Report for Resolution

Report to	Executive 24 March 2010	6
Report of	Head of Finance	
Subject	Medium Term Financial Strategy 2010-2014	

Purpose

To seek approval for the Medium Term Financial Strategy 2010-11

Recommendations

The Executive is asked to:

Approve the Medium Term Financial Strategy

Financial Consequences

The direct financial consequences of this report are none, but the strategy identifies the financial resource requirements of the Council for the next four years

Risk Assessment

The strategy identifies financial resourcing issues that may arise over the period of the strategy action will need to be taken to address these issues to maintain the Councils financial standing

Strategic Priority and Outcome/Service Priorities

The report is particularly relevant to the "Aiming for Excellence" strategic objective

Executive Member:

Councillor Waters - Corporate Resources and Governance

Ward: **All wards**

Contact Officers

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Background Documents

None

Report

Medium Term Financial Strategy

During the last twelve months there has been a degree of stability the economy although there still remains considerable uncertainty regarding public sector finances which will not be resolved until after the general election. It is the context of this uncertainty that Medium Term Financial Strategy (MTFS) has been revised.

The purpose of the Council's Medium Term Financial Strategy is to support the Council's corporate planning process and to indicate the resource issues and principles which will be used to shape the Council's annual budget development and medium term financial plans.

The revised strategy is attached to this report, and sets out the current and projected financial forecasts over a four-year planning timeline to March 2014. Council approved its Revenue and Capital Budgets for 2010/11 on 23 February 2010 and it is these that have formed baseline for the MTFS

NORWICH CITY COUNCIL

MEDIUM TERM FINANCIAL STRATEGY 2010/11 - 2013/14

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ANNEXES

1 Purpose of the MTFS

The Medium Term Financial Strategy (MTFS) provides the foundation against which the City Council will strive to deliver the best possible value for money in the provision of efficient and cost effective services across the city.

Through the effective management of the Council's financial and other resource strategies it seeks to build upon past achievements as well as provide clear direction to the attainment of the Council's longer-term goals.

The purpose of the Council's Medium Term Financial Strategy is to support the Council's corporate planning process and to indicate the resource issues and principles, which will be used to shape the Council's annual budget development and medium term financial plans. It provides a framework against which the Council will plan and manage its resources to enable the effective delivery of its key plans and strategies aimed at delivering excellent and value for money services to its wide range of stakeholders.

This document sets out the current and projected financial forecasts over a four-year planning timeline to March 2015. Council approved its Revenue and Capital Budgets for 2010/11 on 26 February 2010 and it is these that will form the baseline for the development of projections for annual budgets for 2011/12 and future years.

2 MTFS objectives

The MTFS has one overarching objective, and seven supporting objectives.

- **Overarching -** To enable sustainable funding for the delivery for the Council's strategic vision, its corporate priorities and objectives, while ensuring that the Council offers the citizens of Norwich and the Council's tenant's value for money in the services it delivers. As such the MTFS underpins the Council's Corporate Plan

This overarching objective is supported by the delivery of eight subsidiary objectives - these are:

- **Objective 1 -** To produce, balanced and sustainable budgets over the period of the MTFS while ensuring the level of Council Tax increase is kept an affordable level and the level of housing rents meet the requirements of the national rents restructuring programme

- **Objective 2** - To ensure a level of reserves and balances which have been risk assessed and will underwrite the Council's financial standing

- **Objective 3** - To support a level of capital investment required to meet the Council's strategic requirements

- **Objective 4** - By effective financial management ensure that spending is kept within affordable net expenditure levels

- **Objective 5** -To provide effective management of the Council's balance sheet

- **Objective 6 -** To proactively seek to reduce costs while maintaining the level of service provided by the Council

- **Objective 7 -** To seek to maximise the Council's income flows, by maximising revenue generation from the Council's commercial and quasi-commercial activities, by ensuring the Council optimises its opportunities in gaining external grants and actively seeks to increase the amounts of money (both in financial and % increase terms) it receives from the national governments annual settlement.

- **Objective 8** To ensure that by meeting its statutory accounting requirements the Council is able to demonstrate sound financial stewardship to its stakeholders and the residents of Norwich

3 Corporate context

The Council's strategic vision, its corporate priorities and objectives are set out in the Council's Corporate Plan.

The MTFS is a fundamental building block which underpins the delivery of all the Council's priorities. Diagram 1 below identifies the finance interfaces with the Council's strategic drivers, the key resource strategies and the service planning and budget setting processes. The MTFS has a two way interaction with the Corporate Plan, both being informed by it and also feeding back into the corporate planning process as financial scenarios change.

The MTFS itself drives the key resource strategies and is underpinned by a number service delivery strategies eg waste management. Service plans also link directly to the MTFS and provide the initial basis for the financial estimates used to produce the annual budget. The MTFS sets the financial parameters for the annual budget and also acts as a conduit for how external financial influences impact on the Council.

The MTFS has been based on the assumption of a continuing district council for Norwich. If the unitary bid is approved by parliament then the strategy will not be relevant. Included as appendix J in the strategy are the estimates used in the financial proposal for a unitary Norwich based on existing boundaries which provide the base for the MTFS for the unitary council

