

**Medium Term
Financial
Strategy
2012/13 to
2016/17**



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Foreword

The Council is committed to achieving excellence in its service delivery and considerable progress has been made over the last year with significant improvements in performance indicators and positive feedback from external auditors. Integral to this ambition is the need to effectively target its financial resources in line with its stated aims and objectives.

It is the Council's ambition to continue to substantially improve its service delivery over the next five years. Sound and effective financial planning has a vital role to play in ensuring that ambition is realised, through providing sufficient resources to enable the services that matter most to our citizens to be delivered and to respond to the increased demands placed upon the Council. A key element will also be the need to improve the value for money that is given to council taxpayers.

The current recession and the reductions in central government support to local authorities, particularly for second tier district councils such as Newcastle, reinforces the need for sound financial planning, not just for the year immediately ahead (2012/13) but over the medium term as well.

To meet this need, a Medium Term Financial Strategy (MTFS) has been developed for a period spanning five years, from 2012/13 to 2016/17. The MTFS demonstrates alignment with the Corporate Plan and will be the main vehicle in assessing the Council's financial position, ensuring efficiency in service delivery and targeting resources to agreed priority areas. It illustrates how the Council's Corporate Plan is driving the medium term financial plans for each block of services over the next five years.

It is a key document informing the 2012/13 budget process. Indeed the assumptions about future costs and income together with those relating to investment and efficiency savings will be incorporated in the 2012/13 budget and will account for the majority of the change in net spending between the 2012/13 budget and that for 2011/12. The indications given in the MTFS concerning the gap between future years' expenditure levels and available resources will enable the Council to draw up an informed strategy, in advance, to bridge those shortfalls.

The MTFS will be used during 2012/13 as the basis for reviewing the Council's financial position. The assumptions contained in it will be regularly reviewed and amendments made to the plan, where necessary. If any consequences in terms of significant adverse budget variations become apparent, this information will be used to formulate an action plan to deal with the budget shortfall. Conversely, if a significant positive variance is indicated, and likely to persist, this knowledge will enable the Council to decide whether to use this to increase reserves or to reallocate some or all of it to additional investments in line with corporate priorities

Whilst the MTFS stands on its own as a strategy, it is an integral part of the Council's overall planning process comprising service delivery plans (Service and Financial Plans), the Corporate Plan and the Borough's Sustainable Community Strategy.

National context - background

Central government support for local authorities' revenue budgets is provided in the form of Revenue Support Grant (RSG) and National Non Domestic Rates grant (NNDR). The amounts to be paid to local authorities as a whole and to individual authorities are announced via the annual local government finance settlement, provisional figures being announced usually in December and final ones in January.

Under existing arrangements NNDR (business rates) revenue collected by local authorities is pooled for redistribution to local authorities as the NNDR grant. So while local authorities have a vital role to play in supporting the local economy, there is limited fiscal incentive to do so.

The Government is currently carrying out the Local Government Resource Review, which is looking at how local authority services should be funded. One of the primary proposals contained in consultation published in July 2011 is that local authorities should be allowed to retain their locally raised business rates, to take effect from the financial year 2013/14, which is within the period covered by this MTFS. There will be an effect on individual authorities' finances; some will gain from the change whilst others will lose resources. However, there are numerous technical issues to be determined before a concrete picture of the revised arrangements will emerge, which means that the impact on the Council cannot be predicted at this stage. Therefore, an assumption relating to any gains or losses arising from this change has not been included in the MTFS.

Links to other strategies and plans

The MTFS has links to a number of other Council and wider community strategies and plans. Where these have financial consequences for the Council, these are reflected in the MTFS. Those which have a particularly significant input are:

Corporate plan

The Corporate Plan is based on community needs and describes the key actions that the Council will take over the next three years. It sets out the priorities based on needs so that local people can see what is being done on their behalf. Resources will be allocated in line with these priorities. There is thus a clear and direct link to the MTFS from the Corporate Plan

The Council's priorities set out in the Corporate Plan are:

- Promoting a cleaner, safer and sustainable Borough.
- Promoting a Borough of opportunity.
- Promoting a healthy and active community.
- Transforming our Council to achieve excellence.

The schemes/initiatives identified below reflect the Council's determination to ensure that resources follow priorities:

Promoting a cleaner, safer and sustainable Borough

- Improve efficiency of recycling and waste, increase participation and promote waste minimising initiatives.
- Continue to develop kerbside and increase recycling at schools and business.

