EXE 080311
Item 7

Copeland Borough Council – DRAFT Medium Term Financial Strategy 2011/12 to 2014/15

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WHY HAS THIS REPORT COME TO THE EXECUTIVE?

The Medium Term Financial Strategy (MTFS) sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its four year financial projections.
Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers' money. It assists the Council in making the right financial decisions for the short, medium and longer term.
The financial management arrangements of the Council express in monetary terms the planned use of resources to deliver Council services in accordance with its stated priorities set out within the Council Plan 2011/12 to 2013/14. The Council Plan was formally approved by Council on 22nd February 2011.
The Councils financial management arrangements and projections for the period 2011/12 to 2014/15 are set out in the Medium Term Financial Strategy (MTFS) attached to this report, and incorporate the detailed work on the Revenue Budget, Capital Programme, Reserves Strategy and Treasury Management Strategies approved by Council on 22nd February 2011.

The projections and assumptions within the MTFS will be updated annually.

SUMMARY AND RECOMMENDATIONS:

Summary:

This report sets out the Medium Term Financial Strategy for the period 2011/12 to 2013/14 to incorporate formally the inclusion of the Revenue Budget, Capital Programme, Reserves Strategy and Treasury Management Strategies as approved by Council on 22nd February 2011.

Recommendation:

It us recommended that Members of the Executive approve the Medium Term Financial Strategy for recommendation to Council on 22nd March 2011.

1. INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its four year financial projections.

1.2 Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers' money. It assists the Council in making the right financial decisions for the short, medium and longer term.

1.3 The financial management arrangements of the Council express in monetary terms the planned use of resources to deliver Council services in accordance with its stated priorities within the Council Plan. The Council Plan was formally presented for approval to Council on 22nd February 2011.

1.4 The Councils financial management arrangements and projections for the period 2011/12 to 2014/15 are set out in the Medium Term Financial Strategy attached to this report, and incorporate the Revenue Budget, Capital Programme, Reserves Strategy and Treasury Management Strategies approved by Council on 22nd February 2011.

1.4 The projections and assumptions within the Strategy attached at Appendix A will be updated annually as part of the budget process.

2. WHAT ARE THE LEGAL, FINANCIAL AND HUMAN RESOURCES IMPLICATIONS?

2.1 The MTFS will align to HR policies. The savings proposals which will be required to achieve the financial sustainability of the Council over the medium to longer term will require some redundancies and the Council has invested in a support package which will include preparation for job interviews, financial advice and other specialist support as necessary.

2.2 Legal – the proposed strategy contributes to the Council satisfying its obligations contained in the Local Government Act 2003 relating to robust financial administration. There are no further legal implications of the report.

3. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

3.1 The Risk that the MTFS projections will not be realised as set out is considered a Strategic Risk and is included on the Strategic Risk Register and monitored as part of that process. Service Review and saving proposals are considered in detail by CLT and Members (RPWG and Executive) prior to being incorporated into the budget forecasts as part of the budget setting process. The achievement of the savings proposals, once approved, will be monitored carefully by CLT and Members to ensure the projections contained within the final budget proposals are achieved.

4. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

4.1 The key measurable outcome is the formal Medium Term Financial Strategy which will guide the allocation of financial resources over the period 2011/12 to 2014/15 and which will determine the manpower, financial and other resources it will have available to provide services for the year.

List of Appendices
Appendix A – Medium Term Financial Strategy 2011/12 to 2014/15.

List of Background Documents:

- Revenue Budget Proposal 2011/12 (incorporating Reserves Strategy and financial projections to 2013/14) approved by Council 22 February 2011
- Capital Programme for 2011/12 to 2013/14 approved by Council 22 February 2011
- Treasury Management Strategy 2011/12 to 2013/14 incorporating the Annual Investment Strategy for 2011/12 and the Minimum Revenue Provision Strategy for 2011/12, approved by Council 22nd February 2011.
- Council Plan 2011/12 to 2013/14, approved by Council 22nd February 2011.
- Various other internal and external Strategies.