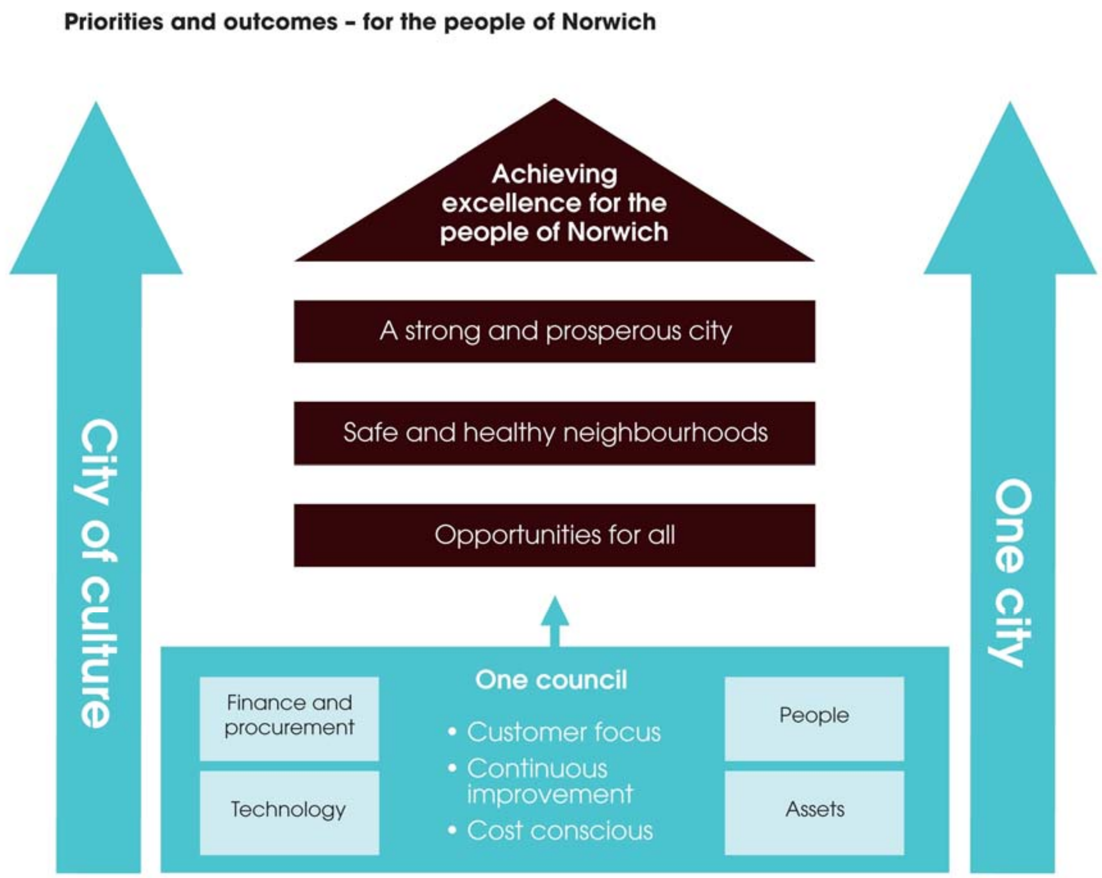


Diagram 1 Norwich City Council Strategic Objectives 2009/2011

4 Key messages/Executive summary

The speed and severity of the economic downturn has presented most local authorities with no alternative but to undertake a radical re-alignment of their priorities. Norwich was no exception to this and measured in % terms the City faced one of highest needs to reduce costs in the country.

The adaptive approach the Council has used in its application of its medium term financial strategy enabled it to quickly identify both the magnitude of the financial shortfall and its resource implications for the Council in the medium to long term.

The Council developed a transformation programme to address this position which targeted cost reduction while protecting the delivery of frontline services.

This programme will be required to deliver general fund savings of £13.061 million over the next four years, to address the longer term recessionary impacts and the effect of inflationary effect of Council Tax gearing (£6.3 million in 2010/11 these have already been built into the Council's budget for 2010/11 and further savings of approximately £2.3 million per annum for the three succeeding years. The table below shows a summary of the key revenue projections for the period of the strategy

Key financial projections 2010/11 to 2013/14   £'000's

Financial standing	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Reserves General Fund	4,715.4	5,215.4	5,715.4	6,215.4
HRA	7,363.0	8,857.0	10,352.0	11,846.0
Cash resources	29,972.8	26,339.5	27,291.2	28,604.2

Efficiency	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Savings requirement	-6,116.0	-1,920.0	-2,160.0	-2,265.0

Capital Programme	**2010/11**	**2011/12**	**2012/13**	**2013/14**
General Fund	9,704.0	4,840.0	2,240.0	1,390.0
HRA	22,529.0	20,148.0	15,748.0	15,821.0

5 The overall financial context

General

The global recession continues to have a serious impact on the Council’s financial position. By building up a strong level of reserves the Council was able absorb the negative financial impacts of the recession in 2009/10 while maintaining its level of service delivery. By using a proportion of its reserves in 2009/10 the Council was able to carefully plan a cost reduction programme which was focussed on delivering value for money while maintaining front line services in 2010/11 rather than be forced into making short term decisions which would have been detrimental to service decisions. This programme should deliver savings of approximately £6.3 million in 2010/11.

During the current financial year we have seen our housing and council tax benefit caseload rise from 16500 to 18500, with an increase in some of 60% in new claimants over the equivalent month last year. Pressure on council tax collection rates continues although the rates compare satisfactorily with collection authorities having similar levels of deprivation. The level of business failure gain has had an adverse effect on collection rates for non-domestic rates’ although this has not impacted on the Councils payment from the national pool.

. The medium term is subject to considerable uncertainty, a general election has to be held by June 2010 and various independent economic forecasters suggesting reductions in local government expenditure of between 16% to 20% over the next three to five years. The likely pattern of expenditure reductions are unlikely to be known until after the general election. There is also the possibility that Norwich could benefit from the expected review of the concessionary fare scheme which is at present operated by the City Council to the upper tier authority (County Council) which could remove both the costs and risks from the City Council.

Low interest rates continue to have a negative impact on the Councils revenues. It is expected that interest rates will remain low for the 2010/11 financial year. This coupled with the latest national government statutory guidance for local authority treasury management investment strategies, which requires councils to underpin their treasury management strategies with security as first priority for investments followed by liquidity and lastly by return. Officers have for a number of months been moving Council investments into high rated securities, this in turn has meant that current returns are now on average running below 1%.pa.

There is a level of uncertainty surrounding the governments intentions regarding the comprehensive spending review. Recent press reports suggest that a normal spending review is unlikely to be made before the general election position taken by the government the outlook is not very positive. A number of economic commentators are saying the very best that could be expected is a freeze on expenditure in real terms.

General Fund Capital

The recession continues to affect the resources available and is anticipated to do so for the life of the plan. Capital receipts arising from land sales are unlikely to raise significant resources, due to the lower value of the land and the lack of surplus assets. Grant funding will become available and the Council will seek to maximise external funding opportunities where possible.

S106 receipts have reduced due to the slowdown in development, but a modest level of resource may be anticipated.

The HCA partnership is likely to produce resources in the medium term but the level of return is highly dependant upon the market picking up. Consequently no expectation beyond the current grant has been included.

As part of the proposed programme of upgrades to Council assets, it is anticipated that the resulting business case will identify the potential to borrow in order to fund the programme. An estimate of the level of borrowing has been included.

Housing Capital

The recession continues to affect the resources available and is anticipated to do so for the life of the plan. Capital receipts arising from Right to Buy sales are forecast to continue at a lower level than in previous years.

The Decent Homes programme comes to an end in 2010, and the funding provided by the government to support this programme will also cease. It is not known if any measures will be introduced to enable a similar programme to continue.

The small Local Authority New Build Programme will be funded with S106 receipts, land sales from sites previously in the DAHP, and prudential borrowing.

