be allocated on the 'Spend Plus' methodology and is based upon previous year spend with a minimum per pupil increase. Over the three year period of the funding settlement, work will be undertaken by the Department for Children, Schools and Families (DCSF) to move DSG onto a formula basis with an intended implementation date of April 2011.
24. The key elements of the schools settlement are:-
- A real term average increase of 2% over the three year period.
  - The national minimum funding per pupil increase is 3.1% in 2008/9, 2.9% for 2009/10 and 2010/11. The national average increases per pupil are 4.6%, 3.7% and 4.3%. The comparable figures for Leicestershire are 4.9%, 3.7%, 4.3%. Despite an above average settlement in 2008/9 Leicestershire continues to receive the lowest per pupil DSG settlement for local authorities in all three years.
  - DSG includes targeted funding streams for personalised learning and special educational needs, additional funding for areas of deprivation and early years provision.
  - The indicative DSG for Leicestershire is £326.7m for 2008/9, £337.1m for 2009/10 and £350.5m for 2010/11.
  - Final allocations for 2008/9 will not be known until May/June 2008 following the inclusion of the January 2008 pupil count.

### **Capital Programme 2008/9 – 20010/11**

25. The proposed programme is summarised in the table below and shown in detail in Appendix F.

**Table 2 Capital Programme 2008/9 to 2010/11**

	<b>2008-09 £m</b>	<b>2009-10 £m</b>	<b>2010-11 £m</b>
CYPS	49,189	54,546	43,151
Highways and Transportation	31,583	24,491	19,822
Waste Management	1,050	1,850	1,800
Community Services	2,139	935	2,318
Adult Social Care	870	1,500	1,235
Resources	2,245	1,475	1,175
Chief Executives	125	125	125
Other Corporate	1,690	4,127	487
<b>Total</b>	<b>88,891</b>	<b>89,049</b>	<b>70,113</b>

26. The CYPS and Transportation programmes are based upon the full use of Government resources, either in the form of supported borrowing or capital grant to those particular services.

27. The remainder of the programme has been compiled on the basis of departmental bids and subsequent appraisal against corporate priorities, realistic cost and delivery timescales. It does not take into account the review of the full building asset base currently being undertaken by Property Services in conjunction with departments. The results of these reviews will begin to influence the compilation of the Capital Programme and the premises component of revenue budgets in the future.
28. The programme may be amended in its later years as a result of the successful bid to the Government by the 6Cs (3 Cities and 3 Counties) for public infrastructure to support new housing growth.
29. The following table sets out the how the Capital Programme will be financed by the County Council:-

**Table 3 Capital Resources 2008/9-2010/11**

	2008-09 £m	2009-10 £m	2010-11 £m
<b><u>Central Government</u></b>			
<b><u>Supported Borrowing</u></b>			
CYPS			
Schools	7,706	11,706	5,771
Other	60	60	59
Transport	12,425	14,699	16,115
Adult Social Care	332	332	332
<b><u>Grant</u></b>			
CYPS			
Schools	29,276	33,426	33,297
Other	5,946	5,149	4,068
Transport	12,413	4,771	2,953
Waste Management	967	1,414	418
<b><u>Third Party Contributions</u></b>			
Major Developer	2,825	4,835	350
Other	3,010	1,218	97
<b><u>Capital Receipts</u></b>	1,820	10,763	5,271
<b><u>Other</u></b>			
Reserves	800	436	1,382
Revenue contribution	2,371	0	0
Resources b/fwd	8,940	240	0
<b>Total</b>	<b>88,891</b>	<b>89,049</b>	<b>70,113</b>

30. No use of prudential borrowing is envisaged to fund the programme except for 'invest to save' schemes.
31. Using a more corporate approach to Asset Management Planning, the County Council will continue to maximise capital receipts over the medium term in order

both to minimise the need for prudential borrowing and to finance capital investment in priority services.

32. The proposed programme is summarised below:-

#### Children and Young People

33. The CYPS programme will focus on the following priority areas:-

- Replacement and refurbishment of schools in Melton Mowbray and the Vale of Belvoir to implement the review of secondary schools in those areas.
- Capital works on primary schools from 2009/10, funded from a new DCSF programme.
- Phase 3 of the Government's Children's Centre and early years programmes.
- Continue a programme of adding new and replacing mobile classroom accommodation.
- Continue a programme of modernisation including the replacement of sewage works at Markfield South Charnwood High.
- Targeted Capital Grant – further advice is waited from DCSF upon the priorities for this new funding stream.

