

### The Medium Term Financial Strategy (MTFS)

#### Introduction

#### Message from Tracie Evans, Corporate Director of Finance & Resources

We in the Council have begun to understand the impact of managing our resources in an unprecedented era of income reductions and changes to the legislation that affects what our Council does. The reduction in the amount of money available to us comes at a time when inflation is rising and the things we buy as a Council are getting more expensive. It is also a time when our community's needs are becoming more complex and our population is growing faster than in other areas..

The announcement of an emergency national budget by the new government in June 2010 to start dealing with the national debt crisis brought home the immediate impact of these economic changes resulting in an in-year reduction in our resources of £5.5m on top of the £14m of savings already in the 2010/11 budget. The Council's financial plans for last year (2010/11) anticipated that resources available to it would reduce. We expected an overall reduction in Government resources of £44m (28%) over the three year period (2010 - 2013).

The Government announced it's National "Spending Review" (SR) in October 2010 and then issued detailed allocations of grant for 2 years (2011 – 13) in December 2010. Our financial analysis now shows the Council is actually facing reduced resources of £20.2m (13.7%) over 2 year period, including reductions on Formula Grant, Specific Grant and Area Based Grant.

The Government have stated that they are going to radically change the way that Local Government is funded from 2013/14. Our funding is currently based on a very complicated model using the number of residents in the borough and an assessment of their level of need. At this point in time, I have no mechanisms to make assumptions about what our funding levels will be past 2012/13. This MTFS therefore can only be certain about the figures stated for 2011/12 and 2012/13.

The fact is that we will have to spend significantly less than last year to balance our books. The challenge is so great that the old methods of making savings will not be enough. Using the same thinking to solve our problems as we have done in the past will mean we will end up with the same problems. We have to start thinking very differently about how we continue to deliver services on behalf of our community with much less money.

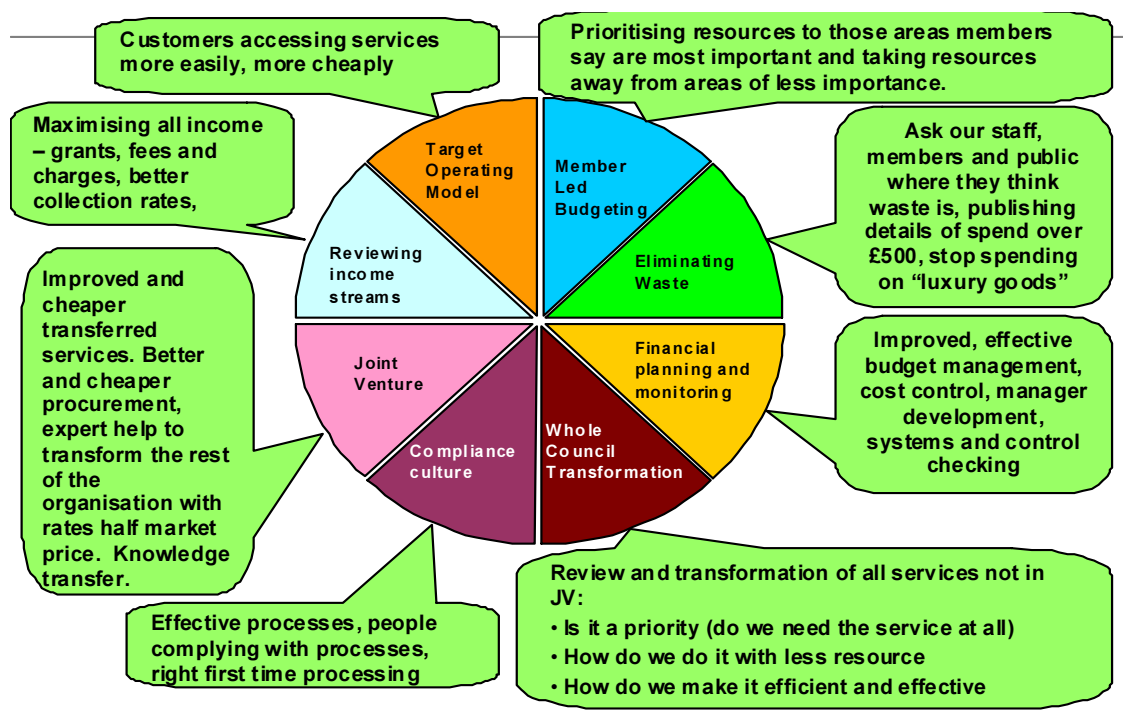
The Council has no choice about how much money it is given to manage its services. It does however have the ability to choose how it spends its money. This MTFS lays down the principles by which this Council intends not only to manage its resources through these very tough times but also how the

Council will ensure that every penny the Council spends will be to deliver services that our community believe are valuable to them.

