

## **TAUNTON DEANE BOROUGH COUNCIL**

**EXECUTIVE 7<sup>TH</sup> APRIL 2004**

### **REPORT OF THE HEAD OF RESOURCES**

**This Matter is the responsibility of Executive Councillor Williams (Leader of the Council)**

### **FINANCIAL STRATEGY**

#### **EXECUTIVE SUMMARY**

The majority of local authorities are struggling to match their spending plans to resources available. This is a national issue and not unique to Taunton Deane Borough Council.

Based on current financial forecasts, this Council is facing a funding gap of around £700k per annum (before considering development items). This clearly is unsustainable and the Council must have a strategy for resolving the underlying budget gap.

This report sets out a Financial Strategy that will allow the Council to break out of the annual cycle of budget savings rounds to produce a clear and sustainable financial plan over the medium term. This will be achieved through a series of Service Reviews (fundamental appraisals of what each service is currently doing). Some difficult choices will need to be made and existing methods and practices fully challenged.

All Members will be involved in the process over the coming months.

#### **1. Background**

- 1.1 The current medium term financial planning process has been in place for a number of years now, and is an essential part of the budget setting process. The Council's Medium Term Financial Plan (mtfp) provides a financial forecast of the cost of providing the Council's General Fund services, and the resources that are likely to be available, over the medium term period – thereby giving early warning of predicted “budget gaps”.
- 1.2 The financial position of the Council has been difficult over the last few years, with each budget round bringing further service cuts, fee increases and rounds of efficiency savings. The Corporate Planning process has helped focus and redirect resources to priorities, but with increasing pressures and expectations on this Council to deliver more with less, there is a need to step back and look to the medium term financial position of the Council and work out how this can be achieved.
- 1.3 The financial model has recently been updated to reflect “inescapable” budget issues (eg pay award). Managers will be asked to provide detail of

unavoidable service issues over the next few weeks to allow the model to be further refined. The fully updated model, together with details of the assumptions used, will be presented to Members in early summer of 2004.

- 1.4 Meantime, based on the limited information available, it is clear that the underlying budget problem continues – as the summary table below shows.

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
TDBC Forecast Budget Position	<b>12,292</b>	<b>13,218</b>	<b>14,168</b>
Forecast Govt Grant *	6,598	6,697	6,797
Forecast Council Tax **	4,988	5,272	5,573
Forecast Resources Available	<b>11,586</b>	<b>11,969</b>	<b>12,370</b>
Predicted Budget Gap	<b>706</b>	<b>1,249</b>	<b>1,798</b>

\* Assuming a 1.5% increase in central government funding per annum.

\*\* Assuming a council tax increase of 4.55% per annum.

The model (even with limited information) clearly shows a funding gap in future years of around £700k per annum. This is the position prior to considering any development items and clearly must be resolved.

## **2. The Issue**

- 2.1 The Council now needs to adopt a Financial Strategy that, together with a robust medium term financial planning process, will help the Council break out of the current annual cycle of savings exercises, and help produce a clear, robust, sustainable and affordable medium term financial plan.
- 2.2 The Financial Strategy will be a key link between the Corporate Strategy, which sets the aims and ambitions of the Council, and the mtfp, which sets out the cost of what the council is currently providing. It should also link in other corporate plans such as the Capital Strategy and Asset Management Plan, and longer term, develop to include HRA services too.
- 2.3 The remainder of this document is focussed on setting out the proposed Financial Strategy of Taunton Deane Borough Council. There are some very difficult issues for this Council to tackle, some of which will take many months (even years) to progress. What is clear though is that to continue providing the current level of services is not an option.
- 2.4 Each service of the Council will be subject to scrutiny – and it is important that ALL Councillors are involved in this process and in shaping the future financial position of the Council. The key message is that this Council is currently spending beyond its means and must reduce its net budget to match the resources available.