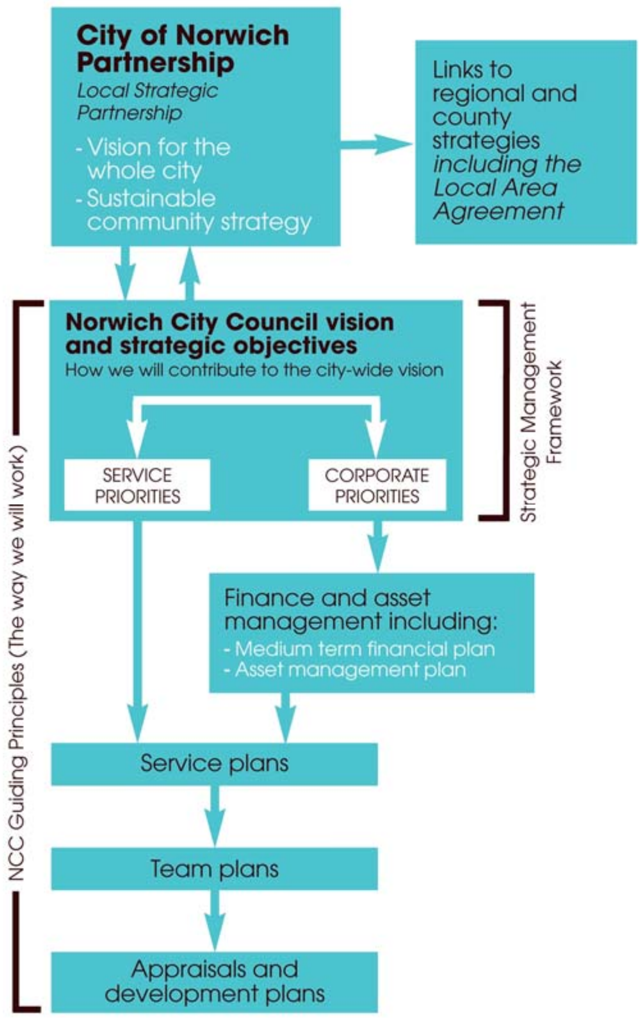
A programme for disposal of houses beyond economic repair and sites which are potential development sites will be proposed for approval and provision for the anticipated receipts and expenditure has been made in the relevant tables.

The HCA partnership is likely to produce resources in the medium term but the level of return is highly dependant upon the market picking up. Consequently no expectation beyond the current grant has been included

6 Key supporting resource strategies

The MTFS is an overarching strategy document that sets the high level financial prognosis for the City Council over the next few years. Diagram 2 below shows how the MTFS supports the delivery of the corporate plan objectives, and informs the development of a range of supporting strategies.

Linking service, financial and resource planning



Directly underpinning the MTFS is a range of more specific resource strategies that set out more precise details of our approach in key resource areas:

- Value for money strategy
- Council Tax strategy
- Capital strategy
- Asset Management strategy
- Workforce and people strategy
- ICT strategy
- Income maximisation

More details of each of these supporting strategies can be found in Annex B.

7 Conclusion

The MTFS is based on an assumption that the impact of the recession will last over the period of the strategy.

This may seem pessimistic but the scenario testing used in the strategy demonstrates that the Council will require to make significant savings over this period. While still having to deal with high levels of uncertainty

ANNEX A MEDIUM TERM FINANCIAL PLANNING PROCESS

A district council can deal with some 40 to 60 different types of services which can be broken down into twenty to thirty strategic business units each with its own range of key corporate objectives. A significant number of these services can be subject to a range of uncertainties which may happen over a short time scale and can relate to legislation, changes in government policy, government initiatives, losing or gaining external funding as well as the normal range of business risks and as such will impact on the Council’s corporate plan.

The approach used by Norwich City Council to it’s medium term financial strategy is designed to address the above complexities and uncertainties. The strategy is made up of two key elements (1) a high level strategy document which is approved by members and (2) a dynamic model which allows for scenario testing and provides a range of analysis outputs eg financial resource by service, by Council priority and BVACOP structure and subjectively. The base data that is used in the strategy model is current years annual budget , the plan is reviewed annually as part of the service planning and budget setting process and is reassessed and updated throughout the year to reflect significant changes that may impact on Council. This allows for shorter term impacts of unplanned events to be measured and their longer term implications understood, enabling corrective actions to be taken that ensure adequate resourcing of the Council’s future plans.

There are a number of parameters that underpin the MTFS which are within the control of the Council. The main ones are :-

1) are the level of council tax (although there is a control government imposed upper limit of a 5% increase) (*Objective 1)*

2) the level of reserves that the council considers prudent to hold (both on the General Fund and the HRA) *(Objective 2)*

3) the level of housing rents (*Objective 1)*

4) the councils capital programmes both general fund and housing (*Objective 3)*

External to the council there is a range of factors that will affect the amount of money the council has available to pursue its priorities. These include the general rate of inflation, annual pay settlement, interest rates and new government initiatives. The council may also be effected by internal factors e.g. budget overspend or efficiency savings and its ability to generate external income. *(Objective 1) (Objective 6)(Objective 7).*

The Council will have to consider its balance sheet position its levels of working capital, needs for short term borrowing, will it be necessary to support the capital strategy with prudential borrowing and its levels of long and short term monetary investments *(Objective 3), (Objective 5)*

The council can also be affected by risk that may reduce its spending levels, e.g. risks associated with interest rate movements *(Objective 4)*.

By feeding all these factors into the financial model it is possible to identify the key financial drivers for the Council over the medium term. These can expressed in the amount of net savings required to produce a sustainable and balanced budget over a number of years while maintaining a prudent level of reserves. In certain circumstances a surplus may be generated that could result in the strengthening reserves, reducing council tax, investing in services or increased capital expenditure *(Objective1) (Objective 2).*

On determining this position it is then necessary to identify the financial resource requirements needed to deliver the Council priorities, both for revenue and capital. These are input into the model which will then calculate the levels of savings and efficiencies required together with borrowing levels so the Council's priorities and objectives can be resourced *(Objective 1)(Objective 3).*

By using an iterative process it is then possible to examine a number of strategies by changing parameters, amending funding requirements or looking for alternative methods of delivery. This will enable the Council to determine the optimum financial strategy for delivering its objectives. The iterative process can be used to test risk scenarios, measure risk impact and develop mitigation procedures *(Objective 1) (Objective 2) (Objective 5)(Objective 7)*.

The model can then be used throughout the financial year to understand the impact of any changes to the agreed parameters and provide the base for annual updating of the MTFS. *(Objective 5)*

The model allows for the setting of balance sheet management parameters enabling the Council to set targets for optimum cash management and use of assets. *(Objective 6)*.

ANNEX B THEMES, VALUE FOR MONEY STRATEGY, COUNCIL TAX STRATEGY AND SUMMARIES OF RESOURCE STRATEGIES

Themes

Diversity and Equality impacts

Although the strategy itself has no direct impacts actions and policies it underpins will have and when using the strategy to develop specific plans diversity and equality impacts must be considered. A typical example would be the annual budget round, where a full equality is needed for all budgetary changes.

Partnerships

The Council reviews all its partnership arrangements on an annual basis this review is based on a scorecard approach and includes both financial and non-financial risks to the Council. The results of this review are considered as part of the annual budget setting and then where appropriate inform the MTFS

Value for Money (VFM)

The VFM strategy forms parts of the MTFS and is described below:

<u>**Value for Money Strategy**</u>

This strategy recognises the Council's need to have demonstrated continuous improvement in its delivery of the 3E's (Economy, Efficiency and Effectiveness).