## Financial Objectives

The financial objectives for the Council are:

- A balanced budget;
- Budget decisions based on Council priorities (policy led budgeting);
- An organisational culture that asks all employees, partners and contractors to “treat every pound spent as though it is the last pound in your purse”;
- Managers who are responsible and accountable for their budgets;
- Robust levels of reserves and contingencies;
- Strong financial systems and processes;
- Investments to improve services and maintain assets ;
- Income maximisation;
- Continued efficiency and value for money



## The budget – how it is developed

Members and officers have worked to redefine the policy priorities of the Council, referred to as the Policy House. The policies and strategies have been shaped around these priorities, and through the policy-led budgeting exercise, identified a series of savings options and reallocated resources to priorities.

Our vision for the borough is *Building a better life for all*, with the key aims of: raising household incomes; school and post-16 education; and housing and estate renewal.

The priority themes of the Council as shown in the “Policy House” are:

- Better together
- Better homes
- Better health and well-being
- Better future

We **will put the customer at the heart of what we do** and meet their needs through a well run organisation. Our values set out how we work together as one team to provide excellent services.

Our **Policy House** in *Building a better life for all* shows our key themes, our priority outcomes, and Members’ priorities 2010. Our **Performance House** shows the top level performance indicators that we will use to track our progress in delivering these outcomes.

Our vision, Policy House and Performance House drive and inform directorate business plans which contain more detailed actions, performance indicators, measures and targets; this will in turn drive the objective setting process for staff so there is a clear **Golden thread**

As part of developing the budget, the draft proposals were submitted to the Council’s Select Committees between October and December as part of raising the awareness of the options the Council was considering. All meetings were open to and attended by members of the public with all papers made available in advance of the session. The feedback from this series of meetings resulted in some proposals being amended or removed from the final budget.

## The budget – what are the numbers

The actual summary budget figures for the next 2 years are;

	2011/12 £000	2012/13 £000
Total additional costs	12,447	8,650
Total reduction in income	16,143	7,900
Departmental savings	(25,590)	(6,187)
Corporate savings	(3,000)	(4,000)
<b>Budget gap</b>	<b>0</b>	<b>6,363</b>

An enormous amount of work has been carried out to plan for reductions in our budgets. These are known as savings and have been scrutinised by the Council’s Select Committees. A summary of these savings can be found attached at **Appendix E**

## Capital Strategy

The impact of reduced budgets on ability of the Council to invest in its assets is severe. The Council is responsible for;

- Ensuring every child has access to a school place. This means building new schools.
- Ensuring that housing is available. This means maintaining and building houses
- Maintaining its roads
- Maintaining the buildings it owns to deliver services
- Updating ICT

There are a number of sources available to fund capital expenditure however these sources have all reduced significantly and there are huge uncertainties around funding normally allocated by the government.

	<b>Funding Source</b>	<b>Impact of budget reductions</b>
1	Capital grants from government	Reduced significantly
2	Planning gains (from new private developments)	Private developments have reduced through recession
3	Disposals of owned assets	Recession has reduced value therefore sales not of value
4	Borrowing	Are able to borrow but need revenue budgets to pay for borrowing costs which were raised in the spending review.

The environment for investing in assets has changed significantly and in order for the Council to continue to deliver appropriate and affordable services, it will need to completely reconsider its Capital Strategy.

On this basis, the budget for 2011/12 includes only a small amount of capital funds in order to carry our legislative maintenance on its assets and schemes that are wholly externally funded. During 2011, the Council will reconsider its capital needs and produce a new Capital Strategy for 2012/13 onwards.