- Fully review our recycling and waste strategy.
- Implement our climate change and carbon reduction plans.
- Work in partnership to support victims of anti-social behaviour, crime and domestic violence.
- Work on root causes of problems through challenge in communities.
- Focus with partners on empowering local people in communities.

Promoting a Borough of opportunity

- Review the Council's asset management strategy, aiming for optimal use of the Council's asset portfolio.
- Implement the refreshed economic development strategy.
- Implement the Local Enterprise Partnership (LEP) with the aim of seeking funding for regeneration.
- Prepare a site allocations development plan.
- Implement a new housing strategy and local investment plan.

Promoting a healthy and active community

- Enhance our leisure and recreation offer in the borough through robust management arrangements.
- Work with key partners by implementing the Health and Wellbeing strategy to reduce health inequalities in the borough.
- Develop our role in arts and culture activities to offer vibrant cultural sites and activities for the education and enjoyment of everyone.

Transforming our Council to achieve excellence

- Respond to service aspects of the decentralisation and localism bill.
- Implement equalities legislative requirements as appropriate.
- Develop the existing transformation programme to build on the track record of delivering efficiencies.
- Developing our role with the aim of seeking funding for regeneration.
- Conduct reviews of services directed at creating larger scale efficiencies.
- Further develop the workforce.
- Encourage partners to co-operate with the Council in providing services.

Other strategies and plans are compiled in line with the principles contained in the Corporate Plan and take account of its content.

Values

We have three underpinning key values that will remain constant through the delivery of our specific priorities:

Putting People First

We will put our customers at the centre of what we do. We will make best use of information to target services to groups and individuals in our local communities in the most efficient and effective way.

Delivering excellent and sustainable services

We will strive to deliver excellent services at all times. This will apply when our

customers contact us and when we deliver services out in the community. We will continually review the impact on the environment of our services, and the way we deliver them.

Making the best use of resources

We will strive to deliver all our services in the most cost effective way. This may include direct delivery, sharing services with other local councils our public sector bodies, and commissioning from the private sector. We will create a more flexible organisation that communicates well both internally and with customers.

Capital strategy and capital programme

The Capital Strategy sets out how the Council proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. It also takes into account the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue budget.

The Council's detailed capital investment plan is contained in its Approved Capital Programme. The current programme was approved by Full Council on 23 February 2011. This programme provides for £21,638,800 of investment over a two-year period in projects across all of the Council's priority areas.

The Capital Strategy has been prepared against a background of unprecedented reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic recession and to rebalance public finances. At the same time, the Council's own resources available to finance capital projects are running out and will need replenishing before any substantial further capital investments can be made. Whilst the Council has benefited from an ability to recycle income derived from the disposal of land and property over many years, it became evident that a more focused programme of asset disposals would be required to counteract the effects of reduced external finance.

The Council is presently debt free, having no long term loans outstanding. However, if further capital receipts do not materialise borrowing may be the only option to finance proposed capital expenditure in future years. This will have an effect on the general fund revenue account as financing charges are funded from revenue, reduced funds available for investment would reduce investment income.

Asset management strategy

The asset management strategy encapsulates the Council's response to national policies and guidelines; it sets out the processes for the strategic management of the Council's property assets in order to ensure the best use of assets to meet corporate objectives in an efficient and effective manner. These processes resonate with the Capital Strategy and in turn may result in projects being included in the capital programme.

Through a planned and ongoing review of the asset register, against current and anticipated usage, disposal of surplus property will provide investment into the Council's capital programme. In parallel the Council will seek partner contributions (for example through external grants, partner organisation use of Council assets to contribute to revenue streams and joint venture opportunities).

Treasury management strategy

This is approved annually and sets out the Council's strategy for investment of its surplus funds. The investment strategy, together with the prevailing market conditions in relation to interest rates and counterparty security will be the major factor in determining the return which is obtained on investments. Interest on investments has been a source of income in the revenue budget.

Human resources strategy and workforce development plan

The Human Resources Strategy provides the strategic linkages in people performance and management to enable the Council to meet the Corporate Plan objectives. The Workforce Development Plan sets out how the Council will develop the skills and capacity of its staff in line with the Human Resources Strategy. Where there are costs associated with this, these will be included in the MTFS.

Charging policy

The policy sets out what the Council intends to achieve through the charges it makes and the criteria which it will use to determine the level of charge for individual services. The annually approved scale of fees and charges is compiled in line with the principles set out in the policy. Income from fees and charges comprises a significant proportion of the income included in the revenue budget.