In our service planning we achieve this by:

1) Understanding our costs both in total and unit level
2) Comparing our costs with others and using this comparison as a challenge to our expenditure levels.
3) Understanding the external factors that impact on our costs levels e.g. deprivation and being a regional capital
4) Understanding our performance and the drivers that underpin that performance
5) Proactively seeking to learn from the results of service inspections

In our strategic planning we achieve this by:

6) Having effective linkages between our spending and our priorities
7) Undertaking regular consultations with the community and our stakeholders to understand their expectations from the services the Council provides
8) Understanding the longer term costs implications of investment programmes and partnership working both in terms of revenue and capital

In our financial management we achieve this by:

9) Council's Capital Programme Board effectively planning, funding and managing our capital programme
10) Using the Council's annual review and budget challenge process "star chamber" to assess value for money in Council services and challenge managers to improve their efficiency levels
11) Setting annual and medium term targets for efficiency gains as part of our service planning process
12) Monitoring to achievement of those efficiency gains
13) Monitoring expenditure and revenue throughout the year

In our procurement processes we achieve this by:

14) Having effective procurement processes that enable value for money to be assessed by:
    - Making savings
    - Using a whole life approach to procurement decisions
    - Effectively using partnerships
    - Understanding supply markets, with consideration to qualitative issues

In our performance management we achieve this by:

15) Using ICT to improve the delivery of value for money
16) Understanding our performance and the drivers that underpin that performance
17) Comparing our performance with others and looking for best practice

<u>Council Tax Strategy</u>

The Council can, within the constraints of national government policy (currently council tax increases must be less than 5%) plan its level of council tax and develop a council tax strategy for a number of years. But any strategy for council tax levels needs to be set in the context of the gearing impact on council tax.

For the 2010/11 budget the position was If the impact of inflation was directly passed on to the tax payer an increase in Council Tax of 10.5% would be required to fully cover it. This gap as in previous years will be addressed by efficiency savings

Inflationary estimates for 2010/11 are:

Employee cost (1% pension, 1% incremental drift 1% other)	£662,000
Supplies and services	£144,000
Other	£123,000
Total inflation	£929,000

% increase on Council Tax Requirement 10.5%

The proposed increase in Council Tax of 2.2% together with the increase in the Council Tax base will only yield £246,000 leaving £683,000 to be found from efficiencies or other sources purely as a consequence of Council Tax gearing

	2010/11	2011/12	2012/13	2013/14
Annual Council Tax increases	+2.2%	+2.4%	+2.4%	2.4%

Summaries of resource strategies

Capital Strategy

The Councils Capital Strategy plays a key part in delivering the overall vision, objectives and priorities of the Council.

Capital Strategy provides the framework for both the Council's general fund capital plan and the HRA capital plan. The Council has a capital programme board that has put management arrangements in place to ensure that capital investment opportunities are properly appraised, approved and implemented in the appropriate manner, with the appropriate control and monitoring.

Strategy for investment in Asset Management

The Asset Management Plan, approved in January 2009, identified several investment requirements that are necessary to protect the Council's Asset Portfolio, and the income stream derived from it, as well as to meet other strategic requirements for development.

The budget required to bring the current portfolio at least into the B3 category and maintain it at level was estimated in the table below, however some property will either be improved by others or recommended for disposal which will reduce the requirements. The 2007/08 budget totalled £1.6m,with £900,000 as revenue and £700,000 charges to capital.

Year	£ to bring to B3+	£ to maintain at B3+*
2010/11	£8.5m	
2011/12		£2.1m
2012/13		£0.5m
2013/14		£0.5m
2014/15		£1m

Procurement Strategy

When procuring goods, works and services Norwich City Council will seek to ensure Value for Money by evaluating bids based on the Most Economically Advantageous Tender taking in to account the whole life costs of the procurement. All procurements will balance the cost of procurement with the quality of goods, works and services delivered and how these meet the objectives of Norwich City Council.

It is anticipated that this strategy will contribute 50% of the savings required to meet the CSR 2007 requirement for 3% savings of the net revenue budget, which for Norwich is £750,000 pa

Resource impacts of the procurement strategy are expected to be region of

ICT Strategy

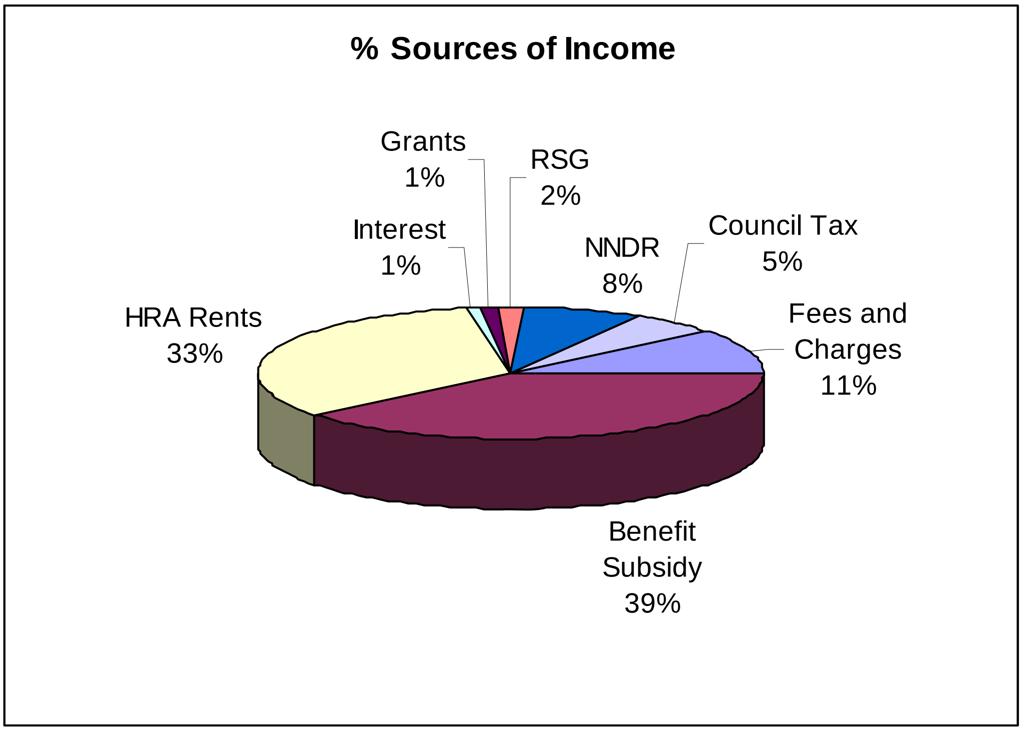
The purpose of the ICT Strategy is summarised below

- to set out those key corporate actions and developments that will enable the City Council to meet its target(s) and realise its vision,
- to exploit the emerging technologies and key developments to achieve Best Value,
- to outline the resources available over the life of the strategy,
- to create a framework that staff and managers can relate to, influence and plan within for local and service area development.

