

**Medium Term
Financial
Strategy
2013/14 to
2017/18**



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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 the priorities of the Council.

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-under-Lyme, reinforces the need for sound financial planning, not just for the year immediately ahead (2013/14) 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 2013/14 to 2017/18. The MTFS demonstrates alignment with the Council Plan and will be the main vehicle in assessing the Council's financial position, ensuring efficiency in service delivery and targeting resources via a transparent process to agreed priority areas. It illustrates how the Council 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 2013/14 budget process. Indeed the assumptions about future costs and income together with those relating to investment and efficiency savings will be incorporated in the 2013/14 budget and will account for the majority of the change in net spending between the 2013/14 budget and that for 2012/13. 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, following a public consultation process, that reflects the priorities of the Council, to bridge those shortfalls.

The MTFS will be used during 2013/14 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 Council Plan and the Borough's Sustainable Community Strategy.

A Budget Review Group has been established to inform and ensure that the budget setting process consults all stakeholders in a transparent manner. The Budget Review Group is chaired by the Cabinet Portfolio Holder for Finance and Budget Management. The Council Leader and the Cabinet Portfolio Holder for Regeneration, Planning and Town Centres are members of the group, together with the Chief Executive, Executive Director of Resources and Support Services and other appropriate finance and corporate support officers.

The remit of the group is to oversee all aspects of the budget process, including service review and challenge, longer term planning, development of budget options, agreeing consultation arrangements and consideration of feedback and seeking to deliver service models that drive improvement to front line services whilst offering value for money.

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 Local Government Finance Bill introduced business rate retention for local authorities and for the localisation of council tax benefit, i.e. for local authorities to assume responsibility for devising schemes for making payments to claimants, instead of acting as agents for the Department of Work and Pensions. It also contains some technical adjustments to the council tax system.

The revised arrangements take effect from 1 April 2013. The Council will still bill and collect business rates as now. But instead of contributing all business rates into the central pool and receiving formula grant (RSG and NNDR), a percentage of the business rates will be retained by the Council.

The baseline level of funding will be set so that at the start of the system, the budget is equivalent to what it would have been under the current system, less the reductions arising from the Local Government Resources Review. From then on the Council's funding may grow if the business rates base in Newcastle-under-Lyme grows, but could also fall if the business rate base declines.

At the current time the reductions in our funding from Central Government have not been confirmed. For the purposes of the MTFS a 5% reduction in Central Government funding has been assumed for the period of the Local Government Resources Review (2013/14 and 2014/15) and a 2.5% reduction has been assumed for the following 3 years.

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:

Council plan

The Council Plan describes the key actions that the Council will take over the next three years in order to make the Borough a better place to live, work and invest in. It sets out the Council's priorities and focuses on delivering these and ensuring that we continue to deliver high quality services for the Council's customers and bring real improvements in services for all in the Borough.

In these very challenging economic times it is important that we use resources prudently and effectively and review the way in which we do things and consider what is important for the borough. There is thus a clear and direct link to the MTFS from the Council Plan

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

- A clean, safe and sustainable Borough.
- A Borough of opportunity.
- A healthy and active community.
- A Co-Operative Council delivering high quality, community driven, services.

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

A clean, safe and sustainable Borough

- Levels of safety will have improved, along with standards of public health.
- Vulnerable citizens and victims of crime will be provided with high quality support.
- The negative impact that the Council, residents and local businesses have on the environment will have reduced.
- Our streets and open spaces will be clean, clear and tidy.
- Town centres across the borough will be sustainable and safe.

A Borough of opportunity

- Levels of worklessness will have reduced.
- Local people will be able to access opportunities for personal development and growth.
- Housing will be available and accessible to meet a range of diverse needs.
- Key parts of the borough will have been regenerated and there will have been overall growth.

A healthy and active community

- People who live, work, visit or study in the Borough will have access to high quality facilities.
- Levels of cultural activity and participation in the arts will have increased.
- There will be a range of healthy lifestyle choices, resulting in an increase in participation in sport and physical activity.
- Local people will be more able to work together to solve local problems.
- Council services will be influenced by resident engagement, enabling local communities to shape services which directly affect their lives.

Becoming a Co-Operative Council delivering high quality, community-driven, services

- The Council will have increased the capacity and skills of its workforce.
- Councillors will be community champions and powerful community advocates.
- The Council will have delivered further efficiencies.
- High performing services will be provided for all residents and customers.
- The Council will be an open, honest and transparent organisation which undertakes regular consultation with its residents and listens to their views.

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 22 February 2012. This programme provides for £4,457,000 of investment during 2012/13 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 through financing charges and reduced 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 assets 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 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 is 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 Council 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 £1.4 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 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:

- Procurement Strategy.
- Economic Development Strategy.
- North Staffs Green Spaces Strategy.
- Health and Wellbeing Strategy (emerging).
- Private Sector Housing Renewal Strategy.
- Housing Strategy.
- Arts and Cultural Strategy (emerging).
- Energy Efficiency and Climate Change Strategy and Carbon Reduction Plan.
- Stronger and Safer Communities Strategy.
- North Staffs Core Spatial Strategy.
- Site Allocations and Policies Local Plan (emerging).

