

**Report to:** Cabinet  
**Date of meeting:** 25 July 2011  
**Report of:** Head of Strategic Finance  
**Title:** Revised Medium Term Financial Strategy (MTFS) 2010/2015

**1.0 SUMMARY**

1.1 This report reviews the assumptions made within the MTFS in January 2011 and which formed the basis of the Council's Budget Strategy.

**2.0 RECOMMENDATIONS**

2.1 That the Committee agree to use the Economic Impact Reserve for any ultimate adverse variations to the 2011/2012 Budget rather than the General Fund Working Balance (paragraph 5.3 refers).

2.2 That the Committee note the variations to the Medium Term Financial Strategy (Appendix 1A refers), and the level of reserves as detailed at Appendix 2A. It also be noted that the MTFS be further reviewed by the Budget Panel and Cabinet in September.

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### **3.0 Background**

3.1 Council on 26<sup>th</sup> January 2011 approved the revenue budget and capital programme to apply for 2011/12. It also recommended to Functions Committee the levels of council tax (no increase) to apply from 1<sup>st</sup> April 2011. These decisions were influenced by the Medium Term Financial Strategy which covered the period 2010 to 2015. It has always been the case that the MTFS is a 'living' document which needs to be constantly reviewed in the light of up to date service and finance information.

### **4.0 Revised Medium Term Financial Strategy (MTFS)**

4.1 A revised MTFS has been attached at **Appendix 1A** with the assumptions being shown at **Appendix 1B**. The main adverse variations for 2011/2012 (when compared to the MTFS in January 2011) include an increase in the 2010/2011 forecast overspend of £41k to £341k, additional service pressures of £610k, and a contingency for non achievement of all service prioritisation savings of £200k. These are partly offset by introducing the specific grant relating to the New Homes Bonus of £420k.

4.2 The effect of these revisions is to increase the forecast net expenditure for 2011/2012 by £390k. For the complete picture over the four year period it is necessary to refer to Appendix 1A and particularly the line called "From Reserves to fund overspend". This indicates over the four year period 2011 to 2015 that £3,044k of reserves are anticipated to be drawn down. This is in addition to the £341k of reserves and £345k of the general fund balance used in 2010/2011.

### **5.0 Availability of Reserves**

5.1 **Appendices 2A and 2B** attached to this covering report details the Council's total holding of reserves and balances. It is important to stress that earmarked reserves generally cannot be accessed as they are set aside for specific purposes. The notes at Appendix 2B need to be considered before any conclusions can be drawn regarding the availability of reserves.

5.2 The revised MTFS at Appendix 1A indicates that for the period 2011 to 2015, £3,044k of reserves are required to finance ongoing deficits within the revenue budgets. This may well be an optimistic scenario as service prioritisation savings have not been fully delivered at this point in time. These efficiency savings also need to be delivered against increased demand for council services in some areas and extreme pressures upon the retail sector of the economy. The Council currently accrues circa £7m per annum from commercial rents and the failure to achieve this income is a key risk to the sustainability of the revised MTFS.

5.3 The Council on 26<sup>th</sup> January 2011 agreed a strategy for the use of reserves and this is summarised at **Appendix 1C**. As explained at Appendix 1C it is now **recommended** that the General Fund Balance should not be used to finance any budget shortfalls but that, in the first instance, the Economic Impact Reserve should be used.

5.4 The level of 'general' reserves at Appendix 2A indicates a headline figure of £5,723k but it is suggested that it is allocated as follows:

Opening Balance 1 <sup>st</sup> April 2011	( £5,723k)
Retained as a contingency	£1,500k
Set Aside for capital expenditure	£1,000k
<b>Balance Available to support MTFS</b>	<b>(£3,223k)</b>

The background to this recommendation is included within Appendix 1C. This available balance would be required to meet the MTFS shortfall of £3,044k referred to at paragraph 5.2.

## 6.0 Service Prioritisation Phase 2

6.1 The revised MTFS has assumed that the profiled savings from a second phase of efficiency savings will be achieved in full. The profiled savings are:

* 2013/2014	£329k
* 2014/2015	£669k
* 2015/2016	£1,017k

6.2 Should these savings not be delivered in full then a budget shortfall would arise which would need to be met from the available general reserves balance at paragraph 5.4.

6.3 It is essential therefore that the Council continue to identify service efficiencies through the Corporate Process Improvement Programme and through greater value for money. Phase 2 at the present time is not necessarily about reducing levels of service but is focussed upon whether they can be delivered more efficiently. The prudent way in which the Council has managed its finances does at least mean that Phase 2 efficiencies can be planned over a medium term time span.

6.4 In that respect, the Leadership Team has commenced a programme to address the future shape of the Council and the service redesign that will be needed to deliver a further £2m of savings. The 'Future Council ' road map was reported to the June Cabinet meeting and has been the subject of a briefing to Opposition Leaders as well as all staff.

## 7.0 CONCLUSION

7.1 The Revised MTFS has been updated to take into account latest financial knowledge. It does not represent the complete picture but has focussed upon known key risks. In particular it has introduced additional cost pressures relating to shortfalls in commercial rent / market rent, the use of bed and breakfast for the homeless, ongoing additional costs associated with temporary housing benefit staff, and a contingency should the Service Prioritisation savings not be delivered in full. Offset against this, the New Homes Bonus has now been included to support current revenue budgets rather than financing new initiatives or the capital programme. The net effect of these revisions has increased the net expenditure for 2011/2012 by £390k.

7.2 The level of general reserves is good but is likely to have competing demands upon its use. It does however provide the Council with breathing space to plan, in a controlled way, how to deliver future efficiencies. The revised MTFS does confirm however, the need to explore future opportunities for further efficiencies and that the Phase 1 service reductions, whilst making very impressive progress, cannot be the end of the story.

## 8.0 IMPLICATIONS

### 8.1.1 Financial Issues

It is good practice to regularly review the Medium Term Financial Strategy because that will provide an early indication whether the 2011/2012 Budget can be delivered within available resources. The revised MTFS does indicate that the financial situation has deteriorated largely due to the current depressed state of parts of the economy.

8.1.2 It is reassuring that the good financial management exercised by the Council in the past has resulted in the revised adverse financial profile through to 2015 being capable of being accommodated without any emergency reductions in services to the community.

### 8.2 Legal Issues (Monitoring Officer)

The Head of Legal and Property Services comments that there are no legal implications arising directly out of this report.

### 8.3 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
That there will be increased expenditure/ reduced income in 2011/2012 and future years.	4	2	8
That any adverse variations to revenue budgets will not be capable of being financed.	1	4	4

### 8.4 Staffing

No Direct implications as a result of this report.

### 8.5 Accommodation

None Directly

## Appendices

1A – Revised Medium Term Financial Strategy

1B – Supplementary Notes

1C – Strategy for Use of Reserves

2A – Reserves Statement

2B – Medium Term Financial Strategy as at 30/6/11