

MEDIUM TERM FINANCIAL STRATEGY

To: **General Purposes Committee**

Meeting Date: **9th September 2014**

From: **Chief Finance Officer**

Electoral division(s): **All**

Forward Plan ref: **Not applicable** *Key decision:* **No**

Purpose: **This report sets out the Council's Medium Term Financial Strategy for the next five years. This strategy will be updated annually at the commencement of the Business Planning process. Its core purpose is to provide a financial framework within which individual service proposals can develop before Council approves the budget and the Integrated Business Plan in February.**

Recommendation: **It is recommended that General Purposes Committee:**

- a) Confirms whether it wishes to retain a central provision, in order to manage the on-going delivery of the Business Plan, or that the over provision of base funding be fed back through the cash limit model (paragraph 3.3) to reduce the need for further service savings;**
- b) Acknowledges the indicative departmental cash limits; and**
- c) Recommends the Medium Term Financial Strategy to Council for approval subject to the above recommendations.**

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1. BACKGROUND

- 1.1 The Council has for a number of years adopted an integrated approach to service planning and budget setting. It does this through the business planning process that culminates annually with the Council agreeing the Business Plan in February.
- 1.2 The Business Plan covers a five year timeline and integrates policy objectives, resource allocations, and performance targets.
- 1.3 A key plank of the Plan is the budget strategy. To date the Strategy has been approved at the same time as the Business Plan in February. Given that the Strategy sets the financial framework that services should adopt in the construction of their budget proposals it is felt more appropriate that this is agreed at the start of the Business Planning process.

2. PURPOSE AND KEY DEVELOPMENTS

- 2.1 One of the key functions of the Medium Term Financial Strategy (MTFS) is to set out the Council's projected resources for the next five financial years. It also establishes a framework for the construction of the detailed budget proposals. It does not set out these detailed budget and the individual savings proposals as these are contained within the Business Plan. These proposals will be considered by service committees throughout the Autumn and Winter before being finally approved by Council in February.
- 2.2 The MTFS does however establish a guide to support services in this work and agrees a number of corporate methodologies for this process.
- 2.3 The most significant change to existing practice for the 2015/16 financial year relates to the timing of the MTFS. In previous years consideration of the Strategy would have been undertaken as part of the Business Plan. The approach adopted this year has been to set out the Strategy at the start of the business planning process in order to help improve transparency and to provide a clear framework to support the construction of the detailed budget proposals.
- 2.4 The Committee will be aware that the Council currently manages the budgeting process through the allocation of cash limits. These cash limits set the resource envelope within which services must operate. These are issued on a directorate basis. At this point in the business planning process these cash limits should be regarded as provisional as there may be a number of factors that affect the final allocations. Such changes could arise from changes to legislation, grant assumptions, or unforeseen service pressures.
- 2.5 The attached MTFS introduces the concept of a corporate fees and charges policy for the first time. Given the level of income that supports the budgets of individual services it was felt appropriate to ensure that a corporate framework was in place whilst leaving individual services to set the actual charges that are levied.
- 2.6 Given that this is the first year the Business Plan has been developed through a committee governance structure it was felt appropriate to include a section within the MTFS on the respective roles and responsibilities. The MTFS and the Business Plan, including departmental cash limits, remain the sole

responsibility of Council. GPC will recommend budget proposals to Council but this will be in a form of a recommendation which Council will have to agree, or not, as part of the budget setting decision making process.

- 2.7 The MTFS this year recognises that the current approach to budgeting, through the issuing of directorate cash limits, is rapidly reaching the point that it is not fit for purpose. The current methodology naturally leads to a silo based and salami slicing approach to savings which may not be in the long term interest of the Council. As a result the MTFS identifies that an alternative cross cutting approach will be developed that ,at least in the short term, will operate alongside the existing process. The new approach will be developed in the coming months and will support the 16/17 Business Planning process.

