

**Manchester City Council
Report for Resolution**

Report To: Executive - 18 November 2009
Resources and Governance Overview and Scrutiny
Committee – 10 December 2009

Subject: Medium Term Financial Strategy 2010/11 to 2012/13

Report of: City Treasurer and Chief Executive

Summary

The report outlines for Executive approval a Medium Term Financial Strategy (MTFS) for the three years 2010/11 and 2012/13. The MTFS sets the framework for developing the Medium Term Financial Plan for 2010/11 and 2012/13 and the Revenue budgets for 2010/11. It also outlines proposals for public consultation on budget plans for next year.

Recommendations

The Executive are recommended to agree the MTFS for 2010/11 to 2012/13 as put forward in the attached document and to agree the proposed consultation process for this years budget as outlined in the main report and delegate authority to the City Treasurer and Director of Communication in consultation with the Executive Member for Finance and Human Resources to finalise the details and timing of the consultation process and to carry out the consultation exercise and report back the results to Executive as part of the budget report in February.

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	The MTFS provides a framework for developing the Council's services to better meet all the community strategy spines.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The report provides the framework for developing the Medium Term Financial Plan for the Council for the next three years and the revenue budget for the coming year. It is anticipated that the cost of the consultation exercise will be between £8,000 and £10,000 and will be met from existing budgets.

Financial Consequences – Capital

None

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Business Planning Guidance 2010 – 2013

1.0 Introduction

- 1.1 Manchester is an ambitious city with a strong track record of delivery through partnerships and effective strategic leadership, improving the quality of life for our residents and delivering our vision of making Manchester a world class city.
- 1.2 However, recent changes in the global economy mean that the next three years will be some of the most challenging we have ever faced as an organisation. The only certainty about the current fiscal regime is the impending restrictions on local government resources. Now more than ever, we need to be clear about our strategic objectives and focus on them to guide our decision making processes.
- 1.3 Our vision of Manchester as a world class city; the inseparable dual aims of sustaining economic growth and translating that growth into better lives for Manchester residents remains unchanged, but now the ambition for the Council as an organisation, must be to find evermore creative ways of giving Manchester people value for money in the resources we use.

2.0 Background

- 2.1 For the last few years the Council has approved a three year Medium Term Financial Plan (MTFP) that has set revenue budget for the next year and indicative budgets for the following 2 years. The MTFP is predominantly focused on finance and has been developed over the last few years in conjunction with a three year business planning process.
- 2.2 In order to help meet the challenges we face over the next three years the Council is implementing a more robust planning framework which is designed to help the Council meet its current economic challenges whilst also enabling it to move forward its ambitious agenda for the City as outlined in the Community Strategy and its Local Area Agreement (LAA). An integral part of this is to present to the Executive for approval a Medium Term Financial Strategy (MTFS) for the coming three years. The MTFS differs from the MTFP in that it is focused more on setting a strategy to enable the council to move forward and as such it is less finance focused than the MTFP. It will, inform and underpin the development of the MTFP and Business Plans by providing a framework within which these process will operate and develop.
- 2.3 The executive is asked to approve the MTFS attached as the framework for developing the Council's Medium Term Financial Plan for the next three years and its revenue budget for next year.

3.0 Public Consultation

- 3.1 It is intended that as in past years, the Council consults with the general public, employees and other stakeholders on its budget plans for the coming year. A report was put to the Resource and General Overview and Scrutiny Committee in October outlining proposals to carry out consultation on the

budget this year. This proposed that:

