Annex 8

Medium Term Financial Strategy

Introduction

1. For a number of years as part of the Council's sound financial planning arrangements a four-year financial strategy has been prepared. This document allows a considered view to be taken of spending and resources. Without a medium term financial strategy finances would be managed on an annual basis leading to sudden expansions and contractions in services. Clearly such volatility would lead to waste and be confusing for stakeholders.

2. Managing this Council's finances has been made easier by isolating one off fluctuations (District Development Fund or DDF) from the ongoing core services (Continuing Service Budgets or CSB). This distinction highlights the differing effects in the medium term of approving different types of initiative.

3. A key part of the strategy is future rises in Council Tax and the Council has a stated ambition to not only remain a low tax authority but to ultimately have the lowest Band D charge in Essex. This ambition is unlikely to be realised until 2011/12, although it is anticipated that the gap will narrow further in 2010/11. The Council currently has the second lowest charge and last year saw the gap to the lowest Band D charge in Essex reduce from £6.39 to £3.33.

4. At its 5 October 2009 meeting the Finance and Performance Management Cabinet Committee decided that communication of the revised medium term financial strategy to staff, partners and other stakeholders be undertaken by way of publishing key bullet points in appropriate publications.

Previous Medium Term Financial Strategy

5. That meeting of the Finance and Performance Management Cabinet Committee considered the annual Financial Issues Paper and an updated medium term financial strategy. At that time Members attention was drawn to a number of areas of significant uncertainty. Key amongst these is how an incoming government will deal with the very poor overall state of the public finances and the extent of the pain to be borne by district councils. The effects of the "Credit Crunch" are stabilising, but have reduced income and increased demand for several services. There were also questions over the using up of capital receipts on non-revenue generating assets, the next triennial valuation of the pension fund and changes to the national concessionary fares scheme.

6. Against this background of risk and uncertainty a forecast was constructed that set a target of £18.3m for CSB expenditure for 2010/11 and maintained the requirement for annual CSB savings until the end of the forecast period. At this time deficit budgets were anticipated for each year of the forecast, although these were reducing throughout the period of the forecast.

7. At that time the predicted General Fund balance at 1 April 2014 of £6.2m represented nearly 36% of the anticipated Net Budget Requirement (NBR) for 2013/14 and was therefore somewhat higher than the guideline of 25%. It was also predicted at that time that there would be £492,000 left in the DDF at 1 April 2014.

Updated Medium Term Financial Strategy

8. As the effects of the "Credit Crunch" and the changes in the waste service became clearer it has been necessary to keep the CSB target for 2010/11 under review. The meeting of the Finance and Performance Management Cabinet Committee on 14 December considered a draft General Fund summary together with growth lists of both CSB and DDF items. This meeting decided to revise the CSB target down by £0.3m to £18m. However, the final re-examination of some estimates and assumptions has meant the CSB total for 2010/11 is now £18.079m. To reflect these budget changes a revised medium term financial strategy has been prepared and is attached as Annexes 8 a and b. In constructing the forecast it has been necessary to make certain assumptions, these are set out below:

    a) CSB Growth – a net saving for 2010/11 has been included at a total of £237,000. For 2011/12 a net saving of £15,000 has been identified. In common with the earlier version of the strategy, target CSB savings are included for the period 2011/12 to 2013/14. The lower than anticipated pay award and the higher recycling credits have helped achieve the savings required for 2010/11. However, annual savings targets of £600,000 for 2011/12, £400,000 for 2012/13, and £200,000 for 2013/14 are likely to prove more challenging.

    b) DDF – all of the known items for the four-year period have been included and at the end of the period a balance of £156,000 is still available. The worsening position has arisen due to the charging of reduced investment income to the fund, although of course this is consistent with the previous practice of crediting investment income to the fund when it has exceeded the CSB level.

    c) Grant Funding – beyond 2010/11 it has been assumed that there will be a 10% reduction in grant over the three year CSR period. This is felt to be prudent but is dependant on the outcome of the general election and the strength of the economic recovery.

    d) Council Tax Increase – Members have confirmed they wish to limit the increase for 2010/11 to 1.5% and to 2.5% for subsequent years. These assumptions have been built into the strategy.

9. This revised medium term financial strategy has deficits in the next three years of the period, although these are reducing and break even is achieved in the final year of the period. The predicted revenue balance at the end of the period is £6.419m, which represents 37% of the NBR for 2013/14 and thus comfortably exceeds the target of 25%.

10. It is worth repeating that significant savings are necessary in each of the final three years of the strategy and in approving the medium term financial strategy Members are asked to note these targets. The strategy will be monitored during the year and updated for the September 2010 meeting of the Finance and Performance Management Cabinet Committee.