Amended in accordance with Cabinet's Recommendation

Medium Term Financial Strategy 2010 to 2014

Plymouth City Council

Oct 2010

City of Plymouth

Medium Term Financial Strategy 2010-13

Contents:

1. Our Summary financial objectives:

(a) Medium term financial forecasts will be monitored and managed regularly by Corporate Management Team and Cabinet. Future years' revenue funding gaps will be addressed on an on-going basis.

(b) Council Tax to remain in line with government guidelines with a tax 'freeze' in place for 2011/12. In future years we will strive to maintain Council Tax levels as low as possible;

(c) Retain a revenue working balance of at least 5% of net revenue budget at the end of each financial year;

(d) Where practical, (depending on grant conditions), to 'pool' grant funding with all other revenue resources and allocate based on corporate priorities as per the council's corporate plan and partnership's Sustainable Community Strategy;

(e) Spending departments may carry forward up to 50% of end of year revenue underspend, (subject to overall year end position and approval by CMT), as long as such underspend is declared and reported from September monitoring onwards. Use of carry forwards must link directly to priorities;

(f) Departments may be required to carry forward any end of year overspend, as directed by CMT, and make good this spend over future financial years;

(g) To formally review the purpose and adequacy of specific reserves and provisions on an annual basis and to regularly monitor and report on key variations against such reserves through finance and performance reports;

(h) To continue to drive Value for Money (VFM) throughout the council by undertaking robust benchmarking and encouraging departments to set VFM targets based on high spending and/or poorly performing services;

(i) Maximise opportunities for generating efficiencies through effective commissioning and joined up spending with key partners;

(j) Financial Regulations and levels of Delegated Authority to be formally reviewed and approved by the Audit Committee annually;

(k) To maintain or improve income collection rates and to minimise the amount of debt written off by the council.

How we will measure our progress:

(l) Maximise delivery of the Council's budgeted capital programme for 2010/11 and continue to monitor and report on outcomes achieved through capital investment;

(m) Generate the £28m of capital receipts required to deliver the capital programme by March 2015.

(n) Deliver a year on year net revenue budget outturn within a tolerance of up to 2% underspend and maximum of 1% overspend;

(o) Aim to achieve the required year end balances for specific reserves and provisions to meet the costs of known future financial commitments;

(p) Reduce costs whilst maintaining or improving service quality to achieve the departmental Value for Money targets as set within the 2010/11 revenue budget

(q) Aim to achieve 2010/11 in year income collection targets of:

- Council Tax 96.5%
- NNDR 97.5%
- Commercial Rents 90.0%
- General debtors 92.5%

(r) Work towards the following Treasury Management targets under our (March 2010) revised policy:

- Maintain the council's overall investment portfolio at under £188 throughout the financial year;
- Achieve a return on new investments in the (2010/11) year of 1.25%
- Maintain an overall level of council borrowing of under £281m throughout the financial year;
- Generate a revenue saving in excess of £100k per annum through buying back, and rescheduling, debt currently managed by Devon County Council (approx £34m at an average rate of 5.4%)

2. Introduction

This summary Medium Term Financial Strategy, (MTFS), covers the period 2010-14. It identifies the likely costs and pressures that the council will face and matches these against the anticipated resource allocation over the period.

This version updates the MTFS produced in May 2010, which was presented to Cabinet on 8th June 2010 and the Overview & Scrutiny Management Board on 30th June 2010. The intention is to update the previously presented information for any relevant impact on funding from the Government's Comprehensive Spending Review of 20th October 2010.

At this date, although we know the headlines from the CSR, we are still awaiting details and the full impact on Plymouth City Council. We have national headlines rather than the individual grant allocations for our Authority; the earliest we can expect to have more detail is towards the end of November 2010.

The CSR national headlines are a real terms reduction of 28% in local authority budgets over the next four years. The fall in grant is more than 7% a year. However, we are awaiting confirmation of what specific items are covered by grants. This is because there are moves to include a number of specific grants within the formula grant, and exclude others previously included.

The MTFS is a core document that enables the council to deliver against its priorities as detailed in the Corporate Plan 2010-13 and progress against the 35 Local Area Agreement targets in support of the Sustainable Community Strategy. The Council's priorities are currently being updated.