CHECKLIST FOR EXECUTIVE REPORT

Impact on Crime and Disorder	)
Impact on Environmental Sustainability	)
Impact on Rural Proofing	)
Health and Safety Implications	) Each of the individual strategies and
Project Management Arrangements	) savings proposals will have different
Has this been subject to an Equality Impact Assessment?	) implications
Children and Young Persons Implications	) and have been assessed and
Human Rights Act Implications	) monitored individually
Health Impact Assessment Implications	)
Risk Management including Strategic Risk Register implications	Included in report
Contribution to Choosing to Change	Included in report
s.151 Officer Comments	Confirmed consulted upon and comments incorporated in the report
Monitoring Officer Comments	Confirmed consulted upon

Please say if this report will require the making of a Key Decision YES

Please say if this is to be Part I or Part II report- Part 1

DRAFT

COPELAND BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2011/12 to 2014/15

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*** The bulk of the detail for items 5 to 8 is contained in separate documents which will be approved annually by full Council. For 2011/12 these were**

approved by Council on 22nd February 2011.

1 INTRODUCTION & BACKGROUND

1.1 The Council faces a period of severe financial challenge. The impact of the recession has seen an increase in the demand for services together with a reduction in the financial resources available to it. Good financial management is essential for the delivery of good public services and the effective stewardship of taxpayers’ money, and it will help the Council make the right decisions for the short, medium and longer term. The Medium Term Financial Strategy (MTFS) sets out the strategic direction for the next four year period 2011/12 to 2014/15 (updated annually).

1.2 The Council’s Medium Term Financial Strategy (MTFS) underpins its Corporate Plan (Our Council Plan 2011/12 – 2013/14), which was approved by Council on 22nd February 2011. The MTFS provides the financial means by which the Council intends to achieve its vision through priority based financial planning and budgeting (covering both revenue and capital) within the total resources available to it. The Council has a sound track record for achieving value for money in its services.

1.3 The MTFS outlines how the Council intends to align its financial resources to national and local priorities within the total resources available to it over the medium term. It is a high level framework driven by the Corporate Leadership Team and follows the top down/bottom up approach to strategic, financial, performance and service planning. The resource planning framework is designed to ensure that financial and service planning is fully integrated taking account of cross cutting corporate and external partner strategies.

1.4 At a more detailed level the MTFS focuses on an ongoing review of spend by services and informs how senior management will re-direct resources towards Council’s priorities in the short to medium term. The Resource Planning Working Group (RPWG), comprising a cross section of council members and senior officers meet on a regular basis to oversee the resource planning process before recommending proposals to the Executive. The process is designed to ensure that a robust rolling capital programme and net revenue operating budget together with the council tax resolution be delivered to Council for approval in February each year.

1.5 The period covered by this MTFS has a degree of financial certainty in that the Governments financial settlement finalised in January 2011 covers the financial years 2011/12 and 2012/13. There is no firm indication of resources available for the period beyond 2012/13; however the Spending Review 2010 pointed to continued significant decline in Government Grant for the period to 2014/15 and this forecast has been built into forward year MTFS projections. The Council must therefore plan ahead and take account of its foreseeable business risk, without the knowledge of the total funding available to it.

1.6 The assumptions on which the MTFS strategy are built will certainly change over time and hence the MTFS will be reviewed and updated regularly to ensure that it remains current and sustainable and that the Council remains financially viable over the timeframe of the MTFS and beyond. Managing for the medium and longer term is not about trying to predict the future; but is preparing for it. The Council needs to understand future demand, assess the impact of probable changes, and review the gaps between funding needs and possible income levels.

1.7 A key objective of the planning process is to align budgets with policies taking account of the priority for spending and investment decisions as decided through the consultation process. Priority budgeting requires a robust approach to financial planning with the redirection of resources to ensure delivery of corporate objectives. Central government's public sector spending reductions reinforce the need for effective procurement strategies and shared services arrangements to achieve efficiencies. Partnership working requires a long term perspective underpinned by adequate resource commitments.