### **3. The Way Forward - Service Reviews**

- 3.1 As a Council, Taunton Deane has choices to make over the levels of service provided to the community. The Corporate Strategy has developed to show quite clearly what the priority areas are and resources have been redirected to ensure they are delivered.
- 3.2 However, recognising that “continuing as things are now” is not a viable option, more work is needed to review the fundamentals. Currently, right across the Council, service managers are striving to achieve top quartile performance status for all their services. The basic assumption that this Council can actually afford to deliver this ambitious target must now be challenged.
- 3.3 To move forward on this challenge, Members must be provided with a basket of key information on each of the core service areas (including support services). This should include information on the types of activities carried out (and whether they are discretionary activities or not), the trend re costs and performance indicators, and some information that shows how this Councils performance and service provision compares with other authorities.
- 3.4 This information will give Members a good feel for the standard of service currently being provided at Taunton Deane (in simple terms this could be described as Gold, Silver, or Bronze). The current service standard then must be reviewed – with changes to service levels being assessed re their impact on corporate priorities, customers, partners, and of course costs.
- 3.5 Members will, following the core themes and principles set out below, be asked to review the information provided, and consider whether the service should continue to be provided, and at what level.

### **4. Review Principles**

- 4.1 As mentioned above, the Council will be faced with some difficult choices. In order to meet the objective of having a sustainable financial plan, the reviews outlined above will need to be challenging and investigate areas that traditionally have not been subject to such an appraisal.
- 4.2 The remainder of this strategy outlines some of the key themes and principles that will be followed in achieving this objective.

### **5. Efficiency Savings**

- 5.1 Each service should be reviewed to test whether it is possible to provide the current level of service at less cost, or an improved level of service at the current cost.
- 5.2 As part of this theme, it is proposed that the following issues will be considered over the coming months:-
- Better use of IT. (Promotion of E-Government to encourage access to services.)
  - Vacancy Management.
  - More Use of Multi-Skilling.

- Increasing Productivity.
- Improving Procurement.
- More Use of Strategic Partnerships.
- Introduction Of Quality Systems (getting things right 1<sup>st</sup> time)
- Ensure We Maximise External Funding.
- Promotion of “Invest to Save” initiatives.

5.3 It may be prudent to build an annual target for efficiency savings into the mtfp, which could be cascaded down to each Directorate Plan, and individual Team Plan. This will be reviewed at the end of the service review process.

## **6. Alternative Service Delivery**

6.1 In very simple terms, this means reviewing what Taunton Deane currently does and challenging the existing method of delivering that service. There are a wide range of options to consider - ranging from staying as they are, to creating a partnership arrangement with another local authority, to the service being entirely provided by a private company.

6.2 To challenge “why things are done they way they are” is often difficult and uncomfortable for everyone involved. However - it is important that this is progressed as it is simply ensuring that we continue to deliver best value to the community on the services we provide to them.

## **7. Financing of Activities**

7.1 Taunton Deane does currently follow best practice by considering and approving its revenue and capital budgets together. However there are some issues that must be considered if the Council is to ensure it has sufficient resources in place to deliver its key priority – The Vision for Taunton.

7.2 The delivery plan for The Vision is being prepared but it will be some time before it is clear on the level of resources required from each partner in the project. It is likely though that the resources required will be capital resources rather than revenue resources.

7.3 It is proposed that, as a principle, over the coming years, new resources (eg underspends) are directed towards the Councils Unallocated Capital Reserve rather than the General Fund Reserve. If agreed, all future financial recommendations in reports will take this into account.

7.4 In addition, there are some other issues that will need to be reviewed over the coming months. There are some strategic choices to be made – particularly in relation to the funding of certain activities (whether they are funded from revenue or capital, or how certain government grants are used). Strategic decisions need to be taken on :-

Implementing Electronic Grant (IEG) funding (clarity needed on use of funds)  
 Lease v. Buy Decisions (challenge existing practices)  
 IT Development (update on IT Strategy needed)  
 Borrowing (new freedoms re Prudential Regime – potential use re “invest to save” type initiatives)

Use of Planning Gain (clarity needed)  
Use of External Funding (Is the Council missing opportunities?)

## **8. Asset Disposals**

- 8.1 As mentioned above, The Vision project is likely to require significant capital resources. Currently, the amount of capital finance available to this Council is fairly limited. One way of boosting this would be to dispose of surplus assets.
- 8.2 A full review of current land holdings / asset holdings is currently being undertaken. Once complete this should be matched to the aspirations set out in the Corporate Strategy. The Asset Management Plan must be reviewed at a strategic level to ensure all asset holdings are continuing to provide “adequate” return to the Council.

