

# Bath & North East Somerset Council

## Medium Term Financial Strategy

### Contents:

1. Overall Council Vision and Priorities
2. Financial Strategy Framework
3. Financial Strategy Implementation
4. Financial Plan
5. Savings and Efficiency
6. Risks, Balances and Constraints
7. Organisational Improvement Actions
8. Capital
9. Summary

### 1. Overall Council Vision and Priorities

#### 1.1 *Bath & North East Somerset seeks to be:*

**A distinctive place** that has outstanding built and natural environment, dynamic economy, connectivity, world class arts and culture

**With vibrant sustainable communities** that are active, healthy and inclusive, feel safe, take responsibility and make a contribution, carbon neutral, disadvantaged are supported, vulnerable are protected and people feel proud to live

**Where everyone fulfils their potential** by having an equal opportunity to learn and develop skills, enjoy a healthy lifestyle, influence the future of their area and contribute to the economy and society.

1.2 Underpinning the vision, the Council's priorities for improvement for the next 4 years will be to:

- Improving Transport and the Public Realm
- Building communities where people feel safe and secure
- Addressing the causes and effects of Climate Change
- Improving the availability of affordable housing
- Promoting the independence of older people
- Improving the life chances of disadvantaged children and young people
- Improving School Buildings
- Sustainable Growth

## National Picture and its implications

1.3 The Local Government Finance Settlement for 2008/09 was issued by the Department for Communities and Local Government on the 24<sup>th</sup> January 2008. The latest settlement report reflects the Government's intention to announce three years' figures to help local authorities plan ahead. The settlement covers the financial years 2008/09, 2009/10 and 2010/11. The settlement contains increase in overall financing of Local Government of 3.7%, 2.8% and 2.6% over 2008/09 – 2101/11, which equates to real terms increases of 0.9%, 0.1% and a decrease of 0.1% in the same period. The settlement therefore does not cover some of the huge cost pressures such as the increasing cost of Social Care, Landfill Tax and other changing demographics and economic pressures such as increased inflation, contract costs and legislation changes.

1.4 So to put this strategy and these objectives in context, they are being carried out in a context of increasing pressure on the availability of resources, more themed "micro-management" by Government, and increasing targets and inspection regimes.

1.5 There is also a shift from provider of services to facilitator and enabler of adult social care and a shift in the financial framework. This has changed the emphasis from finances to resources where the Council needs to view its totality of resource including staff and the third sector asset base.

## 2. Financial Strategy Framework

2.1 The Council is always striving to improve its corporate management to deliver outcomes based on an alignment between agreed corporate priorities, resources, efficiency and value for money.

2.2 The integrated service delivery and resources planning framework (Attachment 1) is a set of management processes which remains one of the most important management processes for the Council. It sets out what we want to achieve, produces a budget and provides the platform for performance management at a service level. This sets out to:

- > Ensure that all objectives and targets are an appropriate reflection of priorities as set out in the Corporate Plan.
- > Link performance with resources and value for money.
- > Set the overall direction for the Council in terms of performance and resource
- > Facilitate more focussed performance management with clear accountability.
- > Provide a clear framework for member involvement in planning and performance management.
- > Demonstrate and evidence prioritisation.

2.3 At the heart of the process the Council is to be clear about the overall direction of our performance and costs - what we have called **SQUEEZE, HOLD & DRIVE**. (see Attachment 3).

### 3. Financial Strategy Implementation

3.1 Successfully achieving the above objectives can create some headroom and capacity without significant reductions in service levels, but the Council cannot achieve high levels of efficiencies indefinitely and a situation will arise which will lead to some choices about levels of services in this area. In some services, the need to redirect resources may mean that previous levels of service cannot be maintained. The increased pressure on public sector finances will mean that the Council can not afford to provide every service it could do to the highest standard on an ongoing basis.