- There will be a limited print run of the consultation leaflet for distribution at libraries with the emphasis on providing the information via the website (home page linking to bespoke page highlighting direction of travel for the budget and proposals for Council Tax).
- Local PR - press release at the start of the consultation encouraging views and near the end of the process highlighting deadline.
- Local advertising - Manchester Evening News, North East Manchester Advertiser and South Manchester Reporter and Wythenshawe World launching the consultation
- Email key partners with link to the website and encourage their views (as organisations)
- Email key partners and ask them to issue an internal message to their staff asking for their views
- Intranet - ensure staff have visibility of the consultation
- Email all staff and invite their views and responses.
- Email key Trade Unions inviting their comments
- Local forums and networks - utilise the relationships we have with community groups, third sector etc and email them inviting their response (as organisations)
- Local forums and networks - send an internal template for them to issue to their members and encourage a response
- Local businesses and organisations - email them inviting their response (as organisations)
- Local businesses and organisations - send an internal template for them to issue to their staff/members and encourage a response from Manchester residents
- Issue ward coordinators a briefing note regarding the consultation for them to share with residents, local business etc and encourage their networks to respond.

3.2 It was considered that we need to be clear what it is that we are asking residents and others as part of the consultation and so specific rather than open questions will be framed as these are more likely to elicit a response. Consultation about priorities will continue through surveys and other consultation activity. The main vehicle, which will cover the general population, will be the new continuous Telephone Survey which will replace the Place Survey.

3.3 As we are not producing any large quantities of physical printed material, costs will be minimal, between £8-10k dependent on media charges which could be quite high due to Christmas and it being a busy time of year.

3.4 It is anticipated with the above approach that response rates should be considerably higher than in previous years. The communication also presents an opportunity to promote what the Council is doing in terms of savings, investment and proposals for a nil Council Tax increase as well as seeking confirmation that the public are behind our general direction of travel.

- 3.5 The information to be included within the above would be drawn from business plans and option appraisals which are currently going through a second round of support and challenge. The aim would be to “launch” the consultation early in December to allow a longer consultation period than has been possible over the last few years.
- 3.6 Residents have told us that they feel that they are often consulted but then don’t hear the results and outcomes of that consultation. It is important that we give clear feedback to residents following consultation and show the impact that their engagement has had. We need to allow for this within the timetable.
- 3.7 Executive is asked to agree the approach outlined above and to delegate authority to the City Treasurer and Director of Communication in conjunction with the Executive Member for Finance and Human Resources to finalise the details and carry out the consultation. The results of the consultation will be reported back to Executive as part of the main budget report in February.

4.0 Next Steps

- 4.1 The table below shows the planned process for finalising the Medium Term Financial Plan 2010/11 to 2012/13 and the budget and Council Tax level for 2010/11.

Early December	Strategic Directors and Executive Members review of Business Plans
Early December	Start Budget Consultation Process
Early December	Confirmation of draft Revenue Support settlement 2010/11 (expected to be in line with previously announced settlement)
December	Strategic Directors and members review overall budget position and proposals
December	Scrutiny consider Medium Term Financial Strategy as reported to Executive
January	Budget and Business Plans considered by relevant overview and scrutiny committees
January	Executive Members Group consider revised budget report and review of capital programme
February	Consideration of draft budget proposals by Executive
February	Consideration of budget proposals by Resource and Governance Overview and Scrutiny Committee
March	Budget agreed by full Council

MANCHESTER CITY COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2010/11 TO 2012/13

Sir Howard Bernstein, Chief Executive
Richard Paver, City Treasurer

1.0 **Introduction**

- 1.1 Manchester is an ambitious city with a strong track record of delivery through partnerships and effective strategic leadership, improving the quality of life for our residents and delivering our vision of making Manchester a world class city.
- 1.2 However, recent changes in the global economy mean that the next three years will be some of the most challenging we have ever faced as an organisation. The only certainty about the current fiscal regime is that the level of resources available to local government resources will not grow and is likely to reduce. Now more than ever, we need to be clear about our strategic objectives and focus on them to guide our decision making processes.
- 1.3 Our vision of Manchester as a world class city; the inseparable dual aims of sustaining economic growth and translating that growth into better lives for Manchester residents remains unchanged, but now the ambition for the Council as an organisation, must be to find evermore creative ways of giving Manchester people best value for money in the resources we use.
- 1.4 This document outlines the strategy that the Council will follow to achieve its corporate aims and objectives whilst managing what will undoubtedly be a difficult financial period.