2 NATIONAL CONTEXT

2.1 Financial and service planning takes place within the context of national economic and public expenditure plans. The Council's spending and income projections are in many instances reliant on issues outside its control such as the rate of inflation, bank base rates and the general economic position which affects demand for services. The financial pressures that Copeland Borough Council currently faces arise from a combination of the impact of the recession together with demographic changes, particularly ageing population, and increased service demand.

2.2 Following the change of government after the election of May 2010, the incoming coalition government reviewed the policy of debt repayment and undertook to repay the full amount of the fiscal deficit over the life of the current Parliament i.e. by the end of 2014/15. To this end the 2010 Spending Review proved to be the toughest on record with the grant settlement for local government particularly severe. The Spending Review set out Central Government priorities and spending plans for a four year period with the resulting detailed financial settlement setting out grant allocations for a two year period. The current four year projection is for a reduction in Government grant of 28% over four years, with a significant proportion of the reduction front loaded into the first and second years.

2.3 This has resulted in savings being required from the Council's ongoing revenue base budgets estimated at in the region of £4.5m over a four year period, which equates to a reduction of over 30% of the Council's base budget. Significant cuts have also been made in the Capital Programme. These cuts present a significant challenge to the authority in maintaining services in the light of the unprecedented reduction in funding.

2.4 Following a consultation period, the final Government grant settlement figures for the two year period 2011/12 to 2012/13 were received in early February. The principles applied by the Grant Settlement for reductions to grant funding have limited the maximum reduction in a Councils "Revenue Spending Power" to 8.8%. This new government calculation of Revenue Spending Power includes all grant funding provided by the government, (except for grants provided for housing benefits), and the amount of council tax that is raised locally.

2.5 To meet the requirement that Revenue Spending Power for any authority should not drop by more than 8.8%, there are two protection mechanisms:

- The first is the floor damping methodology that has existed for a number of years to ensure no class of authority receives less than a floor change in formula grant. For Copeland Borough Council this floor was set at 13.8%, with Copeland benefiting from the highest band as one of the authorities most dependent on formula grant. This 'floor damping' is self financing within each group of authorities i.e. the grants of other Districts have been reduced to meet the cost of protecting those authorities such as Copeland who gain from the protection. The value of the protection to Copeland in 2011/12 is £499k and in 2012/13 is £398k
- The second protection mechanism has been applied through the award of the new Transitional Grant for years 2011/12 and 2012/13 only, amounting to a protection for Copeland BC of £611k and £327k.

2.6 Copeland BC is therefore in the group of authorities that is subject to the largest reduction in funding of 8.8% for 2011/12 and 2012/13 and has been protected at the highest level to limit the reduction to 8.8%. The risk going forward is in the removal of the Transitional Grant and any subsequent adjustment to the floor damping model that the Government might make.

2.7 The Government is currently reviewing the system of allocating funds to Local Government and it is understood that the intention is for a new system to be in place for 2013/14 onwards. Until details are known, the forward financial projections in the MTFS are currently based on an overall 28% drop in funding over the four years as suggested by the Governments October 2010 Spending Review figures.

2.8 The final grant settlement confirmed a grant of £650m to fund the implementation of a council tax freeze in 2011/12. There will be funding to support this one year freeze for four years. There is no funding allocated to support the freeze after the four year period nor is there any funding to support continuation of a further freeze in 2012/13 i.e. the Council may increase council tax from 2012/13 without loss of grant (subject to potential capping limits set by the government). In any event, as the grant to freeze council tax has only been provided for 4 years any increase in council tax for year 2015/16 will need to consider the loss of this funding.

2.9 In summary the reduction in the spending power of the Council as determined by the Government has been calculated as set out in the Table1 below. In Table 2 figures for 2013/14 and 2014/15 should only be regarded as indicative amounts as these are subject to further funding announcements by the Government.