## **9. Income Generation**

- 9.1 Each year fees and charges are reviewed as part of the budget setting process. The Council now needs to take a longer-term view of where it wishes to be with fees and charges and to have a clear view on the application of subsidies.
- 9.2 The work currently being done on the pricing policy review will facilitate this debate. Managers should also be encouraged to explore and exploit new business opportunities available to them. Diversification of services should not be ruled out.
- 9.3 In addition, the Council should consider areas of service provision that do not currently charge their users. The Local Government Act 2003 has given local authorities the opportunity to now charge for discretionary services. Taunton Deane must carry out a review of discretionary services and make strategic decisions regarding the way forward on each. Again, this is a difficult issue for the Council, but must be explored as a way of resolving the underlying budget problem.
- 9.4 External funding should be maximised. This is a simple statement, but is quite difficult to achieve. How does the Council currently ensure it is taking advantage of all grant-funding regimes? Is Taunton Deane missing opportunities? Could the Council develop the use of sponsorship funding to areas of its activities other than roundabouts? All of these issues will be explored over the coming months.

## **10. Grants & Subsidies**

- 10.1 Government Grants and Subsidies are received in many different forms (Revenue Support Grant / Planning Delivery Grant / Homelessness / Benefit Subsidy).
- 10.2 Over the coming months each major central government grant will be reviewed to ensure that this Council is maximising its share of central government funding.

## **11. Use of Reserves**

- 11.1 Traditionally, this Council has created earmarked reserves for many purposes – from the set-aside of funds for major projects, to the earmarking of funds for specific training courses. The list has been reviewed as part of the recent budget setting process and has resulted in a significant reduction in the number of earmarked reserves. The Head of Resources will keep this list under review and regularly return unused funds to the General Fund Reserve.
- 11.2 Unearmarked reserves (better known as the General Fund Reserve) have traditionally been kept above the floor of £1m. For the Council to break out of the annual savings cycle it may be necessary to revisit this floor to allow reserves to be used to promote “invest to save” initiatives.
- 11.3 It is still the view of the Head of Resources that, in normal circumstances, the level of General Fund Reserve for this authority should be no lower than £1m. This is based on an assessment of the risks facing the Council. Issues such as a small fluctuation in the Housing Benefit Subsidy budget can have a major impact on the budget position of the Council, and the unearmarked reserves are there to protect against such eventualities.
- 11.4 In resolving some of the financial issues facing the Council it may be necessary to use some of the General Fund Reserve to fund “invest to save” type initiatives. This may mean, for a temporary period, that the level of General Fund Reserves will dip below the £1m floor.
- 11.5 This principle is accepted by the Council’s Head of Resources provided that:-
- The “invest to save” type initiatives allow the original sum to be paid back to the Reserve over a 3-year period.
  - The General Fund Reserve should not fall below £750,000 during this transition period.
- 11.6 Currently, all supplementary estimates require Full Council approval. This may not be a practical way forward for “invest to save” initiatives. It is proposed that, subject to the principles set out in 11.5 above, that the Executive be delegated the authority from Full Council to approve such supplementary estimates during this review period. This will allow more frequent reports to be presented to Members during the review and will facilitate the swift approval of savings proposals.

## **12.0 Conclusion**

- 12.1 This Strategy sets out the way forward to allow the Council to break out of the existing annual cycle of budget cuts. The task ahead is not easy and the process will require the support and involvement of all Councillors.
- 12.2 This document sets out the strategy for achieving a sustainable financial plan. If significant progress is to be made in time to influence the 2005/06 budget setting regime then the process of Service Reviews must begin shortly. The detail of how this process will actually work, and the timetable it will follow is currently being developed by the Head of Resources and the Head of Policy

and Performance and will be communicated to all Members as soon as possible.

**13.0 Impact on Corporate Priorities**

13.1 This Financial Strategy will provide a robust mechanism for ensuring the limited resources available to this authority are directed towards the priority areas as identified in the Corporate Strategy.

**14.0 Recommendation**

14.1 The Executive is requested to approve this Financial Strategy.

**Background Papers**

General Fund Revenue Estimates 2004/05 – Executive Feb 2004

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