3.2 The resources (e.g. money, time) needed to achieve the outcomes of these Improvement Priorities will not materialise by themselves. Programmes and projects have therefore been devised to create the financial and organisational headroom and capacity needed to ensure that resources can be directed towards its priorities. These include:

- a) Transformation of how we provide services. Examples include WorkSMART, Business Improvement Service, Council and PCT integration, Customer Access, Culture Development and our Local Strategic Partnership (See also Attachment 2).
- b) The release of funding as a result of improved productivity or income generation (service standards should remain broadly the same, but costs will be reduced).
- c) Creating greater organisational flexibility (quicker response, adaptability to change, "can-do" culture etc)
- d) The introduction of sustainability practices as one of the means by which the Council can achieve organisational shift, increasing capacity through the more efficient use of resources.
- e) To complement improvement projects with a series of expenditure reviews on selected services, using a variety of techniques such as activity based costing, to highlight areas of possible productivity gain and cost reduction
- f) The Council will co-ordinate its work to attract external funding and maximise the impact of resources put into bidding processes, including those with partners. It will continue to "invest to save" in order to achieve sustainability for future years.
- g) The Council will also continue to look for opportunities to reduce overhead costs through exploring new approaches to procurement, sharing specialist resources between agencies and eliminating internal duplication of effort.
- h) Creating a financial planning framework to shape the Council's allocation of resources.
- i) All of the above require changes to organisational culture. The Council has already invested in management and staff to develop the culture needed to manage change well and to deliver continuous improvements to efficiency and effectiveness. This will continue over the plan period.

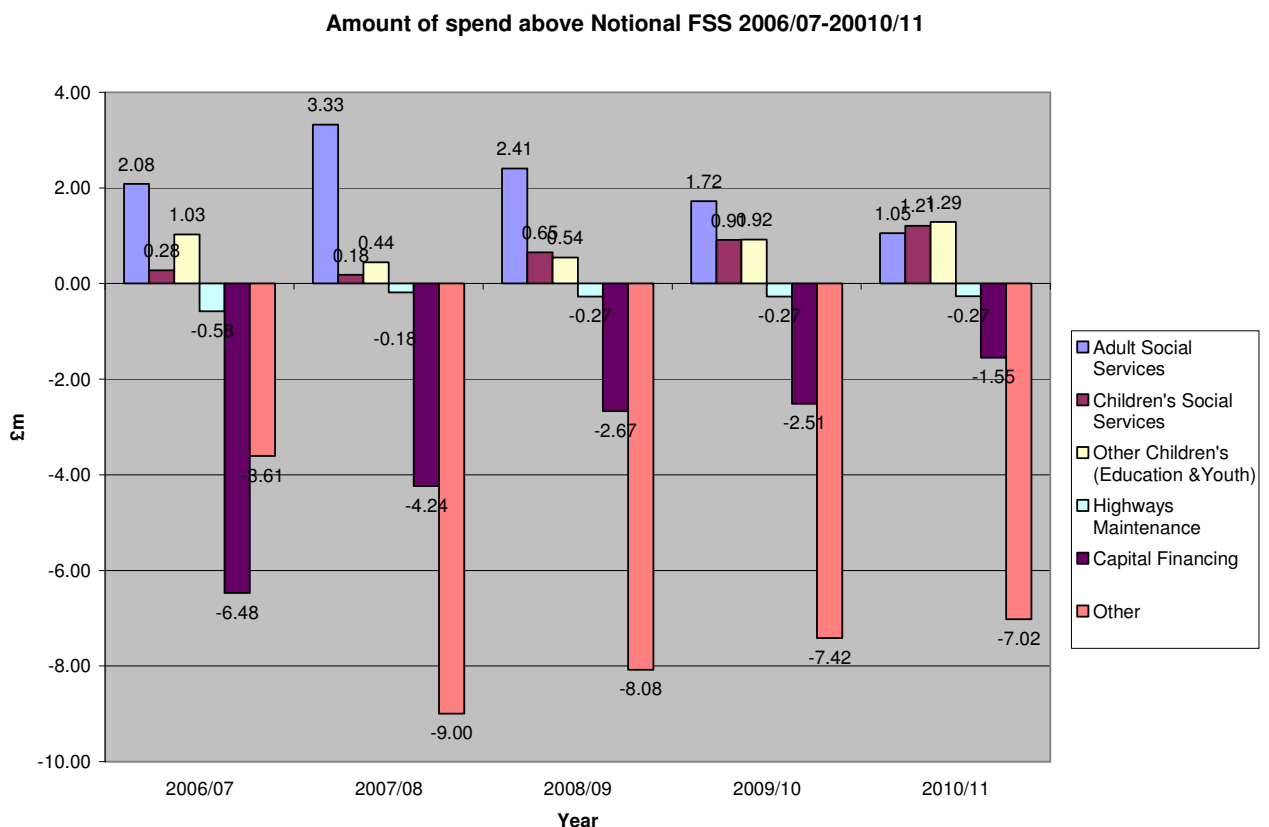
3.3 All decisions taken in the Council should also recognise the future financial implications. The Budget Management Scheme was revised in 2007 and one of the changes made was to insist that future year effects were taken account of in decisions.