The Medium Term Financial Strategy provides a financial framework to support the achievement of the Council's strategic objectives. All ICT Strategic decisions must therefore be taken with this financial framework in mind. At present with the decision on the unitary re-organisation being so close it has been decided that all ICT, as with a range of other projects must be self financing within two years, the anticipated date for unitary status. Therefore having a neutral impact on the MTFS

Income maximisation strategy

The sources of income the Council receives including Council Tax are shown below.



Expressed in monetary terms these income sources are

Revenue Support Grant	£ 2.95 million
Nation Non Domestic Rate	£12.80 million
Council Tax	£ 8.84 million
Other grants	£ 1.84 million
Interest from investments	£ 1.21 million
Fees, charges commercial rents and parking	£ 18.26 million
Benefit subsidy	£ 65.62 million
HRA Rents	£54.88 million
Total income generated	**£166.4 million**

In addition to the above the Council runs the Highways Agency for the City which has a throughput of £5.8 million.

Of the above sources of income the following will be reviewed in order to determine if there are maximisation opportunities, interest from investments and fees and charges (£19.47 million in total) A 2.5% increase in real terms for these revenue streams would yield an additional £487,000 pa.

Included in the £18.26 million for fees and charges is £4.3 million for car parking and £4.6 million for commercial rents

The HRA rental figure is made up of £48.6 million dwelling rents, £5.3 million other rents and service charges and £1 million other income.

Other grants should be targeted to increase although this most cases will have a neutral effect on net costs it will bring amount a grater added value to Council services.

Setting of general fund fees and charges are, through the Constitution, delegated to Heads of Service, who are required to “review and set fees and charges for services which are their responsibility at least annually”.

The Council’s treasury management team will continue to seek to maximise interest earned from investments in what is a very difficult market, while recognising the need for prudence, the levels of risk in the market and the markets weaknesses

Many of the main income generating services are demand driven eg. parking fees, investment property rents and planning application fees. And are vulnerable to economic downturn. The Council will monitor this position closely to ensure that when opportunities arise to improve income they are taken.

Housing Rents will, subject to Member decisions, be set in line with the government’s rent restructuring policy. This will ensure that rent income (net of guideline rent clawback) is set at fair and affordable levels.

Housing Service Charges to tenants will be set to recover the costs of the services provided, subject to the government’s limit to annual increases of RPI + 0.5%. The levels of costs and charges will be reviewed annually, in consultation with tenants.

Housing Service Charges to leaseholders will be calculated in accordance with the terms of the relevant lease. Section 125 notices and Section 20 consultation will be diligently carried out to ensure that recoverable expenditure is fully identified.

Housing Subsidy entitlement will be maximised by accurately calculating and reclaiming the costs of caps, limits, and/or ceilings on annual rent increases.

We will seek to identify services provided to groups of tenants which could be unpooled from rent, in order to maximise income from tenants and through Housing Subsidy. Similarly, when considering service improvements, we will consider whether a new service charge levied on tenants benefiting would be fair and appropriate. In both cases we will ensure that Housing Benefit entitlements are maximised and encourage take-up.

ANNEX C GENERAL FUND REVENUE PROJECTIONS

Background

For the Councils budgetary position to be sustainable over a period of years the cost and income structures must be such that there is (a) no need draw on reserves to support council tax and (b) that reserves can be maintained at the level the S151 Officer considers prudent, see objective 3 for an assessment of the prudent level of reserves

It should be noted that there are a number risks, which can have a negative impact on the sustainability of the budgetary position

The most significant of these are

Inflation rates and interest rates

These are outside the control of the Council. An allowance for anticipated rates of inflation and interest rates has been built into the five year projections and the recommended level of prudential reserves allows for the risk of the inflation rates being greater than the projected level. See financial assumptions below for projected inflation rates

Budgetary overspends

This is an operational risk to the Council and it has been built into the prudent level of reserves

Efficiency savings and fees and charges

The decision to make efficiency savings or increase/decrease fees and charges is within the control of the Council and these have been built into the projections, the risk of failing to make the saving or achieving income targets is allowed for within the prudent reserves.

Service growth and reductions

These are decisions of the Council although there maybe a slight risk of delays this is not considered significant enough to include as part of the reserves

Slippage in capital receipts

The funding of the Council’s capital programme is dependant on a small number of large capital receipts, any slippage in these may result in a requirement for temporary borrowing, or delay in implementing capital projects, the financial risk being the cost of temporary borrowing or loss of investment interest.

Future borrowing

Should a requirement occur for future long term borrowing, this will be made within the prudential borrowing regime which will require the potential impact on Council Tax to be clearly demonstrated.

General Fund projections

The projections for the general fund are underpinned by the three medium term objectives listed below. Members may choose any particular option but should key assumptions change then an alternative option can be chosen.

- ***Objective 1 - To produce, balanced and sustainable budgets over the period of the MTFS while ensuring the level of Council Tax increase is kept an affordable level and the level of housing rents meet the requirements of the national rents restructuring programme***

  Objective 6 - To proactively seek to reduce costs while maintaining the level of service provided by the Council

  Objective 7 - To seek to maximise the Council's income flows, by maximising revenue generation from the Council's commercial and quasi-commercial activities, by ensuring the Council optimises its opportunities in gaining external grants and actively seeks to increase the amounts of money (both in financial and % increase terms) it receives from the national governments annual settlement.

Key assumptions used in general fund projections

(a) there will be no major change to the basis under which tax is levied over the next four years (should any changes occur the strategy will be modified to reflect them)
(b) a four year projection forward based current budget levels, annual council tax increases of 2.4% (2.2% for 2010/11)
(c) inflationary cost pressures are expected to be greater than inflationary increases in grants, fees and charges and other income
(d) employee cost inflation is allowed for at the rate of 3.0% per annum made as follows annual wage settlement 1.0% p.a., growth in employer pension contributions 1.0% p.a. and wages drift (increments etc)1% p.a.
(e) increases in fees and charges are set at an average of 3% p.a.
(f) other costs at 4% p.a.
(g) the return on investments has assumed at an average rate of 2%

(h) Government Grants (RSG and NNDR) 0% increase over the period of the plan

Three scenarios have been used below to demonstrate the (a) the budget for 2010/11 (b) if there is an additional £1 million of unforeseen costs each year and (c) there are no significant unforeseen costs. The fluctuation being plus or minus £3.0 million on the projected savings require of £6.945 million between 2011/12 and 2013/14