**Appendix G** shows the end of the current capital programme.

### How grant income has changed

As part of the spending review, the funding of local authorities has been significantly affected with the majority of specific grants and area based grants either cut completely or rolled into formula grant or other new consolidated grants which were subsequently significantly cut. **Appendix F** shows the analysis of Grant Changes

## **Links to other strategies**

### **People Strategy**

For the transformation of the council to be successful and to deliver excellent services, then the Council needs an organisational style which truly reflects its values and focus on improving value for money and services to customers. It also needs to maximise the productivity of the workforce to enable the priorities of the Council to be achieved, but within a much reduced resource base.

The People Strategy sets out the actions to be taken to support the transformation of the council and the embedding of a style that enables achieving more with less. The focus of those actions is on:

- Workforce planning – having the right people with the right skills
- Performance management and reward – rewarding good performance, addressing poor performance
- Well-being – creating a working environment where people can be productive
- Management development – ensuring leaders and managers are equipped to fulfil their roles
- Employee engagement – keeping people informed and making them feel part of the future.

The People Strategy therefore supports the delivery of the overall MTFS. There are a range of performance indicators within the Strategy (relating to sickness absence and engagement for example), through which the Council will monitor its success and will adapt the strategy as the organisation continues to change.

### **Treasury Management Strategy**

A strong treasury management strategy and associated practices enables the Council to maximise investment income and cashflow, which underpins the delivery of the Medium Term Financial Strategy.

The Council's target return on investments for 2011/12 is 1.5%, which is a challenging (given current base rates) but achievable target that will be met through a combination of in-house and external fund management.

Security of our assets is also an important consideration. It is the Council's strategy not to invest internal funds in non-UK institutions. External fund managers have the flexibility to invest in non-UK institutions within the restrictions of the Council's policy on credit limits.

### **Property Assets Strategy**

The Council's assets and property strategy is fundamental as it underpins the Medium Term Financial Strategy. Efficient and effective use of asset space enables the Council to reduce costs in this area.

The Council is developing a centralised property holding account for 2010/11 to ensure the efficient running of the corporate estate. The first Property Asset Strategy and Property Asset Plan was submitted to Cabinet in 2009 and will be refreshed on an annual basis.

Highlights of the current plan include:

- Reduction in administrative buildings from 23 to 6, with further savings perhaps possible as a result of the Strategic Partnering programme
- Reduction in operational estate through a number of strategies:
  - Co-location of services both within Council and with partners
  - Transfer of assets to community ownership
  - Withdrawal from surplus assets
- Review of the investment portfolio to identify non-performing properties, and to optimise returns on investment
- Improvement in property intelligence
- Reduction in energy bills

### **Procurement Strategy**

The Council's approach to procurement and contracting rules are set out in the Council Constitution. The purpose of these rules and regulations is to ensure that regulatory and legal requirements are met, but also that value for money is achieved through contracting activity. This in turn supports the Medium Term Financial Strategy.

The Corporate Procurement function has been included in the Joint Venture. The additional investment and capacity which will be available to this is expected to generate significant procurement savings for the council over the life of the Joint Venture and will enable the Council to balance the budget.

### **Risk Management Strategy**

The Medium Term Financial Strategy has been informed by an analysis of budget risks discussed through engagement with the Corporate Management Team, Heads of Service and through workshops and discussions with key support officers in departmental finance and policy/performance teams.

The Council's risk management strategy and associated processes enables the identification of and prioritisation of key financial risks and the cost of the management of the controls which feed into the Medium Term Financial Strategy.

### **Housing Revenue Account (HRA)**

The future of the Housing Revenue Account is a huge strategic issue for the organisation. It is clear that, due to current subsidy arrangements, the HRA is unlikely to be viable beyond 2010/11. There are a number of options to pursue to enable the organisation to continue to meet its aspirations for local housing beyond that point, which at this stage are still being developed.

The detailed budget for the Housing Revenue Account is included in the HRA Rents report which will be approved with the Council budget.

The Capital Programme for 2011/12 to 2014/15 includes the Decent Homes programme which is funded from a combination of internal resources and Major Repairs Allowance funding from central government.

## **Council Reserves and Contingency**

Robust levels of reserves

The MTFs also sets the strategy around Council reserves and contingencies.

It is the responsibility of the section 151 officer to determine an appropriate and prudent level of reserves for the organisation. The target level of general reserves will be £10m. The current level of reserves is below this level, but provision has been made in the budget model to replenish reserves by £1.5m in 2011/12 to ensure that this level is realised in 2011/12.