This document should not be read in isolation. It needs to be read in conjunction with the Council's 2010/11 Revenue and Capital Budget reports. This strategy supplements the figures noted in the budget for the current financial year 2010/11 and looks ahead and models the financial resources and spending plans for the next three years 2011/12 – 2013/14.

With effect from the 11/12 financial year, the Council needs to have a sharper focus on a fewer number of priorities to continue to drive improvement. The evidence based 'Plymouth Report' has led to the adoption of four city and council priorities.

The Strategy outlines the council's attitude to risk, governance arrangements for effective financial management, opinion regarding council tax levels and objectives for retaining adequate reserves.

Developments and enhancements will be made to this document on a rolling basis in order to continuously improve our approach to aligning revenue and capital spend to areas of highest importance for our local communities.

The MTFS is closely linked to, and complements, all of the council's core documents as contained within our budgetary framework. These documents are available to download from our website (www.plymouth.gov.uk).

The future of Local Government funding is still uncertain with more detail required following the October 2010 CSR. We do know there will be significant spending reductions in the coming years. This MTFS presents a financial context regarding the scale of this challenge. The council is developing a transformational change programme in response to the financial challenges ahead in order to proactively bridge the funding gap whilst maintaining and improving the services that we provide to our customers.

This Strategy covers:

General Fund – expenditure and income relating to the day to day delivery of our core services and functions. For 2010/11 this equates to £612.5m spend and £410.7m income, leaving a net revenue requirement of £201.8m;

Housing Revenue Account (HRA) – The council successfully transferred its Housing Stock to Plymouth Community Homes in November 2009. It therefore no longer operates an active HRA, hence this section of the MTFS has been removed.

Capital – The council has reviewed and updated its five year capital programme considering the current economic climate, accounting for future risks around government capital allocations and achievability of capital receipts. We still have an ambitious and significant investment programme in physical assets and local infrastructure. Targeted capital investment will help contribute towards achieving corporate priorities and/or generate on-going revenue savings. Our planned capital spend up to the end of March 2015 is £189m

3. The Corporate Planning Framework 2010-14

The Plymouth 2020 local strategic partnership has a shared vision of making Plymouth "One of Europe's finest, most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone" by 2020.

To achieve this shared vision the partners have agreed to focus their priorities around four themed areas aimed at making the city healthy, wealthy, safe and wise. The diagram below shows how the vision for the city is being delivered through theme groups and supported by the partnership.

Partners have their own visions and strategies that ultimately aim to deliver that shared vision for the city. Plymouth City Council's vision is to deliver excellent local services to Plymouth residents and has set itself the goal of becoming an "excellent" authority by 2012.

Our shared priorities for the city

The priorities below were identified for both the council and the partnership following publication of the Plymouth Report, which for the first time brought together needs analyses and capacity data from across the city as a basis for priority setting.

Deliver growth

- Promote Plymouth as a thriving growth centre by creating the conditions for investment in quality new homes, jobs and infrastructure

Raise aspirations

- Promote Plymouth and encourage people to aim higher and take pride in the city

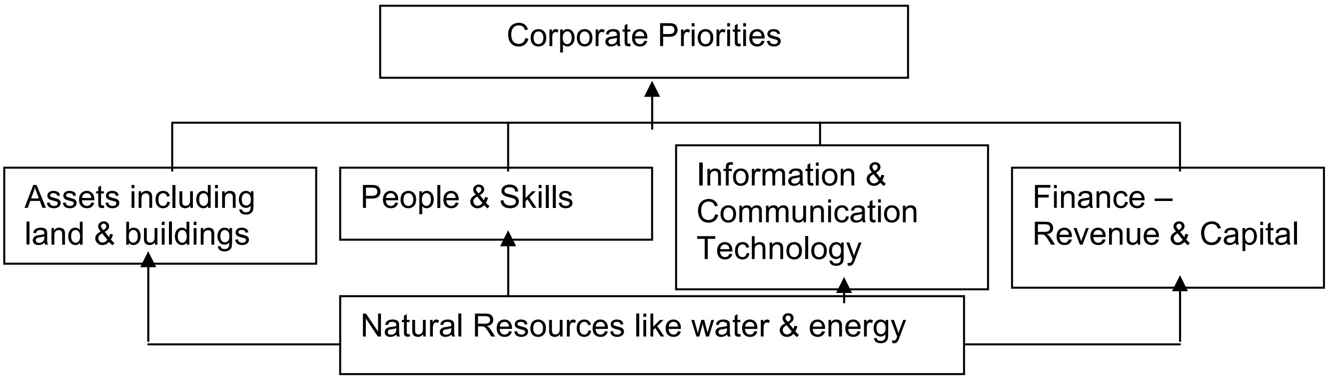
Reduce inequality

- Reduce the inequality gap, particularly in health, between communities

Provide value for communities

- Work together to maximise resources to benefit customers and make internal efficiencies