Table 1 – Government Calculation of Revenue Spending Power

Revenue Spending Power	2010/11 £'000	2011/12 £'000	2012/13 £'000
Council Tax Requirement (exc. Parishes)	4,009	4,009	4,009
Adjusted Formula Grant	6,520	5,660	5,000
Area Based Grant (WNF)	902	0	0
Benefits Administration Grant	596	572	0
Homelessness Grant	37	50	50
Grant to freeze Council Tax (para 3.6)	0	100	100
	12,064	10,391	9,159
Reduction (13.87% and 11.86%)	0	(1,673)	(1,232)
Transitional Grant	0	611	327
Revised Spending Power	12,064	11,002	9,486
Final Reduction **(8.8%)**		(1,062)	(905)

Table 2 – Reduction in Government Grant

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 Forecast £000	2014/15 Forecast £000
Formula Grant	7,222	5,660	5,000	4,955	4,678
Adjusted 20101/11 base *	(702)	0	0	0	0
Transitional Grant	0	611	327	0	0
Council Tax Freeze Grant	0	100	100	100	100
Total	**6,520**	**6,371**	**5,427**	**5,055**	**4,778**

* The Government originally provided funding of £7.222m through the Revenue Support Grant in 2010/11. This allocation has been adjusted to account for the transfer of responsibility for concessionary travel to Cumbria County Council and the transfer for private sewers to the utility companies under the Floods and Water Management Act 2010.

2.10 On 10th February 2011 the Secretary of State issued the criteria for what the Government will consider to be excessive Council Tax rises for 2011/12. The principles of the capping criteria are:

- Its 2011-12 budget requirement is greater than 92.5% of its 2010-11 budget requirement , or Alternative Notional Amount (which has been set for Copeland at £10.537m)
- Or its Band D Council tax in 2011-12 is increased by more than 3.5% compared with 2010-11.

Copeland's Budget Requirement is calculated at £10.315m for 2011/12, and for 2010/11 was £11.238m (excluding Parishes), a reduction of 8.21%, and the Council Tax is proposed to be frozen at 2010/11 levels so neither of the above capping criteria apply to Copeland Borough Councils budget proposals for 2011/12.

2.11 It should be noted that the Localism Bill includes provisions to abolish capping and instead introduce referendums to allow local people to approve or veto excessive council tax increases. It is expected that these provisions will come into force from 2012/13 onwards.

3 LOCAL CONTEXT

3.1 The medium term financial forecast takes account of the latest overall financial position and three year projections for the Council in the light of the most up to date information in relation to efficiency savings targets, inflation indices, local demographics and the financial impact of new and emerging policies both locally and nationally. Local factors that influence available finance include:

- council tax levels, collection rates and tax base;
- spending and investment decisions;
- the level of reserves held by Council.
- Income received from fees and charges

3.2 The detailed budget deliberations take place on an annual basis, but they will be guided by the following overarching principles:

- Budgets allocated through the budget process will be cash limited at the annually approved amount and any additional budget will only be granted in exceptional circumstances
- Any redirection of resources towards priority areas as set out in Corporate Strategies will be contained within existing budgets unless increases can be both justified and funded.

- External grants and income will be maximized wherever possible to mitigate the impact of government grant reductions.
- Partnership working and other funding opportunities will be explored wherever feasible to make more efficient use of Council resources.

3.3 In terms of Council Tax, as part of the final Grant Settlement, the government has confirmed that they will fund a council tax freeze for 2011/12. Copeland BC has taken advantage of that grant and have frozen the 2011/12 Council Tax at 2010/11 levels. The loss to the tax base for 2011/12 will be funded by the Government at 2.5% (i.e. £100k) in each year until 2014/15. There is no funding for further Council Tax freezes beyond 2011/12 and no guarantee that the funding to support the 2011/12 freeze will continue beyond 2014/15. There is a risk to the budget in 2015/16, when the Council Tax Freeze grant drops out and the loss of the grant will need to be made up in other ways, whether by further savings or additional income / Council Tax increases.