2.0 **Context**

- 2.1 The national 2009 budget highlights the difficulties that the UK economy is facing. There have been significant increases in public sector borrowing and debt, which are likely to lead to real cuts in public expenditure after 2010/2011. In order to plan for this effectively, we need to be looking now at how we can reduce expenditure whilst still delivering on our priorities for Manchester – we need to do more with less. This means that significant additional efficiencies will need to be delivered for 2011/2012 over and above those already included in business plans.
- 2.2 The recession also means that we have to create the conditions for growth in Manchester when the economy starts to pick up. This means putting significant energy and capacity into the Greater Manchester Strategy supported by City Region Pilot so that we can create the conditions for growth. Growth after the recession will not be spread evenly across the country. Greater Manchester presents the best opportunity outside London to grow its economy and productivity and to contribute to national and local social policy targets. The key factor will be the skills of the Manchester workforce. We need to do all we can to influence this through parenting, early years provision, educational attainment and attendance and our new role as a commissioner of 14-19 provision. We need to influence housing to attract and retain the high skills that the city's economy needs. We need to tackle worklessness by developing the aspirations and skills that will help people to break through generational cycles of dependency and deprivation.

2.3 Real efficiencies for the people, the economy and the place of Manchester will come from success in reducing the costs of dependency and deprivation and increasing the productivity of our economy. The reality of the budget reductions ahead of us present an opportunity for us to think radically about how all public services in Manchester (not just those for which the Council is responsible) can work to this agenda.

3.0 **Manchester's Policy and Financial Objectives**

3.1 The vision for Manchester is clearly articulated in the Community Strategy, with the Local Area Agreement acting as the key delivery plan for all partners working across the City. In early May, the Council's Strategic Directors and Executive Members agreed a set of policy and financial objective to be used to establish the priorities for individual business plans and budgets.

3.2 The application of these objectives will enable the Council to identify specific priorities for each service and to ensure that Council resources are focussed on improving outcomes and delivering the vision for the City.

Policy Objectives

3.3 The policy Objectives of the Council are:

- To deliver on the 'spines' of the Community Strategy. Within the spines, there are specific priorities of the Greater Manchester Strategy relating to:
 - Economic Growth
 - Skills
 - Worklessness
 - 0-5 years
 - Housing
 - Neighbourhoods
 - The Environment

The aim is to provide excellent public services whilst creating the conditions for economic growth, improved skills and productivity and less deprivation and dependency.

- To work with services within and beyond the Council. The ambitions set out above have as much relevance to our partners as it has to the Council and we will need to work across organisational boundaries to respond to the increased financial pressures that we face.
- To work within the corporate improvement framework
 - People Strategy
 - AIMS – Analysis to Improve Manchester Strategy
 - Customer Strategy
 - Neighbourhood Focus
 - ICT and Information Strategies

We now have a framework of corporate strategies, backed-up by the

Directorate of Transformation (DoT) team, to support transformational change as well as continuous improvement. The whole Council will need to use this framework to get a total corporate acceleration of improvement and efficiency.

Financial Objectives

- 3.4 To understand spend. If we are to meet the challenges ahead, we need to understand spend for each of our functions. We need to understand what is driving our costs and our performance and how we compare with others. In particular, we need to understand what we are spending on general public services that are provided everywhere in the country separately from what we are spending on additional services because of the scale of deprivation in the city.
- 3.5 For spending on general public services, our aim is to provide best value for money.
- 3.6 For deprivation related spend, we need a stronger evidence base of the impact of that spend is having on reducing deprivation and dependency. We need to understand how spending relates or could relate to increasing skills and economic productivity and how that will reduce deprivation and dependency. We need to understand the rate of return on our spending in terms of better outcomes and savings to public services as productivity increases and deprivation reduces. We need to understand which services will save from less dependency and deprivation and over what period.
- 3.7 The above drivers apply to all services. We need maximum operational efficiency across the whole organisation if we are to be able to invest in increased economic growth and productivity and decreased dependency and deprivation.
- 3.8 The table below identifies how the Council's current budget is allocated across services:

	This Year 2009/10	
	Gross Expenditure £m	Net Expenditure £m
Services Provided:		
Adult Care Services	190.8	128.7
Children's Services (includes Education)	571.3	150.9
Environmental services	73.3	53.5
Trading Services	32.4	(0.4)
Cultural services	55.0	39.6
Central Services (including Housing Benefits)	352.0	40.5
Housing	168.1	36.0
Levies	49.4	49.4
Contingency	10.2	10.2
Area Based Grant - Partnership Funds	31.9	0.0
Total Service Expenditure	1,534.3	508.5
Other Income/Use of Reserves		
NCP Joint Venture Dividend		(1.5)
Asset Management Revenue Account	(25.0)	(25.0)
Use of (-) / addition to (+) reserves		(7.1)
Budget Requirement	1,509.3	474.9

4.0 **Financial Outlook**

4.1 The current global economic recession and the current Government's response to this means that going forward all major parties have said that they will have little option but to reduce levels of public expenditure from those seen over the last few years. Whilst all major political parties have identified that this will be the case their approaches and the level of any reductions in the monies available to Local Authorities will differ.

4.2 2010/11 is the last year of the current three year financial settlement as announced in the Spending Review 2007 and it is currently considered likely that the settlement for 2010/11 when announced (usually late November / early December 2009) will be in line with the amount previously indicated and on which the indicative budget for 2010/11 as identified in the Council's current Medium Term Financial Plan has been based. There will, however, be no further spending review published before the next general election. This makes assessing the likely level of resources available to the Council going forward after 2010/11 extremely difficult and in order to enable business planning to take place assumptions have had to be made. Because of the uncertainty around resources going forward, work has been carried out by the City Treasurer to look at possible scenarios for resources to try and gauge where to set the Council's resource envelope for business planning purposes. The following assumptions are therefore considered appropriate at this stage:

- A freezing of the Revenue Support Grant receivable at the 2010/11 level across 2011/12 and 2012/13

- A significant reduction in discretionary grants (e.g. Area Based Grant) after 2010/11
 - No council tax increase in 2010/11 and a 1% increase thereafter
- 4.3 In order to plan for this reduced level of resource effectively, we need to be looking now at how we can reduce expenditure whilst still delivering on our priorities for Manchester – we need to do more with less. This means that significant additional efficiencies will need to be delivered for 2011/2012 over and above those already included in business plans.
- 4.4 The Council, however, is determined not to be diverted or deflected from the Community Strategy and LAA. Indeed, we are committed to creating a Growth Fund. This will require a level of efficiencies greater than needed to balance the budget, with room for investment in growth and in creating the conditions for growth, in particular skills and reducing levels of deprivation and dependency, which the MIER (Manchester Independent Economic Review) report shows are restricting growth.
- 4.5 To provide a financial framework for Heads of Service to complete their business plans a revised set of assumptions around inflation have been built into the budget figures, these are:
- Pay inflation is assumed at 0% for 2010/11 and 1% thereafter – this level of pay restraint will be difficult to manage once the economy picks up
 - Non pay inflation is assumed at 0% for 2010/11 and 2011/12 and 2% thereafter.
 - All pressures and savings in the existing Medium Term Financial Plan will be achieved.
 - £5m additional funding has been set aside to cover budget pressures arising from the monitoring of current years expenditure.
- 4.6 These assumptions whilst helping to bring budgets more into line with the likely level of resources available are not sufficient in themselves to balance budgets with resources.
- 4.7 To achieve a balanced budget whilst also identifying resources for the growth fund will be challenging. The proposed approach to achieving these aims is:
- Changes to this year's business planning process to reflect the need for greater scrutiny and challenge of service priorities and resources, in the light of more difficult economic conditions. The revised business planning process for 2009 has improved the way the council considers the entirety of its expenditure, rather than simply growth and reduction at the margins. It has also taken a challenging corporate approach to the way our workforce and property is deployed (further detail on the new process is attached as Appendix 1).