Figure 1: Use of Resources Planning Framework



Reporting to Corporate Management Team, Cabinet and Scrutiny will continue to combine progress against priorities with key performance indicator information, revenue budget forecasts and capital programme updates.

4. Our General Fund Revenue Budget

Revenue Resources available

The Comprehensive Spending Review (CSR) 2007 allowed the council to plan, with reasonably certainty, the revenue resources available up to, and including, the 2010-11 financial year. However, revenue resources from 2011/12 onwards is, at this stage, uncertain. Indications are that, due to the level of national debt, future settlements will be extremely challenging for local government resulting in significantly reduced funding. The full extent of the CSR announced in October 2010 has still to be fully understood in terms of clarity for 2011/12 – 2013/14. The review headlines Grant reductions of 7%+ per year plus a Council Tax freeze. However, there is also discussion around a 2.5% special grant to compensate for the ”lost” council tax increase. Due to the lack of clarity, this report builds on our previously published assumptions around a 5% grant reduction each year together with a council tax freeze.

The impact of such a permutation is as follows:

Figure 2: Revenue Resources Forecast

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Formula Grant	**106.022**	**100.721**	**95.685**	**90.901**
Increase / (decrease) over previous year	2.5%	(5.0%)	(5.0%)	(5.0%)
Council Tax income including collection fund	95.803	95.803	95.803	95.803
Total Resources available	**201.825**	**196.524**	**191.488**	**186.704**

This requires the council to actually reduce revenue spend by over £15m between 2010/11 and 2013/14, with no allowance given for growth or known service pressures. The Council is therefore adopting a new process for setting the budget, using eleven cross cutting themes to drive savings out.

Treatment of Specific Grant Funding

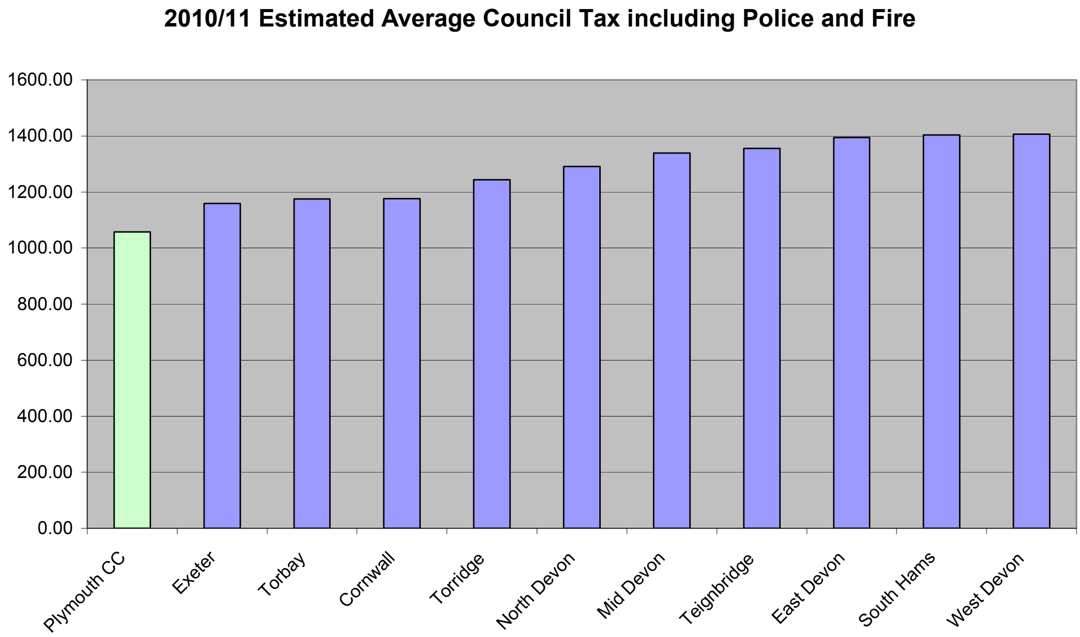
The largest specific grant that the Council receives is the Dedicated Schools Grant (DSG). In excess of £150m, the funding is spent either directly by Schools, (Primary, Secondary and Special), through their formula allocations, or by the authority on their behalf. The Schools Forum, (a representative group of Head Teachers and relevant stakeholders), are consulted on the local authorities formula distribution and the amounts administered centrally. Any over or underspends on the DSG are carried forward to the following financial year with a neutral impact on the council’s general fund.