3.4 The planning assumptions in the MTFS projections currently assume increases in Council Tax of 2.5% from 2012/13 to 2014/15. These planning assumptions need to be monitored carefully particularly to take into account the loss of the Council Tax Freeze Grant of £100,000 after 2014/15, and this loss will need to be found from other sources. The Council needs to be mindful that the current Secretary of State guideline for what is considered an excessive increase in Council Tax is 3.5%. The actual Council Tax for 2012/13 onwards will be determined as part of each year's detailed budget deliberations.

3.5 In 2010/11 Copeland had the 3rd lowest band D Council Tax in Cumbria. The Council tax base (i.e. the number of Band D properties used to determine the Council Tax) is 22,254.83 and is calculated in December each year. This low council tax base in the area means that every 1% increase in Council Tax generates only around £40k extra revenue to the Council.

3.6 The cost pressures facing the Council are principally the same as most other Councils and these including inflationary impacts of supplies and staffing costs, rising employer's contributions to pensions, increased fuel and utility costs and increasing demand for services. Specific cost pressures facing the Council relate to Copeland being a rural area with some the worst pockets of deprivation in the country. Also a significant presence of the nuclear industry has brought with it its own unique pressures for the authority to manage. Copeland has over 50 miles of coastline and hence the need for Council to maintain sea defences, combat cliff degradation and ensure that area beaches continue to reach a high environmental standard. In terms of population, the borough is now seeing a slight increase in population levels, mainly in the older age groups which contrast with the historical decline in its population experienced over the last decade; numbers in the younger age groups, however, are declining.

3.7 Copeland also has many opportunities, including:

- being in a key position to influence the West Cumbria master plan for Britain's energy coast;
- being in a prime location of historical interest and natural beauty to attract visitors.

4. STRATEGIC PLANNING 2011/12 to 2013/14

4.1 The Council aims to optimise the allocation of its reducing resources by ensuring efficiency and good governance in the provision of its services. The significant reduction to the Council's budget over the next four year period means that clear prioritisation is even more important than before. This prioritisation is carried out through the Strategic Planning framework. This framework consists of the Council Plan, which will link to other key Strategies and Plans of the Council and other key partners, and down to Directorate Service Plans to ensure priorities are delivered.

4.2 In addition to financial information, performance information is used where necessary to determine whether resources are adequately allocated. Work is continuing to refine the link between service performance and financial performance and to ensure that outcomes are measured in both performance and financial terms. The use of performance information is crucial to evaluate whether value for money is being achieved.

4.3 The Council Plan for 2011/14 contains the Council's new vision, goals and objectives and was approved by Council on 22nd February 2011. In compiling the new objectives the Corporate Leadership Team working with the Executive has taken account of the Governments Plans for public sector spending. In addition consultation took place with a wide range of external partners as well as internal employees and members.

4.4 The four new Themes as set out in detail below are: People, Prosperity, Place and Performance, and comprise the Council's ambitions for both quality of life in the Borough as a whole and for improvements in the Councils own operations. Some of the projects which will deliver the Councils objectives arise from partnership working and demonstrate the Councils shared ambitions, for example for health improvement and community safety.

People	Prosperity	Place	Performance
Contribute to reducing health inequalities between Copeland communities and others in the North West.	Support opportunities for work across the borough.	Support the provision of high quality housing and a balanced housing market.	Provide services that are accessible and respond to customer needs.
Support Copeland communities and community leaders in active participation and influencing local decisions.	Promote opportunities for raising local skill levels.	Reduce waste in Copeland - recycle and compost more.	Transform services through new models for service delivery with other public, voluntary and private sector partners.
Tackle disadvantage and inequality to build aspiration and improve life chances.	Establish a vibrant, diverse and sustainable local economy	Work with partners to achieve increased accessibility across the borough.	Maintain a skilled, adaptable and productive workforce led by effective leading members and a strong and high performing management team.
Provide people with opportunities to build aspirations and to support their personal development	Support the vitality and viability of our towns and rural communities	Work with the Copeland community to reduce the causes of climate change.	Provide a transparent account of performance and use of resources.
	Enhance and support the development of low carbon technologies to support our Energy Coast aspirations	Work with our partners to make people feel safer in Copeland.	
		Enhance the local physical and natural environment	