## 4. Financial Plan

4.1 The Corporate Plan Framework requires a financial strategy in order to focus resources on the Improvement Priorities, alongside a target of likely annual Council Tax increases. Planning parameters will need to be set by the Council that indicate the direction of travel of service funding, particularly with regard to the balance between funding of services and the revenue/capital spending balance in the main areas of Children's services, Adult Services and all other services.

The main points of the financial strategy have the following requirements and action:

- Financial headroom will be allocated towards the Improvement Priorities and linked to achievement of specific results. This has been achieved by the Council year on year to date and there are planned increases in the financial plan period (see section 7). Attachment 5 shows the transfer of resources since 2004.
- For all services provided by the Council, clear financial planning targets will be set. Service Plans will link performance targets to required levels of resources, identifying the requisite workforce planning, IT and accommodation needs. This direction is indicated in Attachment 3 by service in the indicators of squeeze, hold and drive.



### Notional Formula Spending Share (FSS) Comparison 2006/07-2010/11

- The above graph reflects an indication of what could occur in future years and is an indicative trend. Plans have previously reflected that financial targets for education and social services will, over time, reflect a tempering of the rate of growth so that the gap between spending and the government's norm (FSS) is narrowed; this will enable local income to be seen to assist local priorities. This can be said to be

occurring with the exception of Children’s Social Services where demographic pressure and rising costs make this difficult to achieve:

- The category of “other” in FSS terms also reflects the Council’s generation of its own resources from its Commercial Estate, Heritage and Car Parking. Overall the Council would expect to be below FSS overall because of the net loss of resources the Council had after DSG funding was introduced.
- In order to create financial headroom, revenue funding will be released within the organisation through greater productivity and investment will be made to achieve this. Investment is indicated in section 7 and action on value for money in Attachment 4.
- Capital expenditure will be used, only where thoroughly justified, to help fund Improvement Priorities and to invest in productivity improvements which create future years’ revenue headroom. Asset-holding will be reviewed in order to ensure best use of resources, such as in school reviews and the commercial estate review, whilst borrowing is likely to be the principal source of finance for additional capital spending in the short- to medium-term. This approach is outlined in the Council’s capital strategy.
- Recognising that it has very limited funds, the Council will actively seek external funding, especially for schemes that fit Improvement Priorities. These are highlighted in Section 6.
- Recognising inherent financial risks, the Council will continue to build balances over time to a level which matches its risk assessment. Active management of budgets will continue to ensure financial control thereby avoiding budget pressures and overspending from subverting the overall Corporate Plan. The plan for increases in balances is dealt with in Section 7.

## 5. Savings and Efficiency

5.1 The Council has also realised savings in the costs of its services to meet above inflation cost increases with restricted grant funding. The easy savings have already been realised and the Council will now be forced to think differently to deliver services. In some cases this may need investment.

5.2 In the previous 4 years the Council has realised the following “Gershon” efficiencies: The Government’s Spending Review 2004 set out a new requirement for public sector organisations to deliver targets for efficiency gains over the three years 2005/06 – 2007/08 of around 2.5% per year of which half were expected to be cashable (.i.e. they release funding for use elsewhere to either invest in other services or keep council tax down).

Year	Total £m
2004/05	1.464
2005/06	2.977
2006/07	3.149
2007/08	3.540
Total	11.13
Target	9.84

5.3 The National target for local government remains for the period 2008/09 to 2010/11 with the difference that efficiency gains are all expected to be cashable and thus the target will be more challenging as the Council will also need to finance efficiency initiatives as well as meeting these targets. B&NES exemplification of national targets are in the table below:

**Efficiencies by work stream are as follows:**

	<b>3 yr Govt. Total (£bn)</b>	<b>%</b>	<b>B&amp;NES Total 2008/09 (£k)</b>	<b>B&amp;NES 3 yr total 08/09-10/11 (£k)</b>
Business Process Improvement & Collaboration	1.8	37%	1,108	3,324
Asset Management	0.3	6%	185	555
Procurement	2.8	57%	1,723	5,169
<b>Total</b>	<b>4.9</b>	<b>100%</b>	<b>3,016</b>	<b>9,048</b>
Of which Revenue Target			1,820	
Capital target			1,196	

5.4 Savings by making choices not to provide certain services may well be required, as growth in costs is inevitable. New duties (e.g. Care matters), demographic pressures (e.g. ageing population), increase in taxes (Landfill Tax) and increased costs (e.g. contracts) will all contribute to future financial pressures.