Compilation of the MTFS

Principles

The MTFS considers changes to the 2012/13 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 2012/13 base budget through to 2017/18, 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 central government funding (estimated) as referred to in the National Context section of the strategy (page 4);
- Pay awards and 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;
- 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 and contract increases;
- Levels of grants and contributions paid by the Council to external bodies;
- 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.
- A 1 per cent pay award in 2013/14 and 2014/15 and 2 per cent thereafter.
- Central Government funding will decrease by 5 per cent in 2013/14 with an assumed further 5 per cent reduction in 2014/15 and further reductions of 2.5 per cent thereafter, there is a degree of uncertainty surrounding these as the local government finance settlement will not be known until December.
- A 5 per cent increase in transport fuel in each of the five years, as per the forecast provided by the Freight Trade Association.
- 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 forecasts 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 central government funding which is received
These support around 50 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 £73,000.
- How movements in interest rates will affect the Borough Council
The Council has no external debt at the current time 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 £42,000 (based on anticipated investment levels) more or less interest.
- How changes in nationally agreed pay awards will impact
There is provision for a 1 per cent pay award in 2013/14 and 2014/15 and 2 per cent thereafter. With a pay bill (excluding National Insurance and Superannuation) of £12.3m, a change of 0.50 per cent would save or cost £62,000.
- How actuarial changes in the pension scheme will affect the Council
Pension costs are currently 23.7 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 £111,000.

Council Priorities

A number of Council priorities have been provided for in the formulation of the MTFs, these include:

Town Centre Partnership (£30,000)

The development/improvement of the two main town centres (Newcastle and Kidsgrove) has been identified as a clear priority. In order to demonstrate that the Council is able to support and

develop the town centres as vibrant places where people want to visit, work, invest and shop, the Council will seek to work in partnership with local businesses to develop an action plan for improving the economic prospects of the town centres.

Apprenticeships (£40,000)

In order to improve the opportunities and training prospects of young people in the Borough, the Council will provide further apprenticeship opportunities through the establishment of a 'shared apprenticeship scheme' in partnership with other local organisations within both the public and private sectors.

Home Security Support for Vulnerable Residents (£10,000)

Helping vulnerable people, including the elderly is a key priority of the Council. Community safety and fear of crime also remain an important theme for the council and partner agencies. In relation to home security there are two key issues: firstly the standard/condition of the property and secondly, the likelihood of the resident being targeted by a criminal. The Council seeks to address these issues by responding to resident requests for assistance and proactively targeting areas high crime in partnership with the Police.

Assessment of what the MTFS means

The implications of the MTFS forecast will be taken into consideration in the preparation of detailed budgets for 2013/14 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, increased income generation, council tax increases, support from reserves, etc.

- £1.627m in 2013/14
- £810,000 in 2014/15
- £797,000 in 2015/16
- £655,000 in 2016/17
- £657,000 in 2017/18

As a percentage of the net budget, the potential shortfall in 2013/14 represents 11.4 per cent of the current year's net revenue budget.

Budget strategy

The shortfalls identified from the MTFS above need to be managed so that balanced budgets are compiled with spending matched with resources. From the results of the service challenge process a strategy will be developed identifying proposals to bridge the gap. These proposals will be considered in accordance with the process and timetable as specified within the 'Timetable and Procedure' element of this report.

The potential savings, efficiencies and areas of increased income identified for 2013/14 and 2014/15, currently include:

- Procurement savings resulting from the negotiation of contracts and annual uplifts incurred, also from determining the actual need for goods, works or services and through ensuring that the Council commissions and procures quality services and supplies, as cost effectively as possible.
- Additional areas of income generation including areas where services are performing above their targets, a review of current fees and charges in comparison to other authorities and

- competitors and a review of areas where we provide a service for free or have the potential to provide a charged for service.
- Staffing efficiencies including a full and comprehensive review of employees' terms and conditions and a review of vacant posts within the Council and the need to recruit to these posts.
 - Good housekeeping efficiencies including a comprehensive review of services expenditure budgets that are under utilised and reductions in fees that are required to be paid to external bodies.
 - Better use of assets including a review of their usage or potential usage and the costs associated with the continued usage or occupation of these assets.

Timetable and procedure

A Budget Review Group has been established, chaired by the Cabinet Portfolio Holder for Finance and Budget Management. The Council Leader and the Cabinet Portfolio Holder for Regeneration, Planning and Town Centres are members of the group, together with the Chief Executive, Executive Director of Resources and Support Services and other appropriate finance and corporate support officers.