4.5 The Council Plan informs other plans within the Council in addition to the MTFS, and in addition is influenced by external strategies, particularly those of the partnerships the Council is involved in such as the Sustainable Community Strategy. Some of the key internal strategies which will be informed by the Council Plan are set out below. Council must ensure when considering individual strategies that the cost implications of adopting particular strategies are clearly set out:

- The Workforce Development Strategy is currently under review and will be presented to the Executive and Council in March (considered elsewhere on this agenda). The main resource implications are the costs of reducing the Council's workforce to sustainable levels, in line with the Governments spending review projections, and allowed for in the Council's budget agreed by full Council on 22nd February 2011.
- The Asset Management Plan is currently under review and will be presented to Council in March. The Plan will ensure the most effective use of the Council's assets to ensure savings are realized wherever possible including disposals of unused assets and the sharing of assets with other partners.
- The Regeneration Strategy linked to the Local Development Framework has identified the need to invest in private sector housing and also business enterprise in order to tackle "worklessness" and help eradicate the remaining pockets of deprivation which exist in the borough.
- The Communication Strategy is currently being developed to reflect the changing priorities of the Council. In particular the Choosing to Change Programme has identified the need to improve all forms of communication, including better use of technology
- The IT Strategy includes focus on improving access to Council Services and improving the efficiency and delivery of Business Solutions. This will be particularly important in view of the reducing workforce and IT solutions will be required to assist in the future delivery of efficient services.
- The overarching aim of Copeland's Housing Strategy is to ensure that the housing available in the Borough supports the health, safety, welfare and distinct economic aspirations of our communities as effectively as possible. It therefore seeks to balance the housing market by the provision of high quality homes in sufficient quantity in the most suitable and needed locations.
- Other Strategies will be considered where there are financial implications, for example the Climate Change Plan.

4.7 Copeland BC is working with partners to create a new Sustainable Communities Strategy to plan and address the priorities for Copeland which cross agency boundaries. The Council is committed to working with its partners to plan and allocate resources in the most effective ways making sure that service planning and resource allocation are carried out in light of community consultation.

5 REVENUE BUDGET STRATEGY

5.1 The revenue budget is spending on day to day council services and comprises the net budget requirement (i.e. expenditure net of fees and charges and specific grants) to be funded by council tax and central government grant, plus any additional expenditure which will be funded from reserves; the two elements taken together make up the net budget.

5.2 Key to the management of the MTFS is the budget prioritisation process whereby all proposed changes, whether growth or savings, are considered within the knowledge of the total resources available to the Council so that an informed decision can be made regarding alignment of resources to meet the overall vision, objectives and priorities whilst taking account of any significant business risk. The budget strategy identifies and addresses known financial pressures, new and emerging (both local and national) government initiatives, policy and statutory requirements to ensure that financial resources are aligned with strategic priorities.

5.3 There are a number of stages to the budget process and the first key process is to ensure the base budget is accurate and this is achieved through the budget monitoring process which is considered by Members and Officers on a regular basis throughout the year.

5.4 The next key stage is the forecasting of resources and commitments. Forecasting is the mechanism by which the Council obtains an indication of the level of funding available in future years and matches this to known or anticipated commitments. By its nature forecasting is inherently risky as projections change over time often due to external influences over which the Council has little or no control (e.g. Interest rate movement impact on Treasury Management projections and inflationary increases impact on the cost of supplies and pay costs). Another key aspect of forecasting is in relation to the setting of Fees and Charges and issues need to be considered such as setting the service objectives in relation to establishing the level of charges e.g. cost recovery/ surplus / deficit, demand for service, external competition, concessions and subsidies and trading opportunities. For these reasons, financial projections have to be updated frequently, with ‘best’ and ‘worst’ case scenario planning.