Where practical, (depending on grant conditions), the Council aims to ‘pool’ all non- ringfenced grant funding received with all other revenue resources. Total resources are allocated based on corporate prioritisation linked to the council’s corporate plan and partnership’s Sustainable Community Strategy.

Council Tax

The Council Tax increase levied by Plymouth City Council for 2010-11 is 2.89%. This increase retains Plymouth City Council as the lowest average council tax across Devon and the wider South West as detailed in the following graph:

Figure 3: 2010/11 Devon Average Council Tax



A number of specific revenue pressures has led to having to increase the council tax, including increased costs in adult social care regarding the growing number of elderly people in the area, increased costs of waste disposal and the national trend of increasing number of children in care. The economy is also placing pressure on revenue and capital budgets for example, through falling income collection rates and reduced ability to generate capital receipts.

The council's aim, as stated in this strategy, is to strive to maintain Council Tax levels as low as possible. We have managed to reduce the percentage increase in Council Tax for each of the last three financial years. For 2011/12 it has been indicated that there will be a national 'freeze' on Council Tax. For financial modelling purposes, figure 2 continues to 'freeze' Council Tax levels for each of the next three years.

Every 1% increase, (or decrease), in the levy of council tax equates to approximately £950k of revenue funding.

There is a desire to maintain the status of being at, or towards, the lowest average council tax in the region. Therefore, any future council tax rises will give full consideration to this and, as such will:

(a) Not exceed Government guidelines for any individual year and;

(b) Will strive to continue to reduce the level of year on year increases levied

Budget Pressures and Medium Term Financial Forecast

The Council set its revenue budget for 2010/11 at the Council meeting on 1 March 2010. Council Directorates have, for some time, identified known and anticipated expenditure pressures on a rolling three year basis. These pressures have been reported within bi-monthly performance and finance reports presented to Cabinet and Scrutiny throughout 2009/10.

Budgeting over the medium term, we have allocated revenue funding to match known revenue pressures for 2010/11 and provided notional allocations for the following two financial years. This allocation has been undertaken on a priority basis linking with corporate improvement priorities, deliberately placing more funds into frontline, key services for the public.

We have identified a number of high risk, and high cost, issues that will have a significant impact on future year's revenue budgets:

Waste disposal costs
Waste disposal costs are rising in every council across the country. We continue to work in partnership with Torbay and Devon County Councils to build an 'Energy to Waste' plant as our solution to long term waste disposal. A waste management reserve has been set up to prepare for the future however, the actual cost of waste collection and disposal over the next ten years and beyond significantly outweigh existing provision.

Reduced income through economic downturn
We continue to strive to improve our income collection rates in all major areas including council tax, NNDR and sundry debtors. Challenging income targets have been set for 2010/11 however there is a risk that the economic climate could continue to impact on our ability to be able to achieve these targets.

Reduced return from council investments
Prior to 2009/10, the council has been very successful in generating significant returns on investments through its treasury management activity. In a financially unstable market, we will not be able to achieve such rates of return for the foreseeable future. For 2010/11 we have assumed a rate of 1.25% return on all new investments made. With the Bank of England base rate currently standing at 0.50% (as at March 2010), this target is challenging and represents a risk.

Demographic growth in elderly residents
The impact on adult social care budgets of the increasing number of younger adults with complex personal care needs combined with increasing life expectancy of both younger adults and the elderly population is recognised throughout the country. Plymouth has a higher than average elderly population and, as such, is anticipating significant cost pressures in the medium to long term. Funding has been allocated for this for each of the three years in the MTFS. However, there is a strong risk that this allocation will be insufficient to meet with actual demand.