The remit of the group is to oversee all aspects of the budget process, including service review and challenge, longer term planning, development of budget options, agreeing consultation arrangements and consideration of feedback and seeking to deliver service models that drive improvement to front line services whilst offering value for money.

A service challenge process, to be conducted by the Budget Review Group, has been initiated in which Cabinet Portfolio Holders and Heads of Service will participate. All services are potentially subject to challenge but the process will particularly concentrate on those with the potential to deliver significant improvements in the priority areas. Heads of Service put forward options for improved service delivery and efficiency savings together with suggestions for 'invest to save' proposals whereby continuing increased efficiency can be obtained in return for a proportionally modest initial outlay.

The results of the challenge process are being obtained and analysed. These, together with the results of the service prioritisation exercise will form the basis for a range of budget options, consistent with the draft revised council plan which are subject to consultation.

The consultation process seeks to gain views through a variety of means, both by face to face contact and electronically, from a broad range of stakeholders. The consultation will incorporate the Council Plan, to which the budget is closely linked, as well as the budget options put forward.

To assist members in their review of the budget, training sessions were held for members during September and October covering local authority finance generally, the budget process and an explanation of the contents of the budget.

The Budget Review Group will also consider the capital programme for 2013/14 and beyond and the resources available to finance it. There will be the opportunity for members to review and comment on this during the scrutiny process outlined above.

The budget timetable as regards member involvement and the completion of key stages in the process is set out in the table below:

Event	Body Affected	Date
Budget and local authority finance training	All members	September/October
Service Challenge Process	Budget Review Group	September
Consideration of MTFS plus outline of consultation process	Cabinet	17 October
Consideration of MTFS plus outline of consultation process	TROSC*	30 October
Public Consultation	Stakeholders	October/ November
Review of consultation feedback	TROSC*	10 December
Review of consultation feedback (Chair of TROSC to give verbal feedback at the Cabinet meeting)	Cabinet	12 December
Draft Budget proposals including options approved	Cabinet	16 January
Scrutiny Café	All members	17 January
Scrutiny of draft budget	TROSC*	23 January
Budget proposals recommended for approval by Full Council	Cabinet	6 February
Full Council to approve Budget	Full Council	27 February

* TROSC = Transformation & Resources Overview & Scrutiny Committee

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 and 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 £1.4 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 2012/13 the taxbase was calculated at 39,136 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 2013. 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.

Environmental footprint

One of the four priorities in the Council Plan is “A clean, safe 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.

In response to such environmental issues the Council has prepared plans, most notably a Carbon Management Plan, which focus upon saving energy with a view to both saving costs and minimising our environmental footprint. The main three avenues of interest for achieving such efficiencies are around premises related energy saving measures, waste recycling and reducing vehicle fleet fuel consumption.

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. The Council 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	2013/14	2014/15	2015/16	2016/17	2017/18	Notes
<u>Changes to Base Budget</u>	£'000	£'000	£'000	£'000	£'000	
Employees:						
▪ Incremental Increases	47	26	8	3	0	As per Payroll
▪ Pay Awards	123	125	253	258	263	1% increase in years 1 & 2 & 2% thereafter
▪ Superannuation Increases	148	142	134	130	126	As per Staffordshire County Council
▪ Vacancy Factor	65	73	74	78	82	3% in year 1 reducing by 0.5% each year
▪ National Insurance	12	11	10	9	9	Per incremental increases & pay awards
Premises (e.g. Business Rates)	19	20	20	20	21	Based on 2% increase
Transport (e.g. Fuel)	19	20	21	22	24	Based on 5% increase
Other Costs (e.g. General Inflation, Grants & Contributions)	43	82	83	87	88	General inflation on supplies & services, contracted services & ICT
One Off Budget Items Removed 2013/14 Budget	(100)	100	0	0	0	Expenditure taken from/income added to 2013/14 budget for 1 year only
Council Priorities	80	0	0	0	0	Apprentices, home security & town centre partnership
Investment Income	59	(29)	(36)	0	0	Based on forecasted interest rates
Use of Budget Support Fund in 2012/13 Base	179	0	0	0	0	
Government Grants	366	348	165	161	157	Settlement decreased by 5% in 2013/14 & 2014/15 & 2.5% thereafter
Council Tax Freeze Grant	172	0	173	0	0	A Council Tax freeze grant was given by Government in 2011/12 which was given until 2014/15 only. A further one off Council Tax freeze grant was given in 2012/13 for that year only
Planning Delivery Grant	100	0	0	0	0	Grant to be removed from funding
Insurance Fund	100	0	0	0	0	Replenishment of balance of insurance fund to required level
Income Shortfall	300	0	0	0	0	To offset income budgets against the impact of the recession
Fees & Charges & other Income	(105)	(108)	(109)	(113)	(113)	Increase based on 2% increase in 2013/14 & thereafter
TOTAL MTFS SHORTFALLS	1,627	810	797	655	657	