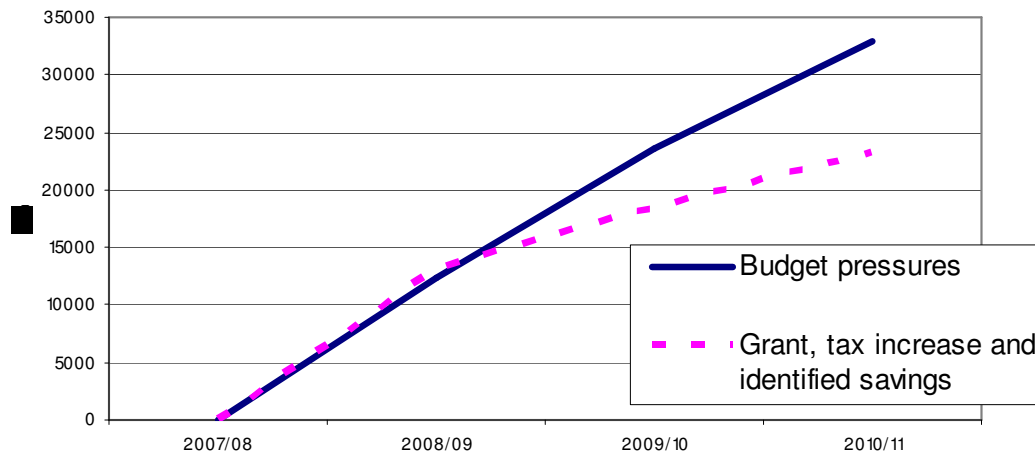
5.5 Growth of £11.4m in costs in 2008/09 for new duties, cost and tax increases will need to be met partially through grant and council tax increases. But to plug the remaining gap, savings of £6m have been identified for 2008/09 and it is anticipated that around £4-£6m will need to be identified in coming years to meet the budget gap:

£m's	2008/09	2009/10	2010/11
Grant	1.842	1.494	1.568
Council Tax*	3.606	2.655	3.074
Funding Increase	5.448	4.149	4.642
Growth	11.447	10.501	8.942
Gap (savings required)	5.999	6.352	4.300

\*Includes Collection Fund surplus / deficit

5.6 Graphically the gap is clearly visible for the future.

## Pressures versus savings to 2010/11



5.7 To assist meeting the gap, as well as service action (see below), the Council has put in place a Value for Money (VFM) programme (see Attachment 4). This will help implement and drive efficiency in the Council. Our overall approach is to embed VFM into processes, projects and services rather than a work stream in itself.

5.8 The Council is putting in place a transformation programme (attachment 2) that is set up to provide projects that have been devised to create the financial and organisational headroom and capacity needed to ensure that resources can be directed towards Council priorities.

### **Service Actions and Prioritisation**

5.9 In addition to cross-Council initiatives and as part of the overall framework, all Services will investigate ways to improve productivity. The Council's Service Planning process enables Services to focus on the changes needed to deliver the Council's Improvement Priorities within its financial constraints. It provides the means for Service Managers to work through with elected Members the detailed implications for services, including implications on resources - workforce, technology and property. Some specific examples detailed in service plans include:

- Removing surplus spaces and land in schools, thereby releasing funds currently locked into fixed costs and potentially freeing up land for sale or alternative use.
- Implementing new technology systems in the Council. As an example, recent investment has been made in an electronic document and records management system (2007), to improve council record management and also to save storage of paper records. Other major infrastructure systems that are being rolled out throughout the Council include the Customer Relationship's Management system and the Geographical information system.
- Introduction of Electronic Admissions System over last 2 years has resulted in 40% of parents applying for school places on line. This has enabled staffing reduction of 1 fte post.

5.10 Service Plans are subject to review and scrutiny by the Council's Overview and Scrutiny panels. These have been asked to consider and comment on the proposed high level service and financial strategy. This will include service planning parameters which will affect the services within the Panels' remit, and in particular they are asked to focus on value for money, and service and community impact in relation to their service portfolio.