Increasing number of children in care
Recognising that we have had a higher than average number of children in care, we have actively been reducing the number in care since 2007/08. Our revenue budget is now in line with unitary average council spend. However, high profile media cases has resulted in a national trend of increasing numbers of children in care and there is a risk that actual (financial) demand could exceed the resources available.

Pensions
The council's next three year review of its pension fund assets and liabilities will be undertaken in 2011/12. Our current employer superannuation contribution rate is 19.4%. There is a strong risk that the next valuation could identify a significant funding gap on the Pension fund and require a higher employer contribution rate. In addition, additional pressure on pension liability is attributable to the transfer of staff to Plymouth Community Homes and the new CityBus operators (where full pension liability has to be met by Plymouth City Council). The Coalition Government has announced a fundamental review of public sector pensions and we will not know the impact of any funding changes until Spring 2011.

Building Schools for the Future (BSF)
The City Council successfully progressed its BSF bid and stood to receive approx £70m under phase 1 to reinvigorate five secondary Schools. This was a significant investment opportunity in the City. However, the new Government has ended the BSF programme for projects not already commenced. The October 2010 CSR announced a review of the school building programme, with an as yet unknown outcome for Plymouth.

Housing Stock Transfer (residual costs)
The council transferred its housing stock to Plymouth Community Homes (PCH) in November 2009. Although this will bring, much needed, major investment in improving living standards for many Plymouth residents, there is a residual cost of the transfer that has to be born by the council. For example, the council needs to fund the pension shortfall for staff who TUPE'd to PCH. Future capital monies through either 'right to buy' receipts or the 'VAT shelter, are available to assist in addressing these revenue pressures.

Summary of revenue pressures and future years budget gap

Clearly we are not able to fund all of these budget pressures without introducing management action to reduce costs. As a starting point, we have allocated provisional figures to each pressure area to better understand the challenge that is facing the council in future years. This can be seen as **Appendix A**, and summarised as follows:

Figure 4: Revenue Forecast –resources vs spending plans

	2010/11	2011/12	2012/13	2013/14
Formula Grant (based on 5.0% reduction)	**106.022**	**100.721**	**95.685**	**90.901**
Council Tax income (based on a Council Tax freeze)	95.803	95.803	95.803	95.803
Total Resources available	**201.825**	**196.524**	**191.488**	**186.704**
Known Spending Plans	*** 202.325**	**208.335**	**212.045**	**216.505**
Forecasted Funding Shortfall	**0.500**	**11.811**	**20.557**	**29.801**

In summary, a possible scenario of reduced revenue resources combined with a 'no change' approach on current spend plans could result in a revenue funding gap of **£11.8m in 2011/12 rising to £29.8m in 2013/14**

In response to this, the Corporate Management Team is working with the Cabinet to develop a transformational change programme that fundamentally challenges the organisation's culture, structure and approach to service delivery. This change programme, which will include proposals for 'invest to save' will be finalised, progressed and reported on throughout 2010/11.

The Corporate Management team are also working with the Cabinet to challenge all of the underlying assumptions used in the spending plans. To achieve a balanced budget given the reduced funding, we will have to radically change the way we work as a Council.

Income Collection

In-year collection targets have been set for Council Tax, Business Rates, Commercial Rent, and Sundry Debt Income. The Council's major sources of income will continue to be monitored and reported on a regular basis.

In 2009/10 we have continued to increase our collection rates in all of our core income streams other than NNDR. However, due to the difficult economic conditions, we have fallen slightly short of the ambitious targets that we set.

For future years, we continue to set year on year improvement targets to generate as much 'in year' income as possible. Robust action plans are being delivered to ensure that future year targets are achieved.

Figure 5: Income Collection Targets

Type of debt	Actual % 09/10	Target % 10/11	Target % 11/12	Target % 12/13	Target % 13/14
Council Tax	95.20%	96.50%	97.00%	97.00%	97.00%
NNDR	96.00%	97.50%	98.00%`	98.00%	98.00%
Commercial Rents	85.00%	90.00%	92.00%	94.00%	94.00%
Sundry Debt	88.00%	92.50%	93.00%	93.50%	93.50%

Council Tax and Non-Domestic Rates
Collection targets for the medium term period are based on achieving top quartile performance, based on current quartile projections for our family group. For Council Tax, we have continued to make significant progress, improving from collecting 92.5% in year for 2007/08, raising to 94.5% in 2008/09 and 95.20% for 2009/10. We continue to promote Direct Debit as our preferred method of collection and will continue to explore further options to maximise the level of income collected.