The budget model also provides for £1m contribution to a centrally maintained "Invest to Save" fund. This funding will be available on a business case basis and will be used to support and encourage innovation and projects to improve the cost effectiveness of services that the organisation provides to residents.

Contingency and longer term budget planning

The budget also includes a sum for contingency. For 2010/11 a significant increase was included in contingency to recognise a number of risks the organisation was facing. During 2010/11 one-off funding to assist these functions was approved by Cabinet. For 2011/12 the level of contingency has been reduced to £2.8m which in the opinion of the Corporate Director of Finance and Resources provides sufficient capacity to meet unforeseen items. However, these continue to be on-going and longer term budget planning issues as follows

Children's Services :

- Children's placements, where small increases in demand lead to potentially large increases in expenditure; and
- Costs associated with transport for SEN children, where expenditure is based on the demand for the service.

Adult's Services :

- The costs associated with the personalisation agenda. The principle that the Council is working to is that moving clients from one form of support to a personal budget will be cost neutral. However, there is a risk that the publicity around the expansion of personal budgets will lead to an increase in demand.

Customer Services :

- Risks around the future of the Housing Revenue Account – the current Housing Subsidy system is such that in 2 to 3 years time, the HRA will be financially unsustainable due to the amount of rent that the Council will have to hand back to the government. Any alternative model of

housing provision in the borough could have significant financial implications for the Council;

- Risks around landfill taxes and the need to increase recycling rates; and
- The implementation of improved customer contact services across the organisation offers the Council huge potential savings by enabling residents to access more services on-line or through channels that are cheaper for the Council to run. These transitions need to be well managed to ensure continued high customer satisfaction alongside cost savings for the Council Taxpayer.

Finance and Resources :

- The Council needs to ensure that it is reducing its energy consumption, both to deliver against the green/carbon reduction agenda and also to reduce costs for running operational buildings; and
- Related to this, reductions in carbon emissions are important to mitigate against future costs associated with the government's carbon reduction commitment.

### Sensitivity analysis

This central contingency amount will be used to take account of key risks and sensitivities in the budget. Full details and analysis of sensitivities in the budgets, particularly relating to demand led costs, are detailed in the table below:

Total budget	Assessment of risk	Possible Implications	Mitigating actions
<b>Adults Services</b> - Personalisation £16m	Risk of 5% increase in demand	£800,000	Personal budgets cost neutral on case by case basis
<b>Children's Services</b> - Children's Placements £13m	Risk of 5% increase in demand	£650,000	Invest to save for adoption and fostering
<b>Customer Services</b> - Landfill charging n/a	Impact currently increasing due to tighter regulation		Increased recycling
<b>Resources/Finance</b> - Energy costs £7m	Risk of 10% increase in prices or demand	£700,000	Energy efficiency programme - Carbon trading £nil Currently low risk in terms of financial implications



			but increasing in future years
<b>Resources/Finance</b> - Changes in interest rates £1m income	Lower risk given low interest rates	£200,000	Good treasury management

## Budget Discipline and Forecasting and Sound Governance

Budget discipline:

The MTFFS needs to be underpinned by improved budget discipline and forecasting. Budget discipline is critical – the Council has to ensure it balances its budget without taking funding from reserves; otherwise the longer term strategy has to be fundamentally reviewed on an annual basis.

Forecasting is also critical; otherwise assumptions around future risks or investment needs have to be updated every year, which defeats the object of longer term planning.

The Council has undertaken the annual review of budgets across the organisation in preparation for the 2011/12 financial year. All staffing establishments have been costed, supplies budgets reviewed to ensure all contracts are funded and an assessment of income targets completed to ensure these are realistic. This is a vital piece of work to ensure that our base budgets are robust and that expenditure can be delivered on budget for 2011/12.

Budgetary control and sound governance

The Council is committed to maintaining a system of sound financial control, specifically to make sure that:

- Adequate budget monitoring arrangements are in place for services and projects;
- Sound control and reconciliation procedures are in place for all financial systems;
- Collection and recovery of income due to the Council is maximised;
- Compliance takes place with relevant EU and national procurement and contracting regulations; and
- Adequate anti-fraud and corruption arrangements are in place.