#### Transportation

34. The key influence on this programme is the second Local Transport Plan (LTP) (2006-2011). The LTP settlement has resulted in an increased allocation of £3m in 2008/9 compared with the draft programme set last year. The largest increase has arisen in the allocation for capital maintenance as a result of changes to formula for the distribution consulted upon last year. This largely reinstates the reduction to this programme incorporated in the 2007/08 year's allocation. Total resources increase by £4m in 2009/10 and include £1.5m for two railway bridge strengthening schemes on the A607. In addition the programme incorporates the cost of the construction of the Earl Shilton bypass which was given final approval by the Department for Transport (DfT) in June last year.

35. Other key elements of the Transportation programme include:-

- The design costs for the proposed Town Centre Improvement Project for Loughborough which is currently the subject of a bid for to the DfT for programme entry. A decision is expected early in 2008.
- The settlement will provide some of the resources for an earlier than anticipated start to the Park and Ride facility in Enderby/Narborough which is a joint project with the City Council and has been included in 2008/09.
- There are also continued negotiations with the developer for the Birstall Park and Ride scheme which is included for 2008/9.



- The extension of the Highways depot at Croft is included in 2008/9; it is proposed that underspends from previous years and reserves will finance this additional scheme.
- There is a continued demand for street lighting replacement and provision is included in each year of the capital programme.

### Waste Management

36. The main priority is waste infrastructure, including modernising recycling and household waste sites at Sileby, Lount and Kibworth. There is still a need for general improvements to existing sites to assist in the diversion of waste from landfill.

### Adult Social Care

37. The focus of the programme continues to be largely devoted to the redevelopment of the learning disabilities service and the provision of a day care facility for older people in Charnwood. This scheme was previously featured in the 'future development' list but due to the decreasing economic life of the existing day centre it has been included in 2010/11. However, if the current mobile accommodation requires replacement before an alternative site has been identified, funding will need to be made available earlier.
38. Other projects include a new 'voice over the internet phone' system for the remaining remote offices which do not have this facility. No specific schemes for 'Extra Care' have been included at this stage until further information is available. However, resources have been retained for potential schemes in the future.

### Community Services

39. The investment in libraries includes: Oadby library, Newbold Verdon library (funded from the 'Big Lottery'), Leicester Forest East library, and contributions to Melton library and a multi use access centre at Lutterworth to include a library.
40. Other schemes include repairs to the Snibston Colliery building and contributions to both the Watermead visitor centre and the Melton Carnegie Museum development.

### Resources

41. The major component of the programme over the three years is £2.4m for ICT investment. There is a continuing need for investment in County Farms and Risk Management and this has been included. Also incorporated is £100k for essential DDA works required at Beaumanor Hall.

### Other Corporate

42. An allocation is included for the Corporate Change Management Programme. This is for a variety of projects. The programme is continuously being updated as new business cases are developed.

### Future Developments

- 43 A list of schemes under the title 'Future Developments' have been included in the programme. These are schemes where funding is not currently available and further feasibility work is required before investment decisions can be taken.

### County Fund

44. The forecast balance on the County Fund at the end of 2007/8 is £9.4m which represents 3% of the budget (excluding schools' delegated budgets). This assumes a contribution from this year's underspend. At present it is assumed that the balance of underspends will be treated as carry forwards for services or used to establish earmarked reserves for specific purposes.

### Council Tax

45. The proposed budget for 2008/9 is based on a 3.9% council tax increase. This would result in Council tax for a Band D dwelling increasing from £970.02 to £1,007.85.
46. The Government has made it clear it expects average council tax increases to be substantially less than 5%. It has been explicit in its threat to cap authorities that it considers have been excessive in their proposed council tax increase. A letter from the Minister for Local Government is attached (Appendix G).

### Medium Term Position

47. The MTFs takes account of the overall funding position, the main expenditure pressures and investment in priorities over the next three years.
48. The main cost and demand risks over the medium term continue to be Waste, Adult and Children's Social Care and delivering efficiency savings.
49. On the face of it the position for the second and final years of the Strategy appears to be reasonable but it is likely that the spending pressures will be greater, especially in 2010/11. A key risk for these years is the ability to deliver the planned level of efficiency savings. It would be prudent to hold a contingency against the possibility of not all of them being achieved. This could also be used for expenditure on invest to save and redundancy costs which are likely to be considerable if the required efficiency savings are to be met.

### Equal Opportunities Implications

50. Many aspects of the County Council's MTFs and the budget are directed towards the needs of disadvantaged people. Proposals will be subject to race equality impact assessments where necessary.

### Background papers

Revenue support grant settlement.

## **Appendices**

- A: County Council's response letter
- B: Three year Revenue Budget 2008/9 to 2010/11
- C: 2008/9 Revenue Budget
- D: Savings
- E: Growth
- F: Detailed Capital Programme 2008/9 to 2010/11
- G: Letter from Government Minister on council tax