Commercial Rents
We have separated out the collection of Commercial Rents income from 'Sundry Debtors' in order to target specific improvement activity on collecting this income from the relatively low baseline of 85% as identified in 2009/10. We believe that a year on year target of achieving an additional 2% is achievable over the medium term.

Sundry Debt
Although we did not manage to achieve our 09/10 target of 92.5%, by focusing our efforts on risk, materiality and our key customers we have continued to improve in year collection during 2009/10. Our 3 year targets will enable us to compare favourably with the Unitary average (as part of the annual CIPFA Benchmarking).

Collection of sundry debt remains a challenge. Action has been taken to bring the billing and recovery of commercial rent under the responsibility of Finance, Assets & Efficiencies and this function now sits under the control of the Income Maximisation Manager, this will ensure synergy in collection strategies, to optimise collection rates and promote cross function working. Performance is still tracking above previous year levels, and we remain on target to achieve overall collection of 92.5%.

VAT

The standard rate of VAT will increase to 20% with effect from 4 January 2011. Action is being taken to ensure that where appropriate, all affected Council services will be charged at the correct VAT rate.

Revenue Spend and Income Assumptions

In forecasting our future year expenditure commitments, a number of assumptions are made on increased costs such as inflation, income levels, grants, superannuation etc. The key assumptions made within our medium term forecast are as follows:

Figure 6: Key spending / inflation assumptions

Description	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**Sensitivity**
Pay, NI, Price	1.00%	1.00%	1.00%	1.00%	+/- 0.50% = £0.500m
Superannuation increased employer contribution	0.00%	5.00%	5.00%	5.00%	+/- 1.0% = £0.162m
Energy – increases	10%	5%	5%	5%	+/- 5.0% = £0.149m
Income – fees and charges	3.00%	3.00%	3.00%	3.00%	+/- 0.50% = £0.182m
Return on council investments	1.25%	1.50%	2.50%	2.50%	+/- 0.50% = £0.181m
Specific Departmental Assumptions					
Social Care Commissioning	0%	2.00%	2.00%	2.00%	+/- 0.50% = £0.349m
Supporting people	up to 3.5%	up to 3.5%	up to 3.5%	up to 3.5%	+/- 0.50% = £0.041m
Children's services placements	0%	2.50%	2.50%	2.50%	+/- 0.50% = £0.032m
Total Sensitivity / Risk re: changes to the above Expenditure assumptions:				**+/- £1.596m**	
Resources					**Sensitivity**
Council Tax	2.89%	0.00%	0.00%	0.00%	+/- 0.50% = £0.475m
Formula grant variation	2.5%	-(5.00)%	-(5.00%)	-(5.00%)	+/- 0.50% = £0.530m
Council Tax total collected	98.50%	98.50%	98.50%	98.50%	+/- 0.10% = £0.100m
Total Sensitivity / Risk re: changes to the above Resource assumptions:				**+/- £1.105m**	

CMT and Cabinet will continue to monitor, review and challenge the above assumptions to ensure any increases are kept to an absolute minimum.

Revenue Delivery Plans

As part of the 2011/12 budget setting, Directors, Assistant Directors and Cabinet have signed up to Revenue Delivery Plans and eleven cross cutting budget delivery items. These plans detail the key actions that will have to be put in place in order to deliver a balanced budget.

Governance

1. Department budgets will remain with ultimate responsibility and accountability resting with Directors and their DMTs, with overview provided by CMT.

2. Any additional resources allocated or spending reductions applied through the theme groups will be translated to clearly show the impact on overall departmental budgets (same as applied for the 2010/11 in year revenue spending reductions)

3. Thematic Groups will meet and develop clear plans as to how to achieve the three year spending reduction targets that they have been set. Progress from these groups has to be fed back into Departmental Management Teams (and/or Departmental Improvement Boards)

4. Departmental Management Teams (and/or Improvement Boards) will maintain an overview of progress against their 3 year departmental budgets using the existing, risk rated 'Delivery Plan' process.

Delivery Plans will promote accountability and ownership of the budget whilst focussing senior manager and member attention on the key strategic issues and risks. They will be monitored throughout 2010/11 as part of standard performance and finance reporting.