Four year financial projections General Fund **£'000's**

Budget 2010/11

	2010/11	2011/12	2012/13	2013/14
Base budgets adjusted for inflation	29,946.0	25,941.1	26,039.4	26,398.6
Transformation/savings programme	-6,116.0	-2,520.0	-2,160.0	-2,265.0
Contingency	573.0	300.0	100.0	100.0
Unavoidable cost increases	990.0	1,600.0	1,000.0	1,000.0
Growth optional	888.0			
Reduced income	1,061.0			
Increases in income	-678.0			
Savings and cost reductions	-696.0			
Concessionary Fares adj	-1,410.0	-590.0	0.0	0.0
Other adjustments	139.0			
Transfer to reserves	400.0	500.0	500.0	500.0
Budgetary requirement	25,097.0	25,231.1	25,479.4	25,733.6
RSG and NNDR	-15,913.9	-15,913.9	-15,913.9	-15,913.9
Collection Fund surplus	-100.0			
Council Tax requirement	9,083.1	9,317.2	9,565.5	9,819.7
Council Tax Base (Band D equivalent)	40,214.0	40,300.0	40,400.0	40,500.0
Council Tax estimate £'s	225.87	231.20	236.77	242.46
% annual increase in tax	2.2%	2.4%	2.4%	2.4%
Level of reserves	4715.4	5215.4	5715.4	6215.4

Four year financial projections General Fund **£'000's**

£1 million extra per annum in unforeseen costs

	2010/11	2011/12	2012/13	2013/14
Base budgets adjusted for inflation	29,946.0	25,941.1	26,039.4	26,398.6
Transformation/savings programme	-6,116.0	-3,520.0	-3,160.0	-3,270.0
Contingency	573.0	300.0	100.0	100.0
Unavoidable cost increases	990.0	2,600.0	2,000.0	2,000.0
Growth optional	888.0			
Reduced income	1,061.0			
Increases in income	-678.0			
Savings and cost reductions	-696.0			
Concessionary Fares adj	-1,410.0	-590.0	0.0	0.0
Other adjustments	139.0			
Transfer to reserves	400.0	500.0	500.0	500.0
Budgetary requirement	25,097.0	25,231.1	25,479.4	25,728.6
RSG and NNDR	-15,913.9	-15,913.9	-15,913.9	-15,913.9
Collection Fund surplus	-100.0			
Council Tax requirement	9,083.1	9,317.2	9,565.5	9,814.7
Council Tax Base (Band D equivalent)	40,214.0	40,300.0	40,400.0	40,500.0
Council Tax estimate £'s	225.87	231.20	236.77	242.34
% annual increase in tax	2.2%	2.4%	2.4%	2.4%
Level of reserves	4715.4	5215.4	5715.4	6215.4

Four year financial projections General Fund **£'000's**

Low level of unforseen cost increases

	2010/11	**2011/12**	**2012/13**	**2013/14**
Base budgets adjusted for inflation	29,946.0	25,941.1	26,039.4	26,398.6
Transformation/savings programme	-6,116.0	-1,520.0	-1,160.0	-1,265.0
Contingency	573.0	300.0	100.0	100.0
Unavoidable cost increases	990.0	600.0	0.0	0.0
Growth optional	888.0			
Reduced income	1,061.0			
Increases in income	-678.0			
Savings and cost reductions	-696.0			
Concessionary Fares adj	-1,410.0	-590.0	0.0	0.0
Other adjustments	139.0			
Transfer to reserves	400.0	500.0	500.0	500.0
Budgetary requirement	25,097.0	25,231.1	25,479.4	25,733.6
RSG and NNDR	-15,913.9	-15,913.9	-15,913.9	-15,913.9
Collection Fund surplus	-100.0			
Council Tax requirement	9,083.1	9,317.2	9,565.5	9,819.7
Council Tax Base (Band D equivalent)	40,214.0	40,300.0	40,400.0	40,500.0
Council Tax estimate £'s	225.87	231.20	236.77	242.46
% annual increase in tax	2.2%	2.4%	2.4%	2.4%
Level of reserves	4715.4	5215.4	5715.4	6215.4

ANNEX D

Housing Revenue Account

Analysis	2010/11 Budget £000s	2011/12 Budget £000s	2012/13 Budget £000s	2013/14 Budget £000s	2014/15 Budget £000s
General Management	9,384	9,384	9,384	9,384	9,384
Special Services	5,252	5,252	5,252	5,252	5,252
Repairs & Maintenance	14,794	14,794	14,794	14,794	14,794
Financing Items	(32,482)	(28,925)	(30,925)	(30,925)	(30,925)
Total HRA (Surplus)/Deficit	**(3,052)**	**505**	**(1,495)**	**(1,495)**	**(1,495)**

Housing Revenue Account Balances

Item	2010/11 Budget £000s	2011/12 Budget £000s	2012/13 Budget £000s	2013/14 Budget £000s	2014/15 Budget £000s
Balance Brought Forward	(4,311)	(7,363)	(6,857)	(8,352)	(9,846)
Budget Outturn	(3,052)	505	(1,495)	(1,495)	(1,495)
Carried Forward to 2011/12	**(7,363)**	**(6,857)**	**(8,352)**	**(9,846)**	**(11,341)**

ANNEX E RESERVES

Objective 3 - To ensure a continual and sustainable level of reserves and balances which will underwrite the Council's financial standing

The prudent level of reserves for the Council is set at the risk assessed level recommended at by the S151 Officer at the budget setting Council

As part of the budget setting report and as shown in the scenarios above the Council will aim to strengthen its reserve position over the period of the strategy.

Risks

In the budget setting process the main risks considered included:

- Payroll inflation
- Failure to hit income targets
- Fall in interest rates
- Unplanned revenue expenditure on capital projects
- Unplanned legal costs
- Property repairs
- Shortfall on the Council's vacancy management target
- General inflation
- Failure to manage revenue budgets

These risks are assessed on an annual basis but, when considered in a five year timescale, may be viewed differently, e.g. interest rates may move down in the short term but when viewed over a five year period the trend would suggest no significant movement. Equally, the probability of a significant adverse event occurring in any one year may be low but when considered over five years the probability of this happening becomes the sum of the annual probabilities. The medium term projections based on the 2010/11 budget assume a steady increase in reserve levels

Estimate of prudent level of General Fund reserves 2010/11

Description	Level of risk		Amount at risk	Risk
Employee Costs	*High*		21,449,273	107,246
Premises Costs	*Medium*		8,783,260	32,937
Transport Costs	*Medium*		397,556	2,236
Supplies & Services	*Low*		22,237,198	444,744
Third Party Payments	*Medium*		3,673,402	27,551
Transfer Payments	*Medium*		64,613,855	193,842
Centrally Managed Expenditure	*Medium*		1,175,101	35,253
Receipts	*Low*		69,245,781	173,114
Grants & Contributions	*Medium*		32,321,141	64,642
Total One Year Operational Risk				1,081,566
Allowing three years cover on operational risk				**3,244,697**
				0
4.6 Potentially overstated Rent Income	*Probability*	*100%*	0	0
5. Potentially understated Repairs & Renewals	*Probability*	*100%*	0	0
6 Potential overstatement of HRA debtors	*Probability*	*100%*	0	0
7 Potential misstatement of HRA balances	*Probability*	*100%*	0	0
11 Potential liability for Pension Fund deficit	*Probability*	*50%*	0	0
Total Balance Sheet risk				
General Risk				
Concessionary Fares litigation	800,000	@	50%	400,000
Unforeseen events	1,000,000	@	100%	1,000,000
ESTIMATED REQUIRED LEVEL OF GENERAL FUND RESERVES				**4,644,697**