Reserves and balances strategy

The Council's Reserves and Balances Strategy indicates that, following a risk assessment, the minimum prudent level of general fund balance to hold is £1.75 million and that there should also be a contingency reserve of £100,000. Current indicators are that this strategy will be delivered.

Departmental service delivery plans

Service and Financial Plans (Delivery Plans) are an integral part of the Council's planning process and demonstrate the actions and targets of each directorate in order to achieve the Council's corporate objectives and priorities.

Other strategies which may influence the MTFS

There are a number of other Council strategies whose contents may have implications for the MTFS. These are:

- Value for Money Strategy
- Procurement Strategy
- Economic Development Strategy
- North Staffs Green Spaces Strategy
- Leisure Strategy
- Private Sector Housing Renewal Strategy
- Housing Strategy
- Cultural Strategy
- Customer Access Strategy
- Energy Efficiency and Climate Change Strategy and Carbon Reduction Plan.

Compilation of the MTFS

Principles

The MTFS considers changes to the 2011/12 base budget by breaking this budget down into its subjective cost and income components; pay, pensions, utilities, fuel, supplies and services, investment income, income from fees and charges, etc. An assessment is then made, in respect of each of these components, of the factors which might affect their cost or the amount of income receivable and whether there is likely to be a change in this cost or income, and if so how much it will amount to, in each year over the five year period. Also taken into consideration are any additional pressures which may apply to services over the five year period, plus any savings which have been identified and agreed or approved investments in services over the five years. The MTFS therefore shows the changes from the initial 2011/12 base budget through to 2016/17, demonstrating the variances between each of the years.

Base budget components assessed for cost variances

These are set out in detail in Appendix A, which shows by how much in monetary terms the estimated budget for each of the five years varies by comparison to the previous year on account of these factors alone. Also shown are the assumptions about price changes that have been made in respect of each component.

In summary, the components examined and the factors which were taken into account to assess the changes were:

- Levels of Revenue Support Grant/NNDR Grant (known and estimated) as referred to in the National Context section of the strategy (page 4);
- Pay awards;
- Incremental pay increases;
- National Insurance increases, linked to increased pay;
- Superannuation increases, both to take account of increased pay and changes in contributions to the pension fund;
- Energy costs, based on advice from the Council's Procurement Officer and its energy consultants;
- Business rates increases on Council properties;
- Fuel for vehicles, based on advice from the Council's Procurement Officer and allowing for changes to fleet numbers and in vehicle types;
- General inflation in relation to supplies and services;
- Levels of grants and contributions paid by the Council to external bodies;
- Contract increases;
- Changes in amount of non-subsidisable rent allowances;
- Increase in income from customer receipts;
- Changes in specific government grants receivable;
- Changes in amounts of investment income receivable, both as a result of changes in forecasted interest rates and changes in relation to the capital sums available for investment;
- Contributions from reserves and
- Ongoing effects of previous savings exercises or investments associated with them

The following key assumptions were made:

- Full provision for known pay increases from incremental progression.

- Flat rate pay increase of £250 for staff earning £21,000 and below, there will be no pay award in the first year then 1 per cent thereafter.
- Central Government Grants (Revenue Support Grant and NNDR Grant) will decrease by 11.7 per cent in 2012/13 with an assumed further 5 per cent reduction thereafter.
- A 15 per cent increase in transport fuel in each of the five years, as assessed by the Council's Transport Manager and Procurement Officer.
- An increase in pension contributions (source - Staffordshire County Council).
- An increase of general inflation on supplies and services, contracted services and ICT.
- Energy costs are based on an assessment by the Council's energy management consultants and Building Surveyor.
- Increases in line with inflation for most income heads.
- Interest rates based on projections supplied by the Council's treasury management advisors.
- Investment income takes account of the latest capital programme expenditure forecasts.