Significant Reserves and Provisions

The council has created a number of specific reserves and provisions in order to plan in advance for known and anticipated future revenue costs. We will regularly review the appropriateness and use of these reserves throughout each financial year. Where relevant, recommendations for changes will be reported to Cabinet on an on-going basis. As a minimum, **all** specific reserves will be reviewed on an annual basis in March as part of the end of year accounting closedown arrangements.

A brief description of the purpose of each of our significant specific reserves and provisions is as follows:

Waste Management Reserve
The cost of disposing the City's waste is due to rise sharply over the coming years. Since closing our landfill site, Chelson Meadow, (due to it being full), we have entered into a contractual arrangement to dispose our waste in Cornwall for the immediate future. Longer term, we are entering into a Private Finance Initiative, (PFI), with Devon County and Torbay Councils to build a new 'waste into energy' plant. We are putting aside regular contributions to meet the anticipated increased cost of waste disposal.

Job Evaluation / Equal Pay
The council successfully implemented Job Evaluation and Equal Pay during 2008/09. The on-going revenue costs associated with this has been built into budgets and medium term forecasts. However, there is potential for increased revenue costs if the total salary bill, including successful appeals, outweighs the additional funding that has been allocated to departments.

Invest to Save
Following a full review by CMT, it is proposed to transfer unused monies from earmarked reserves to a new Invest to Save reserve scheme. These reserves will be allocated to projects which will generate future savings.

Redundancy Costs
To achieve a balanced revenue budget for 2010/11, and beyond, a number of revenue budget delivery plans will result in reduced staffing. The council will continue to work towards minimising redundancies where possible and practical to do so. However, bearing in mind the likely future local government finance settlements, it is prudent to establish a redundancy reserve.

Capital Financing Reserve
A capital financing reserve has been established to fund risks around future achievement of our five year capital programme. Since the economic downturn, pressure has intensified on capital budgets through not being able to generate the required level of capital receipts. The primary purpose of this reserve is to meet the revenue costs associated with having to take out short term borrowing to match the cashflow gap of when capital spend is required linked to when actual receipts are anticipated.

Provision for Icelandic Bank Losses
The council had £13m of investments with failed Icelandic banking organisations, Glitnir, Heritable and Landsbanki which collapsed in October 2008. We continue to work towards retrieving as much of this investment as possible however, at present, it is unclear how much we are likely to recoup. In 2009/10 the council successfully applied for a capitalisation direction for £5.7m to meet the worst case scenario of our losses, which has been added to our five year capital programme. This reserve will help fund the revenue cost of any required borrowing to meet this direction.

Accommodation Reserve - preparing for new Civic Centre
The council's existing Civic Centre is not 'fit for purpose'. It is expensive to maintain and, in the long term, is not structurally secure. Funding needs to be set aside to progress with alternative office accommodation whilst meeting the costs of essential, unplanned maintenance of the Civic Centre. This is detailed within our accommodation strategy and forms part of the council's strategic asset management plan.

Insurance Fund Reserve
A provision that has been set up to meet the cost of anticipated future insurance claims based on existing known liabilities and estimated future liabilities. It enables the council to reduce its payments to external insurance providers by transferring some of the risks of small claims to the authority.