Estimate of prudent level of HRA reserves 2010/11

Description	Level of risk	Amount at risk	Risk
Employee Costs	*High*	6,905,305	34,527
Supplies and Services	*High*	2,116,101	5,290
Premises Costs	*High*	6,888,456	17,221
Transport Costs	*High*	166,300	416
Contracted Services	*Medium*	14,793,419	110,951
Fees and Charges	*Medium*	8,236,716	123,551
Investment Income	*Medium*	115,240	3,457
Rents & Service Charges	*Low*	51,188,070	127,970
Subsidy & Finance Items	*Medium*	5,504,390	11,009
Total One Year Operational Risk			434,391
Allowing three years cover on operational risk			**1,303,174**
Balance Sheet risk			
Issues arising from Annual Governance Report			**0**
General Risk			
Unforeseen events			**1,500,000**
ESTIMATED REQUIRED LEVEL OF HRA RESERVES			**2,803,174**

Estimate of prudent level of HRA reserves 2009/10

Description	Level of risk	Amount at risk	Risk
Employee Costs	*High*	6,532,840	32,664
Supplies and Services	*High*	2,167,595	5,419
Premises Costs	*High*	4,072,720	10,182
Transport Costs	*High*	200,410	501
Contracted Services	*Medium*	11,573,784	86,803
Fees and Charges	*Medium*	1,315,360	19,730
Investment Income	*Medium*	192,500	5,775
Rents & Service Charges	*Low*	54,140,814	135,352
Subsidy & Finance Items	*Medium*	20,686,000	41,372
Total One Year Operational Risk			337,799
Allowing three years cover on operational risk			**1,013,396**
Balance Sheet risk			
Issues arising from Annual Governance Report			**0**
General Risk			
Unforeseen events			**1,500,000**
ESTIMATED REQUIRED LEVEL OF HRA RESERVES			**2,513,396**

ANNEX F CAPITAL PROGRAMMES

Objective 4 - To support a level of capital investment required to meet the Council's strategic requirements.

Non Housing Capital Plan 2010/11 to 2014/15

Non Housing Capital Resources	**2010/11 £'000s**	**2011/12 £'000s**	**2012/13 £'000s**	**2013/14 £'000s**	**2014/15 £'000s**
External Funding Govt. grants	450	0	0	0	0
Lottery Funding	0	0	0	0	0
County Highways programme	0	0	0	0	0
HCA Partnership	5445	0	0	0	0
Revenue contributions	88	0	0	0	0
Prudential borrowing	2000	3000	0	0	0
Capital receipts brought forward from previous year	-277	0	0	0	0
Capital receipts arising (forecast)	1218	1018	0	0	0
S106 commuted sums	780	450	850	0	0
Forecast funding	**9,704**	**4,468**	**850**	**0**	**0**

The recession continues to affect the resources available and is anticipated to do so for the life of the plan. Capital receipts arising from land sales are unlikely to raise significant resources, due to the lower value of the land and the lack of surplus assets. Grant funding will become available and the Council will seek to maximise external funding opportunities where possible

Non Housing Capital Plan	**2010/11 £'000s**	**2011/12 £'000s**	**2012/13 £'000s**	**2013/14 £'000s**	**2014/15 £'000s**
Regeneration and Growth	2500	0	0	0	0
Asset Management - Repairs Maintenance and Upgrading	2341	0	0	0	0
Asset Management - Portfolio Development	2000	3000	0	0	0
Neighbourhood Strategy - Community Development	1005	450	850	0	0
Transportation	113	0	0	0	0
Capital Receipts earmarked for Housing Capital Programme	1745	1390	1390	1390	0
Forecast expenditure	**9,704**	**4,840**	**2,240**	**1,390**	**0**
Forecast available resources	**9,704**	**4,468**	**850**	**0**	**0**
Shortfall	**0**	**(372)**	**(1,390)**	**(1,390)**	**0**

Housing capital programme estimated available resources

The Housing Capital Plan and Capital Programme

1. Forecast of the resources likely to be available to the Housing Capital Plan.

Housing Capital Resources	**2010/11 £'000s**	**2011/12 £'000s**	**2012/13 £'000s**	**2013/14 £'000s**	**2014/15 £'000s**
Supported Capital Expenditure Allocation	2300	0	0	0	0
Capital Grants	426	426	426	426	426
Major Repairs Allowance	9846	9944	10044	10144	10245
Revenue Contribution to Capital - Planned	4192	4192	2192	2192	2192
Revenue Contribution to Capital - Additional	-1557	0	0	0	0
Leaseholders	250	250	250	250	250
S106 commuted sums	401	0	0	0	0
Capital receipts brought forward from previous year	0	1126	3597	2751	1932
Capital receipts arising from land sales	2653	1500	0	0	0
Capital Receipts – arising from RTB	500	600	600	600	600
Capital Receipts – arising from houses/sites beyond economic repair	2350	4000	0	0	0
HCA grant funding - Eco retrofit	1745	0	0	0	0
LANB grant	317	317	0	0	0
LANB prudential borrowing	232	0	0	0	0
Capital repaid from Non Housing Capital Programme	0	1390	1390	1390	0
Forecast funding	**23,655**	**23,745**	**18,499**	**17,753**	**15,645**

2. The anticipated level of expenditure for the Housing Capital Plan for future years, taking into account the level of resources indicated above .

Housing Capital Plan	**2010/11 £000s**	**2011/12 £000s**	**2012/13 £000s**	**2013/14 £000s**	**2014/15 £000s**
Public Sector					
Public Sector upgrades etc	14,408	14,542	14,722	14,795	14795
Extra Window replacements	1,000	0	0	0	0
HCA Partnership Eco-retrofit	1,745	0	0	0	0
Communal Bin Provision	519	0	0	0	0
Local Authority New Build programme	1,446	0	0	0	0
Total Public sector	**19,118**	**14,542**	**14,722**	**14,795**	**14,795**
Private Sector					
Capital grants to Housing Associations	1,885	2,330	0	0	0
Private Sector disabled facilities and renovation grants	926	1026	1026	1026	1026
Site acquisition, maintenance for redevelopment sites	600	2250	0	0	0
Total Private sector	**3,411**	**5,606**	**1,026**	**1,026**	**1,026**
Total Housing Capital Programme	**22,529**	**20,148**	**15,748**	**15,821**	**15,821**
Available resources	23,655	23,745	18,499	17,753	15,645
Deficit/(Surplus) of Housing Capital Resources	**(1,126)**	**(3,597)**	**(2,751)**	**(1,932)**	**176**

ANNEX G TRANSFORMATION PROGRAMME

Objective 5 - To manage spending within affordable net expenditure levels

Summary of Transformation Programme

The recent economic downturn has had a significant effect on the City and its residents. It has also had a major effect on the budget position of the Council. The effects of a drop in income from investment and charges combined with a large increase in the costs of concessionary bus fares, means the council will have to deliver significant savings.

