APPENDIX ONE

MEDIUM TERM FINANCIAL STRATEGY 2018/19 – 2022/23

1. Section one - revenue budget

1.1 Objectives:

a) To set a balanced revenue budget (prepared in accordance with proper accounting practice), i.e. the estimated income in the year (including that from the Government, the council tax, business rates and use of revenue balances) that will equal the estimated expenditure.

b) To set a revenue budget requirement that increases by no more than inflation each year, except where central government places new responsibilities on the council.

c) To ensure the council's five year revenue spending plans match its medium term financial strategy objectives with regards its balances (see section four - balances below).

d) To direct resources to meet council priorities.

e) To continually strive to deliver services in an efficient and effective way.

1.2 In order to achieve our objectives we will follow these principles:

a) We will ensure expenditure budgets are realistic estimates of necessary spend in the year.

b) We will set income budgets at a prudent level, i.e. income will not be anticipated for budget purposes if there is reasonable doubt over its receipt.

c) We will review and determine annually the allocation of interest to fund either revenue or capital expenditure or retain in specific reserves, as part of the budget setting process.

d) We will use our reserves to:

- fund revenue expenditure that supports the council's strategic objectives
- help reduce the impact of reductions in government funding on service provision.

e) The head of finance will set an adequate contingency budget sum.

f) We will look for efficiency savings first as a way of meeting unavoidable additional costs or bids for additional expenditure.

g) We will review fees and charges each year to assess if additional income can be generated from them.

h) Bids for additional money will have to be justified by reference to our strategic objectives and priorities.

1.3 Significant current issues:

a) The banking crisis and subsequent Government austerity measures have resulted in a number of adverse pressures on the council's budget:

- Government funding is being significantly reduced over the medium term;
- Interest rates have fallen significantly and remained low; reducing the amount of money we can earn to support revenue spending.

b) The localisation of business rates offers financial opportunities and financial risks which are difficult to quantify as they depend on the future actions of third parties (i.e. all businesses within the district). The government has announced it hopes that by 2020 the scheme will be extended so that 100 per cent of business rates will be retained by local government. This will impact on the council but to what extent is not known as the new scheme is currently being designed.

c) New homes bonus rewards the council for net new homes built in the area. Changes to the distribution of NHB may adversely impact on the council.

During the budget setting process the above issues will be considered and prudent forecasts will be built in to budgets where precise estimates are not possible.

2. Section two - capital budget

2.1 Objectives:

a) To set a capital expenditure programme that can be financed from our own resources.

b) We will borrow (internally or externally) to fund capital expenditure where it is financially advantageous to do so.

c) To direct capital resources to meet council priorities.

2.2 In order to achieve our objectives we will follow these principles:

a) We will plan capital expenditure over a rolling five year period.

b) Each year we will calculate the amount of uncommitted resources available to fund capital projects not yet included in the approved or provisional capital programme.

c) Except in exceptional situations we will not allocate or use funds invested for the long term to pay for capital expenditure.

d) In planning our capital expenditure we will only take into account future capital receipts and investment income where there is a high degree of certainty about their receipt.

e) We will undertake periodic reviews of our assets to determine if they are still needed to meet our strategic objectives, and dispose of assets that are not required or do not generate a competitive investment return.

f) Bids for additional money will have to be justified by reference to our strategic objectives and corporate priorities.

g) All housing capital receipts otherwise subject to pooling arrangements will be allocated for reinvestment in affordable housing (public or private) or regeneration projects (within the local authority area).

2.3 Significant current issues:

a) The council may have to consider using its own capital resources to fund schemes where government funding is withdrawn or reduced.

b) Income from the sale of the council's assets will fall (as this is a finite resource).

3. Section three - partnership working

3.1 Objective:

a) To take account of the financial implications of significant partnerships in which we are involved.

3.2 In order to achieve this objective we will:

a) Assess the financial implications of our commitments to partnership work, including on entering, during and at the exit from partnerships.

b) Take these into account in setting annual budgets and in preparing the medium term financial plan (MTFP).[1]

c) Monitor and report on our financial commitments as a result of partnership working.

3.3 Significant current issues:

a) The council has entered a five councils' partnership which involves a range of services being delivered by Capita and Vinci. Close attention will need to be paid to ensure the true costs of these contracts are correctly reflected in the council's financial planning and reporting reports.

4. Section four - balances

4.1 Objectives:

a) To identify the levels of balances to be held in the short, medium and long term and to review these each year.

b) To identify balances to be used for revenue and capital expenditure.

[1] The medium term financial plan (MTFP) is a high level, five-year budget projection that is reported as part of the budget setting report to cabinet and council.

c) To identify balances that can be invested for the short, medium and long term in accordance with our treasury management strategy to maximise investment returns.

d) To maintain an uncommitted revenue balance of at least £0.75 million to meet unforeseen or exceptional expenditure; the head of finance will review the amount each year.

e) To ensure the earned interest used to support the revenue account is set at a sustainable level.