Whilst all of these are important and of some significance, a sensitivity analysis has been undertaken on the following four issues for which the main findings are:

- The level of Revenue Support Grant and Business rates which is received
These support over 60 per cent of the budget so have a major impact. A variation of 1 per cent in the level of external support via these two sources would amount to £80,000.
- How movements in interest rates will affect the Borough Council
The Council has no external debt but does generate income from its investment portfolio. The Bank of England base rate is currently 0.50 per cent. It is estimated that a change of 0.50 per cent in the interest levels on the Council's investments would lead to £44,000 (based on anticipated investment levels) more or less interest.
- How changes in nationally agreed pay awards will impact
There is no provision for the pay award in the first year and 1 per cent thereafter. With a pay bill of £17m, a change of 0.50 per cent would save or cost £88,500. An allowance of a £250 increase per employee has been made for those employees with a salary of below £21,000.
- How actuarial changes in the Staffordshire County Council pension scheme will affect the Council
Pension costs are currently 23 per cent of salaries for all of those staff in the pension scheme. Over the next five years forecast increases have been factored in. A variation of 1 per cent would save or cost £116,000.

Investments

Despite the current financial crisis the Council is still investing in the following:-

- Decisions already taken by the Council in respect of new investments targeted at priority areas; for example, repair work to the Midway Multi-storey car park, and Newcastle Town centre works.

Assessment of what the MTFs means

The implications of the MTFs forecast will be taken into consideration in the preparation of detailed budgets for 2012/13 and give guideline figures for the budgets for the following four financial years. Details of the timetable, which is being followed, are shown later.

The summarised MTFs illustrates that the Council would have the following shortfalls over the next five years which need to be addressed by a combination of efficiency measures, better procurement, service reductions, council tax increases, support from reserves, etc.

- £2.141m in 2012/13
- £709,000 in 2013/14
- £696,000 in 2014/15
- £673,000 in 2015/16
- £718,000 in 2016/17

As a percentage of the net budget, the potential shortfall in 2012/13 represents 14 per cent of the current year's net revenue budget.

Budget strategy

The shortfalls identified above need to be eliminated so that balanced budgets are compiled with spending matched with resources. A strategy has been developed identifying proposals to bridge the gap. These proposals will be considered by the Cabinet in January and Full Council when setting the council tax in February.

Budget Service Reviews carried out during 2010/11 identified potential saving areas. All heads of service were asked to produce a piece of work which explored:-

- Areas of activity undertaken by their teams, whether these were statutory or discretionary and how many staff are involved.
- The impact of withdrawing discretionary duties and reducing statutory duties.
- The potential for outsourcing and shared services.
- Opportunities to generate or increase income.

The budget "service review areas" exercise will form a key element in the plan. These and other savings, income streams and use of reserves will be used to bridge the gaps. They include:-

- Leisure Services – net effects of the closure of Jubilee 1 and Knutton and the opening of Jubilee 2
- Restructures of:
 - Environmental Health
 - Operations
 - Customer and ICT Services
 - Central Services
- Vacant posts review
- Housing advice contract - renegotiation of the current contract
- Homelessness prevention schemes - review of type of assistance
- CCTV shared services - liaison with other local authorities
- Energy – retendering of contracts

- Statutory inspection services - retendering of contracts
- Allotments - review of charges
- Summons and distress costs - review of costs passed to defaulters where successful liability orders are made
- Accommodation – income (both rental and service charges) from new partners in both the Civic Offices and Kidsgrove
- Other sources of funding including:
 - Homelessness grant – additional funding
 - New homes bonus – new funding in respect of both revenue and capital
- Use of budget support fund
- Council Tax Grant – based on a 2.5% increase

Timetable and procedure

There are two key groups who are involved in the financial management of the Council.

- The Cabinet
- The Transformation and Resources Scrutiny Committee

Further reports will be made to these key groups in advance of the final recommendations to Council in February 2012. The key dates in the timetable are currently: -

Action	Date
MTFS to Cabinet	19 October 2011
MTFS to Transformation and Resources Scrutiny Committee	2 November 2011
Cabinet to approve council tax base	18 January 2012
Draft Budget to Cabinet	18 January 2012
Draft Budget to Transformation and Resources Scrutiny Committee	18 January 2012
Budget approved by Cabinet for proposal to Full Council	1 February 2012
Budget approved by Full Council	15 February 2012

Risk statement

Section 25 of the Local Government Act 2003 places a duty on the Chief Finance Officer to report on the robustness of the budget. The main risks to the budget include:

- Spending in excess of the budget
- Income falling short of the budget
- Unforeseen elements, e.g. changes in interest rates

Such risks require regular and careful monitoring and it is essential that the Council has sufficient reserves to call on if required, e.g. the Council has a general fund balance of £1.75 million. In previous years the Chief Finance Officer has believed

that the assurances required under Section 25 can be given and, with careful budget planning, robust monitoring and an adequate level of reserves, there should be no reasons to alter that view.