5.5 Some of the more significant factors affecting the forecasting are:

- Impact of any further economic recession or recovery
- Changes to service demand
- Future Government Grant allocations or changes to the system of allocation
- Impact of Inflation on pay and services
- Interest rate movements

5.6 The final key stage is the re-allocation of resources to priority areas. As stated an overarching principle is that any redirection of resources towards priority areas as set out in Corporate Strategies will be contained within existing budgets unless increases can be both justified and funded.

5.7 The detailed budget projections for 2011/12 were approved by Council on 22nd February 2011, together with a forecast projection to 2014/15. It is important to note that the forward projections will be monitored and revised throughout the year, both as part of the ongoing budget monitoring process and also as new information comes to light. The annual budget shortfall projections currently identified are:

	£000	**Note**
2011/12	1,771	Target £2,007k
2012/13	1,472	
2013/14	652	
2014/15	605	
Total Projected Shortfall	**4500**	

5.8 Choosing to Change – Savings Strategy
The work of the Choosing to Change programme in 2010 has been critical in identifying ongoing budget savings necessary to enable the Council to set a balanced budget for 2011/12, and £1,771k of the shortfall identified of £2,007k in 2011/12 has been met by that process.

5.9 In 2010/11, work centred on the re-organisation of back-office services and, with the assistance of Chorley Borough Council, benchmarking of its other mainly front-line services to determine potential areas for further cost reductions to bridge the ongoing budget deficit going forward. Services undertook two self assessment exercises in 2010/11, the first generating ongoing savings of £353k in the summer of 2010 and the second, generating a further £1,771k the latter of which has achieved the majority of the budget deficit identified for 2011/12 of £2,007k.

5.10 The work of the Choosing to Change programme which involves the Corporate Leadership Team, the Choosing to Change Board and is also considered by the Resource Planning Working Group and the Executive will be crucial in identifying further savings going forward and also in monitoring the delivery of the savings for 2011/12. The savings for 2012/13 will be centered on more in depth service reviews.

5.11 To ensure the Council achieves its savings target but also clearly allocates its reduced financial resources to its key priorities it needs to be clear on the answers to the following questions for each area of spending, and these will be considered as part of the future service review process:

- How is the activity essential to achieving the council priorities?
- How does the activity improve the wellbeing of local communities?
- Why does the Council need to fund this activity?
- How can we focus this activity on people most in need?
- How can we provide this activity at lower cost?
- What can make this activity more effective?
- Which other local bodies could provide this activity?
- How can the private sector, third sector or citizens provide this activity, whole or in part?
- How can we make sure that payment to service providers' links to achievement?
- If income generating, consideration of break even or surplus generation taking into account equality implications.

5.12 **The detailed Revenue Budget Proposal for 2011/12 was approved by Council on 22nd February 2011 and sets out the projections for 2012/13 to 2014/15.**

6 CAPITAL STRATEGY

6.1 Each year the Council updates its three year rolling capital programme for the purchase of tangible (e.g. buildings) and intangible (e.g. grants and financial assistance) fixed assets, bringing them into use and enhancing them as defined in Accounting Standards. There are strict definitions of what constitutes capital expenditure and whilst resources other than capital can be utilised to fund capital expenditure (i.e. a contribution from revenue resources can be made), capital resources can only be used to fund capital expenditure, unless there is an express capitalisation direction granted from the Government, which would grant authority to utilise capital resources to fund specific revenue costs (e.g. redundancy payments).

6.2 There are several sources of funding available for the capital programme including the option of prudential borrowing, use of existing borrowing, the application of capital receipts generated from the sale of assets, revenue contributions to capital expenditure and the use of external capital funding and grants.

6.3 When considering approval of capital bids, the Council must ensure that:

- Any spending decisions are meeting our key priorities
- We would not fail to meet our statutory duties if a scheme if a scheme was not approved
- Consideration has been given to all potential sources of funding available, particularly the potential to bring in external sources of funding.
- All revenue costs/ savings as well as capital costs have been considered.

6.4 Once approved, but prior to any new capital scheme commencing, they are to be further appraised via a formal Project Initiation Document (PID) or Project Brief (if below £50,000) and presented to and formally approved by the Executive.