4.2 In order to achieve our objectives:

a) We invest £50 million for the long term. All investments will generate an annual return of certainty. Up to £35 million can be used to support capital or revenue expenditure that generates a return of certainty. This MTFS definition of an investment is wider than the treasury management definition. MTFS capital investments will not be shown on the council's balance sheet as usable balances. MTFS capital investments are likely to be particularly illiquid or may be unrealisable. All MTFS investments must be accounted for through the council's capital programme and each will be classified as a MTFS investment at the point at which Council is asked to approve the scheme for inclusion in the capital programme. These investments will provide regular income which we will use to:

- support revenue expenditure
- provide grants
- fund capital projects.

We will review the allocation of income for these purposes each year as part of the budget process.

b) We will hold up to £25 million as medium term balances. We will hold these in a mixture of short and medium term investments and use them to provide regular income for the same purposes as long term investments.

c) Short term balances will be held for the following purposes:

i) to provide cash as and when required for imminent capital works. This includes:

- the capital programme
- developer contributions and s106 receipts held to fund future expenditure
- capital grants to fund future expenditure.

These balances are invested in the short-term in line with expected programme expenditure cash flows. Up to £20 million is held for these purposes.

ii) in earmarked revenue reserves, including:

- money set aside to fund planned revenue expenditure

- money held in unallocated reserves, such as the enabling fund. We invest these balances short-term.

iii) for working capital purposes that relate only to the timing of income and expenditure flows and are held to manage the cash flow. These balances are not a reserve held on the balance sheet. The amount will vary between nil and £20 million, and are invested short term in line with known cash flow streams.

d) When we propose any significant changes to the amounts of balances held, the structure of balances (e.g. the split between long, medium and short-term) or how the income earned on balances is used, the head of finance will separately report on the implications of these changes if made outside the budget setting process.

e) We will include estimated future levels of balances in the MTFP.

f) In setting its annual budget Council will agree the level of earned interest estimated to be used to support revenue spending.

4.3 Significant current issues:

a) Further changes in the NHB scheme may reduce again the amounts the council earns from the scheme and this would have an impact on the balances the council holds.

5. Section five - Prudential indicators

5.1 Objectives:

a) To ensure that our capital investment plans are affordable, prudent and sustainable.

b) To ensure that our capital investment plans are consistent with and support local strategic planning, local asset management and follow proper option appraisal.

c) To set the capital expenditure indicators to meet the objectives of the capital and revenue budget objectives outlined above.

5.2 In order to achieve our objectives we will follow these principles:

a) The prudential indicators will be set through the annual budget process and before 1 April each year.

b) The indicators will have regard to:

- affordability
- prudence and sustainability
- value for money
- stewardship of assets
- service objectives

- practicality.

c) We will set the treasury management indicators in compliance with the CIPFA Code of Practice for Treasury Management in Public Services.

d) We will review and monitor performance against all forward-looking indicators, and report any significant deviations or take appropriate action, if required

5.3 Significant current issues:

a) None.

6. Section six – budget planning and monitoring

6.1 Objectives:

a) To produce annual budgets and the MTFP in a timely and accurate manner and linked to corporate and service planning.

b) To produce budgets that are in accordance with the MTFS.

c) To monitor income and expenditure against budgets in a timely manner to highlight where under or overspending is occurring, in order to take corrective action at the earliest opportunity.

d) To monitor progress in achieving efficiency savings.

e) To monitor performance against prudential indicators.

6.2 In order to achieve our objectives we will:

a) Prepare a detailed budget timetable linked to corporate and service planning, and allocate resources accordingly.

b) Incorporate into the timetable scrutiny of the budgets by both officers and members.

c) Produce budget monitoring reports as at the end of September and the end of December in each financial year.

d) Distribute detailed budget monitoring statements to heads of service within one week of the end of the month.

e) Issue budget monitoring reports with the members' information sheet (In focus).

f) Review prudential indicators at least quarterly.

6.3 Significant current issues:

a) Annual revenue expenditure exceeds annual review income with the gap funded from reserves. Although the council holds sufficient reserves to support this situation across the medium term this is not a sustainable long term position. Additional income, a reduction in expenditure or more likely a

combination of the two will need to be identified in the long term to close this gap.

7. Section seven - closure of the accounts and production of the statement of accounts

7.1 Objectives:

a) To close the accounts and publish the statement of accounts in a timely and accurate manner, within statutory deadlines and in accordance with relevant accounting and audit regulations.

b) To take into account actual expenditure in future years' budgets and the MTFP.

7.2 In order to achieve this objective we will:

a) Agree a detailed timetable for the closure of the accounts with Capita.

b) Liaise with our external auditors over the closedown timetable.

c) Enable review of the accounts by the Joint Audit and Governance Committee.

7.3 Significant current issues:

a) This function was outsourced to Capita on 1 August 2016.

b) The 2017/187 statement of accounts will be the first that have to be prepared ready for audit by 31 May.

8. Section eight - review

This strategy will be reviewed annually.

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