Collection fund and taxbase

The Council's taxbase represents the average "value" of the properties in its area as set against a standard band D property. For example a band D property is expressed as one whilst a lower value band A property is calculated as 6/9 of the band D. On the other hand, the highest value property is band H which is calculated at 18/9 of band D.

The calculation of the taxbase has an important effect on the level of council tax in that an increase in the taxbase (say, from new building) will mean that the amount to be raised is spread over more properties whilst a reduction (say, from demolitions) will mean that it has to be spread over fewer properties.

For 2011/12 the taxbase was calculated at 39,061 properties.

The collection fund is the vehicle for which all council tax is collected. The Council makes an assumption as to the percentage of council tax which will be ultimately collected. That decision will be made in January 2012. If that target is not met then there will be a deficit which will have to be accounted for in the next financial year whilst if there is a surplus then this can be used to offset whatever council tax is levied in the next financial year.

Efficiency and improving value for money

The MTFs has identified gaps totaling £8.866m over the financial years 2008/09 to 2011/12. The gaps were plugged by efficiencies and savings (£6.246m), use of general reserves (£0.35m), use of the budget support fund (£1.676m) and Council Tax increases/use of the Council Tax freeze grant (£0.594m).

There is a significant need to continue to review how we work to ensure that structures, working practices and skills are appropriate and that in turn, they provide efficient and value for money services.

Environmental footprint

One of the four priorities in the Corporate Plan is "Promoting a cleaner, safer and sustainable Borough" so it is clear that there is a wide understanding of the impact and implications of the Council's policies on the environment and hence the need to develop and maintain a sustainable approach. In formulating the MTFs as a means of enabling the achievement of its priorities and to improve service delivery, it is essential that all staff, members and stakeholders are aware of the requirement to consider the environmental impact of their actions and how these relate to the VfM Strategy. In the Corporate Plan, key activities will focus on continuing to increase waste recycling, to reduce carbon emissions through a review of energy consumption and transport costs and through awareness raising of the whole issue of climate change.

Procurement

The Council has an approved Procurement Strategy which encompasses every aspect of the purchasing process from determining the need for goods, works or services, to buying and delivery in order to help achieve the Council's key priorities and outputs.

The procurement role is to ensure the Council commissions and procures quality services and supplies, as cost effectively as possible. We must understand the market and seek to influence and develop it for the benefit of delivering low council tax. As part of this role all contracts that the Council currently has are to be reviewed in order to ensure that they are efficient and cost effective.

Equalities

Differential equality impact issues will be identified against the key strategies, policies and functions of the Council and will be considered in producing future service improvements, which will then be reflected within the Council's budgets.

MTFS Summary

Appendix A

Summary	2012/13	2013/14	2014/15	2015/16	2016/17	Notes
Changes to Base Budget	£'000	£'000	£'000	£'000	£'000	
Employees:						
▪ Incremental Increases	65	36	15	2	0	As per Payroll
▪ Pay Awards	61	130	131	132	134	0% increase in year 1, 1% after and £250 for staff <£21k for year 1
▪ Superannuation Increases	131	124	115	108	102	As per Staffordshire County Council – note, all staff are not in the LGPS
▪ Vacancy Factor	65	72	78	81	84	3% in year 1 reducing by 0.5% each year until 2016/17
▪ National Insurance	4	3	1	0	0	Government increase of 1%
Premises (e.g. Business Rates)	22	23	24	25	26	Based on 3.5% increase
Transport (e.g. Fuel)	54	62	71	82	94	Based on 15% increase
Other Costs (e.g. General Inflation, Grants and Contributions)	141	132	137	141	144	General inflation on supplies and services, contracted services and ICT
Adjustments to 2011/12 base re.non-recurring items eg waste partnership grant	282	0	0	0	0	Expenditure taken from/income added to 2011/12 budget for 1 year only
New Pressures eg revenue costs associated with the Ryecroft acquisition	204	0	0	0	0	Proposals for inclusion in the Medium Term Financial Strategy
Investment Income	34	(76)	(56)	(54)	0	Based on forecasted interest rates
Use of Budget Support Fund in 2011/12 Base	368	0	0	0	0	
Government Grants	970	366	347	330	314	Settlement decreased by 11.7% in 2012/13 and 5% thereafter
Fees and Charges	(260)	(163)	(167)	(174)	(180)	Increase based on 3.5% increase in 2012/13 and 2% thereafter
TOTAL MTFS SHORTFALLS	2,141	709	696	673	718	