- By starting the business planning process earlier, running support and challenge sessions for each Directorate, running workshops on worklessness and skills, neighbourhood focus and 0-5s, and by running joint events for Strategic Management Team and Heads of Service to promote discussion across services.
- Through identifying opportunities to make significant efficiency savings through the Analyse and Improve Manchester (AIM) review (a diagnostic toolkit programme designed to identify evidence based opportunities for efficiency savings across the organisation) and to maximise income potential through the Review Income Opportunities (RIO)
- By Heads of Service identifying service options for efficiencies over and above those already in existing business plans enable us to demonstrate best value for money.
- By presenting options corporately and across service areas, so that we can show how the overall approach contributes to economic growth so that the city is best placed to contribute to and benefit from the end of the recession.
- By carrying out a full review of all spend supported by the Area Based Grant and other external finding sources as it is this resource that is expected to come under the most pressure after 2010/11.

5.0 **The Growth Fund**

5.1 It has been agreed there is a need to develop a stronger platform for growth, to influence partnership funding from local, regional and national agencies and to assist in driving efficiencies from mainstream budgets. This is required to set the strategic context for the council's budget and business planning processes, along with strengthening partnership working and supporting the City Region Strategy and pilots. Core to this will be the establishment of a Growth Fund. The fund will need to support the core objectives of reducing levels of dependency, reducing worklessness and creating the climate for economic growth. Use of the fund will need to be informed by a much better understanding of the relationship between investment, improved outcomes and the future resources this will save – i.e. a more detailed cost benefit analysis.

5.2 The Growth Fund will need to be established from:

- Savings /efficiencies delivered through the business planning process including option appraisals
- Balance of any uncommitted resources e.g. the Working Neighbourhoods Fund (WNF), the residual balance from the Service Improvement Fund

- Efficiencies delivered in conjunction with partners – e.g. through joint workstreams with NHS Manchester
- 5.3 Priorities for investment would be determined in line with the Business Planning process and evaluated based on the option appraisal and cost and benefit analysis work. This will be a rigorous process where there will be a requirement to set out the benefits the additional investment will bring and how these will be evaluated and monitored. Officers are currently finalising the cost and benefit analysis methodology that will be used for the evaluation of the key policy options and to support investment decisions.
- 6.0 **Conclusion and Next Steps**
- 6.1 The above strategy identifies how the Council intends to formulate its Medium Term Financial Plan and budgets for the next three years to achieve its corporate objectives and invest in key services in what will be a very challenging economic climate that will see significant restrictions on the resources available to it.
- 6.2 Each Head of Service is in the process of developing their business plans for 2010/11 to 2012/13 including their option appraisals for improving and making more efficient their services. These will be subject to both officer and member scrutiny during November. These plans will form the basis of drafting the Council's Medium Term Financial Plan for 2010/11 to 2012/13 which will identify in financial terms the resources allocated to each service to achieve their business plan objectives.
- 6.3 After consultation with the public and other stakeholders and scrutiny through Overview and Scrutiny Committees, the Medium Term Financial Plan will be considered by Executive in February and put forward for full Council Approval in March.

Medium Term Financial Strategy 2010/11 to 2012/13 - APPENDIX 1

1.0 The Manchester Performance Management Framework

- 1.1 To help the Council deliver its main aims, the Council's Business Planning and Performance management framework has been strengthened. Key features of the framework include:
- It is an integrated framework for financial and service planning at corporate and departmental levels.
 - The process is a year round process.
 - Enhanced engagement on service planning and performance issues through the establishment of regular 'Strategic Support and Challenge Sessions'.
 - Stronger corporate performance, financial and risk monitoring, on an integrated basis, in order to provide a single 'picture' of service performance.
 - Greater support and challenge to help managers fulfil their roles and responsibilities in relation to business planning, through a package of support from across corporate functions (e.g. training and communications).
- 1.2 The revised Business Planning and Performance Management Framework and annual business planning cycle is illustrated below.