6.5 **The Council has a modest capital programme which was approved by Council on 22nd February 2011.**

7 TREASURY MANAGEMENT, MINIMUM REVENUE PROVISION AND INVESTMENT STRATEGY

7.1 The Council's Financial Regulations require the Treasury Management Strategy to be reported to Council on an annual basis, and thus comply with best practice and legislative requirements. The Strategy sets out the framework against which the Treasury management activity of the Council will be evaluated against and the basis of the mid year performance report and year end out-turn reports.

7.2 The Local Government Act 2003 introduced a new borrowing system for local authorities known as the Prudential Code and gives Council's more freedom and flexibility to borrow than it had previously without government consent as long as they can afford to repay the amount borrowed. The objective of the Code is to ensure Treasury Management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Council does this by the calculation and monitoring of Prudential Indicators.

7.3 The Council's Minimum Revenue Provision (MRP) Policy sets out how the Council will pay for capital assets through revenue each year i.e. a provision that the Council must make in its revenue budget to fund the repayment of external debt. CLG Regulations require Council to approve an MRP Statement in advance each year Strategy.

7.4 The Investment Strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

7.5 **These strategies for 2011/12 were approved by Council on 22nd February 2011.**

8 RESERVES STRATEGY

8.1 Revenue Reserves play a key role in the management of the Councils budget. The broad purposes for which Reserves are held are:

- As a contingency to cover risks, uncertainties and emergencies
- To fund planned investments and developments
- To smooth the budgetary impact of cyclical costs
- To carry forward funds for agreed purposes at year-end.

8.2 Reserves fall into two categories; General and Earmarked Reserves.

8.3 As a general principle, reserves will only be used to finance non-recurring spending or to cover transitional costs. If, in exceptional circumstances, the use of reserves is proposed to support recurring spending, this will be dependent on a strategy being in place to replace the use of reserves with mainstream funding.

8.4 Council maintains sufficient balances and reserves not only to allow for future quantifiable liabilities and foreseeable risk but also to enable Council to react to opportunities and risks should they arise.

8.5 For 2011/12 a specific Choosing to Change earmarked reserve has been established in the sum of £1.5m to fund the implications of the Choosing to Change programme including the cost of redundancies. The level of this reserve will need to be carefully monitored to ensure it is adequate to meet the upfront funding requirements necessary to achieve the choosing to change programme over the next four year period.

8.6 **The Reserves Strategy was approved by Council on 22nd February .**

9 RISK MANAGEMENT

9.1 There are a number of inherent risks in the strategy as proposed and these are identified in detail in the budget papers approved by Council and summarised below. It is the responsibility of the Corporate Leadership Team to ensure that these risks are properly managed and risk mitigation measures are taken where necessary. The overall risk is contained in the Strategic Risk Register and is monitored by officers and members as part of that process.

Risk	Likelihood	Impact	Mitigation
The assumptions and forecasts in the MTFS prove to be incorrect	Significant/ Low	Marginal	Review budget forecasts regularly and continually adjust for variations that impact on the forecast
Spending exceeds budget or assumed income levels not achieved	Significant / Low	Marginal	Regular budget monitoring reports
Unforeseen spending / new projects	Low	Marginal	Budget monitoring / Risk based reserves
Choosing to Change savings not achieved	Significant	Critical	Regular budget monitoring / Risk based reserves
Changes to existing Government Funding allocation	Significant	Critical	Choosing to Change programme / review service provision to meet funding levels

10 SUMMARY AND CONCLUSION

10.1 The Council has difficult decisions to make. It has to review its priorities and reassess its services to fit the reduced resources available to it. These changes require strong financial leadership and members and officers need to understand the financial impact of objectives, priorities and actions. Good financial management is crucial to the achievement of this objective and training will be provided to enable this to be achieved effectively.

10.2 The principles of good financial management as set out in this MTFS will guide the Council's short, medium and long term management of its financial resources. The Council must adopt a strategic approach to the future direction, co-ordination and delivery of services.