## 6. Risks, Balances and Constraints

6.1 The Council does not operate in isolation - neither is everything certain to go according to plan and it is important to recognise from the outset the risks and constraints upon this Plan. Each year the Council carries out risk assessments to identify key risks facing the Council and the actions needed to manage those risks.

6.2 The most recent risk assessment highlighted the following top three risks:

- Service cost escalation undermining prioritisation including single status
- Exposure to financial liabilities arising from risks on major development projects, particularly where partnership working is involved
- Government demands competing with local initiatives resulting in capacity overload and on occasion failure to deliver.

6.3 To manage these risks a number of mitigation actions and strategies have been implemented as follows.

- Option appraisal, project and risk management
- Effective and integrated corporate, service and financial planning
- Creation of an exceptional risk reserve

6.4 In budgetary terms, the Council protects itself against risk through the holding of balances and reserves. The current target, based on risk assessment, is to hold around £11.5M revenue reserves plus £7m capital in reserves and high liquidity assets (capital target is £20m of which £7m is cash backed). As actual levels are below the target level, it is necessary to continue to build up balances and reserves over the period of the Corporate Plan.

RESERVES £M	07/08	08/09	09/10	10/11
Forecast "unearmarked" reserves at year end	7.296	8.629	10.413	11.499
Exceptional Risk Reserve	3.385	3.140	3.140	3.140
Risk-based target (Day to Day)	11.5	11.5	11.5	11.5
Additional contribution (revenue) – net of earmarking		1.333	1.784	1.086
Capital Reserves *	4.824	6.120	7.342	7.842
Additional Contribution (capital)		1.986	1.222	0.500

\* There will also be contingencies within project budgets



## 7. Organisational Improvement Actions

7.1 The financial plan aims to mirror the Council and Community's changing priorities and shape budgets that fit these changes going forward. The following changes to investment are highlighted within the planned targets:

- Improving Transport and the Public Realm – highlights include:

Item	£k 08/09	£k 09/10	£k 10/11
<b>Revenue</b>			
Further investment in Concessionary fares to meet service costs in excess of government funding	400	560	720
Highways & network management maintenance costs	5,400	5,450	5,500
Rural Bus Subsidy # +	242	248	255
Road Safety Grant # +	248	252	243
<b>Capital</b>			
LTP Programme +	5,178	5,360	5,571
Bath Package +	14,290	14,040	14,040
GBBN +	2,114	2,184	12

- Building Communities where people feel safe and secure – highlights include:

Change	£k 08/09	£k 09/10	£k 10/11
<b>Revenue</b>			
Stronger Safer Communities Fund # +	200	200	200
Crime Reduction, Drugs Strategy and Anti Social Behaviour # +	<i>Grants still to be confirmed from central Government</i>		
Drug action Team & Community Safety (Council funded)	1,100	1,100	1,100

- Addressing the causes and effects of Climate Change – highlights include:

Change	£k 08/09	£k 09/10	£k 10/11
<b>Revenue</b>			
Improve corporate green housekeeping (includes PCT)	55	55	55
WorkSMART - flexible working, home working	834	1,268	1,385
Sustainable travel to school & school travel advisers # +	39	39	39
Kitchen Waste collection as part of same day waste & recycling collection	100	1,086	1,086
<b>Capital</b>			
Biomass boiler at Parks Nursery (Self financing) Gross cost is	115	0	0
Inclusion of sustainable building requirements in future schemes	Tbd	+20% cost increase	+20% cost increase

- Improving the availability of affordable housing including:

Item	£k 08/09	£k 09/10	£k 10/11
<b>Capital</b>			
Social Housing Grants +	3,935	2,980	2,980
Social Housing in Bath Western Riverside	1,962	1,697	1,697
S106 agreements with developers +	Target of 35% affordable housing		

- Promoting the independence of older people includes:

Item	£k 08/09	£k 09/10	£k 10/11
<b>Revenue</b>			
Concessionary fares	400	160	160
Adult Care: Average increase in expenditure. Expecting over 85 population to increase by 50% over next 20 years.	400	400 *	400 *
Supporting People # +	170	4,135	3,932
<b>Capital</b>			
Community Resource Centres	2,959	0	0

- Improving the life chances of disadvantaged children and young people includes the following investment:

