

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 2013/14, as it is anticipated that most Councils will freeze their charges for 2011/12 and 2012/13. The Council currently has the second lowest charge and last year saw the gap to the lowest Band D charge in Essex reduce from £3.33 to £1.35.
4. At its 27 September 2010 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 those was how the incoming government would 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 £17.1m for CSB expenditure for 2011/12 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 at the end of the forecast.
7. At that time the predicted General Fund balance at 1 April 2015 of £5.6m represented nearly 36% of the anticipated Net Budget Requirement (NBR) for 2014/15 and was therefore somewhat higher than the guideline of 25%. It was also predicted at that time that there would be £562,000 left in the DDF at 1 April 2015.

Updated Medium Term Financial Strategy

8. As the general reductions in public spending and the specific reductions in Council's grants from Government became clearer it has been necessary to keep the CSB targets and the associated net savings requirements under review. The final grant figures were only announced on the evening of 13 December and an update was provided for Council on 14 December. Given the limited time to prepare the update, it was only an approximation but indicated that savings over the period would need to increase from £2.3m to £3m. 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 – the net savings required for 2011/12 have been found, but budgets will be re-visited during the course of 2011/12 to seek further reductions. In common with the earlier version of the strategy, target CSB savings are included for the period 2012/13 to 2014/15. The removal of under spent budgets, a lower than anticipated pay award and the lower than estimated reduction in administration subsidy from the Department for Work and Pensions have helped achieve the savings required for 2011/12. However, annual net savings targets of £1.3m for 2012/13, £750,000 for 2013/14, and £500,000 for 2014/15 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 £216,000 is still available. This is an improvement on the position in the current year's budget, where the MTFS adopted in February 2010 showed a closing balance at the end of the period of £156,000.
 - c) Grant Funding – beyond 2012/13 it has been assumed that there will be a 6% reduction in grant over the remaining two years of the CSR period. This is in line with the headline figures provided in October 2010 but is likely to be effected by the Government's re-working of the grant allocation model and the strength of the economic recovery.
 - d) Council Tax Increase – Members have confirmed they wish to freeze the charge for 2011/12 and 2012/13 and limit the increase to 2.5% for subsequent years. These assumptions have been built into the strategy.
9. This revised medium term financial strategy has deficits in for the entire period, although these are reducing and the use of reserves in 2014/15 is £260,000 lower than in 2013/14. The predicted revenue balance at the end of the period is £5.909m, which represents 40% of the NBR for 2014/15 and thus comfortably exceeds the target of 25%.
10. It is worth repeating that significant savings are necessary in each of the 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 2011 meeting of the Finance and Performance Management Cabinet Committee.