The changed economic climate means the council needs to focus, more than ever, on supporting the City and its residents through the recession and will need to become more efficient to ensure this is delivered.

It is, therefore, necessary to carry out a fundamental review of all the City Council's services and structures in order to identify "bottom up" what services we need to provide to our customers, and the most efficient ways to deliver them.

To achieve this the Council's 'aiming for excellence' programme has moved into a new phase of a transformation programme to deliver improved and more efficient services for its customers within the financial envelope set by the council's medium term financial plan.

Within the transformation programme there will are five work streams. The value for money work stream will focus on making the necessary efficiencies and savings to ensure the council makes the most efficient use of its resources.

ANNEX H BALANCE SHEET PROJECTIONS

Objective 6 - To provide effective management of the Councils balance sheet

The table below are the balance sheet forecasts for the next five years this is based on scenario 1 above and shows an increase in the net worth over the period of approximately £17.3 million

Balance Sheet	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Fixed Assets				
Operational Assets				
- Other Land and Buildings	90,232.0	90,232.0	90,232.0	90,232.0
- Vehicles Plant and Equipment	1,893.0	1,893.0	1,893.0	1,893.0
- Infrastructure Assets	1,919.0	1,919.0	1,919.0	1,919.0
- Community Assets	9,046.0	9,046.0	9,046.0	9,046.0
- Council House Dwellings	912,579.0	920,466.0	923,658.0	926,824.0
Non Operational Assets				
- Investment Properties	62,546.0	62,546.0	62,546.0	62,546.0
- Development Land	56,820.0	56,820.0	56,820.0	56,820.0
	1,135,035.0	***1,142,922.0***	***1,146,114.0***	***1,149,280.0***
Deferred Liability Prepayment	0.0	0.0	0.0	0.0
Long Term Investments	8,169.0	8,169.0	8,169.0	8,169.0
Long Term Debtors	6,803.0	6,803.0	6,803.0	6,803.0
Total Long Term Assets	***1,150,007.0***	***1,157,894.0***	***1,161,086.0***	***1,164,252.0***
Current Assets				
Stocks	0.0	0.0	0.0	0.0
Works in Progress	0.0	0.0	0.0	0.0
Debtors - general	24,811.6	24,811.6	24,811.6	24,811.6
Investments	28,726.0	28,726.0	28,726.0	28,726.0
Cash at Bank	0.0	0.0	0.0	0.0
	53,537.6	***53,537.6***	***53,537.6***	***53,537.6***
Total Assets	***1,203,544.6***	***1,211,431.6***	***1,214,623.6***	***1,217,789.6***

Current Liabilities				
Creditors	31,094.4	31,094.4	31,094.4	31,094.4
Short term loans	0.0	0.0	0.0	0.0
Cash Overdrawn	6,922.2	10,555.5	9,603.8	8,290.8
	38,016.6	***41,649.9***	***40,698.3***	***39,385.2***
Total Assets less Current Liabilities	***1,165,528.0***	***1,169,781.7***	***1,173,925.3***	***1,178,404.4***
Deferred Liabilities	10,627.0	10,627.0	10,627.0	10,627.0
Provisions	10,109.0	10,109.0	10,109.0	10,109.0
Pensions Liability	39,930.0	39,930.0	39,930.0	39,930.0
Long Term Loans	91,650.0	91,650.0	91,650.0	91,650.0
	152,316.0	***152,316.0***	***152,316.0***	***152,316.0***
Total Assets less liabilities	***1,013,212.0***	***1,017,465.7***	***1,021,609.3***	***1,026,088.4***
Fixed Asset restatement reserve	74,811.0	74,811.0	74,811.0	74,811.0
Capital Financing Reserve	973,234.0	980,161.0	984,588.0	988,822.9
Capital Adjustment Account	1,048,045.0	1,054,972.0	1,059,399.0	1,063,633.9
Usable Capital Receipts	2,637.0	2,637.0	2,637.0	2,637.0
Capital Contributions Deferred	-4,350.0	-4,350.0	-4,350.0	-4,350.0
Pensions Reserve	-45,930.0	-45,930.0	-45,930.0	-45,930.0
Major Repair Reserve	1,200.0	1,200.0	1,200.0	1,200.0
Other Reserves (2)	1,684.0	1,684.0	1,684.0	1,684.0
Balances				
- General Fund	4,415.4	4,715.4	5,215.4	5,715.4
- Housing Revenue Account	5,320.6	2,347.3	1,564.0	1,308.0
- Collection Fund	190.0	190.0	190.0	190.0
	1,013,212.0	***1,017,465.7***	***1,021,609.3***	***1,026,088.4***

ANNEX I CASH FLOW PROJECTIONS

Cash Flow Statement £'000's	2010/11	2011/12	2012/13	2013/14
Cash Outflows				
Cash paid to and on behalf of employees	31,607.1	32,555.3	33,857.5	35,211.8
Housing and Council Tax Benefits	63,419.9	63,419.9	63,419.9	63,419.9
Other operating cash payments	71,905.0	66,527.4	65,317.4	65,536.2
Cash Inflows	166,932.0	162,502.6	162,594.8	164,167.9
Council Tax receipts	8,837.5	9,089.9	9,324.0	9,572.3
NNDR receipts	0.0	0.0	0.0	0.0
Community charge income				
Receipts from the NNDR pool	12,789.1	12,917.0	12,917.0	12,917.0
Revenue Support Grant	2,951.9	2,997.1	2,997.1	2,997.1
DSS Grants and Benefits	0.0	0.0	0.0	0.0
Other Government Grants	61,905.6	61,905.6	61,905.6	61,905.6
Cash from goods and services	78,239.3	80,210.0	80,210.0	81,814.2
	164,723.4	167,119.6	167,353.7	169,206.2
Revenue activities net cash flow	**2,208.6**	**-4,617.0**	**-4,758.9**	**-5,038.3**
Investment Income and Service of Finance				
Interest paid	1,437.3	1,437.3	1,437.3	1,437.3
Interest received	1,200.0	1,074.0	822.0	878.0
Capital Activities				
Cash Outflows				
Purchase of fixed assets	4,095.4	7,887.0	3,192.0	3,166.0
	4,095.4	**7,887.0**	**3,192.0**	**3,166.0**
Cash Inflows				
Sale of Council Houses				
Sale of other assets	0.0	0.0	0.0	0.0
	0.0	**0.0**	**0.0**	**0.0**
net cash (inflow)/outflow before financing	**6,541.2**	**3,633.3**	**-951.6**	**-1,313.1**
Bank Balance	**-6,922.2**	**-10,555.5**	**-9,603.8**	**-8,290.8**
Total cash and equivalents	**21,803.8**	**18,170.5**	**19,122.2**	**20,435.2**