3. CASH LIMITS AND SAVINGS TARGETS

- 3.1 Cash limits are agreed as part of the Business Plan. The limits are agreed on a five year rolling basis and are updated to take account of changes to projections on demography, inflation, and service pressures. Elsewhere on this agenda are the known service pressures that have an identified financial impact. If agreed this will be included within the overall cash limit model. The inclusion of service pressures, and other budgetary changes, within the financial model affect the level of savings that are then redistributed through the cash limit methodology.
- 3.2 The following table sets out a summary of the savings requirement for the organisation as a whole. These assume the service pressures set out elsewhere on the Agenda are accepted for inclusion within base funding. The overall savings requirement is allocated proportionately to the cash limit of the directorates.

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Loss (+) / Gain (-) of funding	11,592	4,722	3,728	5,217	-7,039	18,220
Inflation	9,655	9,869	8,950	9,350	9,242	47,066
Demand	11,379	9,993	10,228	10,522	10,914	53,036
Pressure: Young Carers – assessments and support	175	-	-	-	-	175
Pressure: Deprivation of Liberty Standards	2,340	-1,540	-	-	-	800
Pressure: Emergency Duty Team	300	-	-	-	-	300
Pressure: Older People Service	3,000	-	-	-	-	3,000
Pressure: City Deal - Adult Learning Skills	200	-	-	-	-	200
Pressure: Business Planning Support	45	-	-	-	-	45
Pressure: Reinstatement of Voluntary Sector Infrastructure Budget	48	-	-	-	-	48
Investment: Exploitation of Digital solutions	258	-	-258	-	-	-
Pressures& Investments (Other) ⁽¹⁾	-3,004	1,969	-231	45	-	-1,221

Capital	4,985	4,350	804	488	131	10,758
Reserves	-5,096	3,937	1,599	-3,898	-3,487	-6,945
Other	42	-	-	-	-	42
Total	35,919	33,300	24,820	21,724	9,761	125,524
Cumulative	35,919	105,138	199,177	314,940	440,464	

- (1) This includes a reversal of £2.5m of the pressure on Older People's services from increased demand and demographic pressures that was included in the 2014-15 Business Plan since more accurate estimates have become available.

3.3 Members may recall that during the July meeting of this Committee a discussion took place regarding the over provision of £2.5m within the Older Peoples base budget for 2014/15. It was resolved by the Committee that this sum should be retained centrally as a GPC resource. This decision was made in order that the Committee had access to a specific budget that they could use to support the delivery of the Business Plan.

3.4 Given the service pressures highlighted in the report elsewhere on this Agenda the Committee are asked to reconsider this decision. The Committee could use this provision to partially negate the additional £7m savings asked that will be made at this point, if the service pressures are agreed, thereby minimising the impact on service committees. Should the Committee wish to retain this provision the full service pressures will remain within the cash limit figures as a further savings challenge.

3.5 Naturally the focus is always to ensure that the Council has a balanced budget for the forthcoming year and as far as possible the following year. This has been achieved but this becomes increasingly more challenging as the austerity measures cut deeper into service delivery.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with the local economy from the detailed proposals that will arise from the aforementioned allocations.

4.2 Helping people live healthy and independent lives

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with the people living healthy and independent lives from the detailed proposals that will arise from the aforementioned allocations.

4.3 Supporting and protecting vulnerable people

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be impacts associated with supporting and protecting vulnerable people from the detailed proposals that will arise from the aforementioned allocations.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

This report sets out the provisional revenue cash limits and a proposed capital programme for all service areas. The final cash limits will be approved by Council as part of the Business Plan in February 2015.

5.2 Statutory, Risk and Legal Implications

This report sets out provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there will be risks associated with implementation of the detailed savings proposals that will come forward as part of the Business Plan.

5.3 Equality and Diversity Implications

This report sets out provisional revenue cash limits and a proposed capital programme for all service areas. Whilst not a direct result of this report there could be equality and diversity implications arising from the detailed proposals and these will be identified in the individual equality and impact assessments of associated with each proposal.

5.4 Engagement and Consultation Implications

There will be a public consultation and engagement process that will support the final Business Plan proposals and these will support the development of the Business Plan to be considered by the Council in February.

5.5 Localism and Local Member Involvement

There are no issues directly arising from this report.

5.6 Public Health Implications

There are no issues directly arising from this report.

Source Documents	Location
Council Business Plan 2014/15	http://www.cambridgeshire.gov.uk/info/20043/finance_and_budget/90/business_plan_2014_to_2015