

## **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 2012/13. The Council currently has the second lowest charge and the gap to the lowest Band D charge in Essex is only £1.35.
4. At its 26 September 2011 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 were the structural reforms to the financing of local authorities through the local retention of NNDR and the Government's programme of welfare reform. The general state of domestic and world economies remains a concern and the possibility of a double dip recession is still with us. There were also questions over the New Homes Bonus, self-financing for the HRA and the capitalisation of pension deficit payments.
6. Against this background of risk and uncertainty a forecast was constructed that set a target of £14.88m for CSB expenditure for 2012/13 and maintained the requirement for annual CSB savings over 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 2016 of £7.1m represented over 47% of the anticipated Net Budget Requirement (NBR) for 2015/16 and was therefore somewhat higher than the guideline of 25%. It was also predicted at that time that there would be £888,000 left in the DDF at 1 April 2016.

## Updated Medium Term Financial Strategy

8. In the period since the Financial Issues Paper the Government has responded to the consultations on localising Council Tax Benefit and the local retention of business rates. These responses have made the direction of policy clearer but have been little help in terms of hard numbers for inclusion over the medium term. 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 2012/13 have been found, but budgets will be re-visited during the course of 2012/13 to seek further reductions. In common with the earlier version of the strategy, target CSB savings are included for the period 2013/14 to 2014/15. The extension of the waste contract, removal of under spent budgets and the ending of financial support for Police Community Support Officers have helped achieve the savings required for 2012/13. However, annual net savings targets of £0.5m for 2013/14 and 2014/15 are likely to prove 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 £1.36m is still available. This is an improvement on the position in the current year's budget, where the MTFS adopted in February 2011 showed a closing balance at the end of the period of £216,000.
  - c) Grant Funding – beyond 2012/13 it has been assumed that there will be a 10% reduction in grant over the remaining two years of the CSR period. This exceeds the headline figures provided in October 2010 to make allowance for the poorer than expected recovery since then and the effects of the Government's re-working of the grant allocation model.
  - d) Inter-related Funding – because of the changes in funding structures beyond 2012/13 and the top slicing of New Homes Bonus funding from the NNDR pool, only NHB income relating to the first two years of the scheme has been built into the model.
  - e) Council Tax Increase – Members have confirmed they wish to freeze the charge for 2012/13. Increases of 2.5% have been allowed for subsequent years. These assumptions have been built into the strategy.
9. This revised medium term financial strategy has deficits in the final three years of the period, although these are reducing and the use of reserves in 2015/16 is £311,000 lower than in 2014/15. The predicted revenue balance at the end of the period is £7.543m, which represents 51% of the NBR for 2015/16 and thus comfortably exceeds the target of 25%.
10. It is worth repeating that savings are still necessary in the next two 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 2012 meeting of the Finance and Performance Management Cabinet Committee.