Item	£k 08/09	£k 09/10	£k 10/11
<b>Revenue</b>			
Care matters	300	100	100
Care Matters # +	66	92	106
Secondary Behaviour and attendance # +	68	68	68
Children's Social Care Workforce # +	35	35	0
Connexions ~	1,404	1,370	1,363
Positive Activities for Young People # +	35	60	78
Teenage Pregnancy # +	90	90	90
<b>Capital</b>			
Fosseway Special Refurbishment	3,492	169	0

- Improving School Buildings includes the following capital investment:

Item	£k 08/09	£k 09/10	£k 10/11
<b>Capital</b>			
BSF Writhlington School +	8,343	12,005	576
New Deal for Schools modernisation +	700	700	700
Council financed school improvement schemes	600	600	600

- Sustainable Growth includes the following:

Item	£k 08/09	£k 09/10	£k 10/11
<b>Revenue</b>			
Development projects	875	875*	875*
City Centre Manager	50	50	50
<b>Capital</b>			
Bath Western Riverside	514	540*	1,190*
Relocation of Midland Road Depot	5,371	2,580	155
Development projects including Southgate	996	1,014*	1,795*

And

- Investment in transformation and efficiency gains to achieve the necessary financial returns to help achieve all the above includes the following items.

Item	£k 08/09	£k 09/10	£k 10/11
<b>Revenue</b>			
Investment in transformation / "academy" programme	100	100*	0
Disability adaptations	50	50	50
Increased investment in procurement and contract management activity	100	100*	0
CPA fees	253	0	0
Corporate Training	150	150	150
WorkSMART (same as Climate change)	834	1268	1385
Culture Change	75	75	75
<b>Capital</b>			
WorkSMART	1,741	4,141	31,751

**Notes:**

\* Budget zero based every year

# Area Based Grant

~ Area Based Grant directly funded from Central Government

+ External funding

**8. Capital**

8.1 As a general principal, Capital expenditure will be used, only where thoroughly justified and on a rolling 5 year plan basis to support Council priorities and maintenance of services.

8.2 The capital strategy (appendix 3) aims that there should be four main streams in the Council's capital strategy. These will cover our objectives of Investment, Regeneration, Infrastructure and Service (IRIS). These also support the Council's Corporate Improvement Priorities:

Capital Strategy	Improvement Priority
<ul style="list-style-type: none"> <li>Revenue generation – where investment will generate revenue savings, increase income or generate grant income (<b>INVESTMENT</b>)</li> </ul>	<ul style="list-style-type: none"> <li>Investment in transformation and efficiency gains to achieve the necessary financial returns to help achieve all the above.</li> </ul>
<ul style="list-style-type: none"> <li>Regeneration of the area (<b>REGENERATION</b>): BWR, TiF, Growth points, Southgate etc</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable Growth</li> <li>Improving Transport and the Public Realm</li> <li>Improving the availability of affordable housing</li> </ul>
<ul style="list-style-type: none"> <li>Organisational infrastructure &amp; partnership (<b>INFRASTRUCTURE</b>)- IT needs, LAA</li> </ul>	<ul style="list-style-type: none"> <li>Investment in transformation and efficiency gains</li> <li>Addressing the effects of climate change</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring service delivery is maintained and in particular to look for capital to provide improvement &amp; efficiency (<b>SERVICE</b>)</li> </ul>	<ul style="list-style-type: none"> <li>Improving School Buildings</li> <li>Promoting the independence of older people</li> </ul>

8.3 In terms of revenue support for capital, the intention is that over time funding of capital investment will be matched by Government funding. The Capital Strategy covers this area in more detail.

8.4 It is also intended that the financial strategy will be sustainable and not backed by the support of receipts to generate additional income to finance budget shortfalls. Budget plans made in this strategy do not include any subsidies of this kind.

## 9. Summary

9.1 The Council has a role in Community leadership and this will mean that the Council has a role in leading the following developments:

- Building a more competitive knowledge economy:
- Creating a socially inclusive knowledge economy
- Improving and exploiting the quality of Bath & North East Somerset's environmental assets

9.2 Following the approval of these developments, a Financial Plan for the Council for the period 2008/9 to 2010/11 has been devised, based on the above financial strategy.

9.3 The detailed service budgets and targets for the coming three years are contained in Attachment 6 to this paper (appendix 1), Appendix 2, Annex 1 and Appendix 3, Annex 5 to the report.