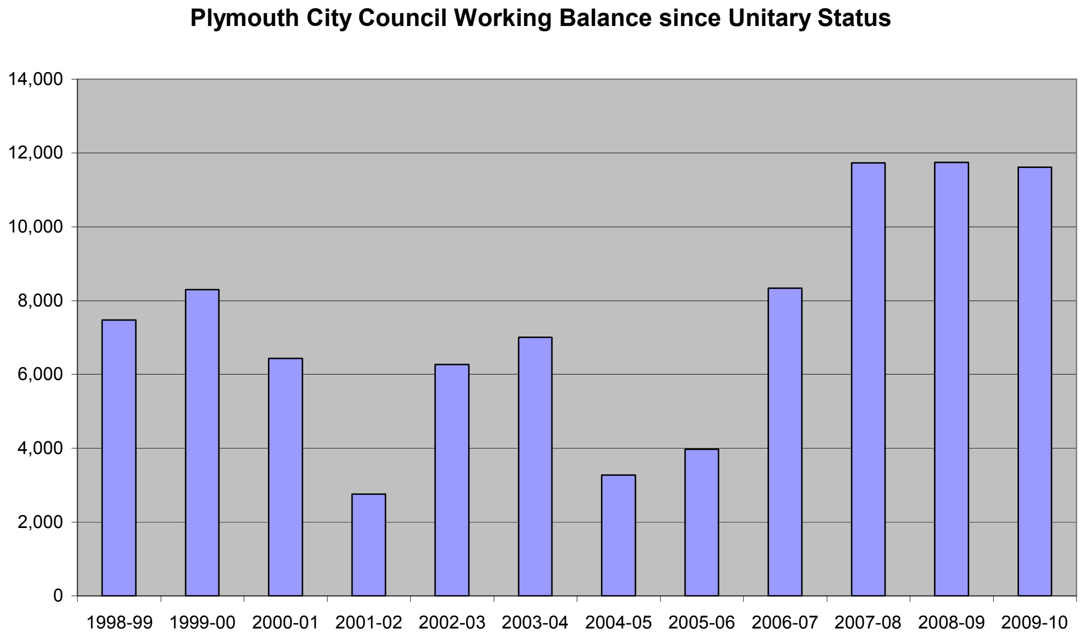
Figure 6 represents what we are planning will be in these reserves and provisions at the end of each of the next three financial years:

Figure 7: Targeted significant reserves and provisions

	Estimate 31 Mar '10 £000	Target for 31 Mar '11 £000	Target for 31 Mar '12 £000	Target for 31 Mar '13 £000	Target for 31 Mar '14 £000
Waste Management Reserve	1,500	1,750	2,000	2,250	2,250
Corporate Improvement Reserve	2,298	0	0	0	0
Job Evaluation / Equal Pay	1,345	0	0	0	0
Redundancy Costs	582	500	0	0	0
Capital Financing Reserve	975	975	650	450	0
Provision for Icelandic Bank Losses	134	100	75	0	0
Accommodation provision - Civic Centre	1,812	1,562	1,300	1,000	1,000
Insurance – General Fund Reserve	1,179	1,000	1,000	1,000	1,000
Invest to Save	0	2,500	1,000	500	0

Working Balance
The Council's 'Working Balance' is the revenue reserve that is put aside to cover any significant business risks that might arise outside of the set budget. This reserve has significantly improved over recent years and, as at March 2010, stood at £11.5 million. This equates to approximately 5.7% of net revenue budget for the year which in line with the average for Unitary Councils. We continue with our policy of maintaining adequate reserves giving consideration to the significant constraints that will be placed on public sector spending for the foreseeable future.

Figure 8: Working Balance Levels



The Audit Commission does not provide specific guidance on what the level of council reserves should be other than that they should be adequate to cover potential risks. Plymouth has significantly improved the approach to risk management over recent years. Our strategic and operational risk registers are comprehensive and are regularly reported to, discussed and challenged by senior officers and members.

5. Our Capital Position

Our financial strategy for capital has been to fully utilise the supported capital borrowing allocation available to us in tandem with maximising the availability of grant and third party payments.

We maintain the principle that capital schemes are only approved into the programme where specific funding has been clearly identified and supported by business cases. Thereby, the capital investment programme, at any set point in time, will evidence 100% funding allocation against approved schemes. Capital investment is prioritised to ensure that outcomes are maximised against the council's Priorities.

The council continues to challenge the affordability of its five year capital programme for the period 2010/11 to 2014/15. There remains significant volatility around future capital grant funding and income generation through capital receipts. Criteria that the council applies in prioritising the programme is detailed in **Appendix B.** The comprehensive spending review indicated that local authority funding for capital schemes was facing a reduction of up to 45%.Until the full implications of the CSR, have been identified, a hold has been placed on any further new commitments against any unringfenced funding within the Capital Programme.

The revised programme for the period 2010/11 to 2014/15 of **£189m** was approved by Full Council on 11 October 2010 (this excluded the 2009/10 figures which were part of the last published MTFS). Further monitoring and new projects are subject to approval by Full Council on 6th December 2010 and produce a programme as follows:

Figure 9: Five year Departmental Capital Programme

	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s	**Total £000s**
Children's Services	34,357	19,091	14,953	-	-	**68,341**
Community & Neighbourhood	25,770	18,428	939	-	-	**45,137**
Development & Regeneration	28,820	16,042	6,203	6,530	7,656	**65,251**
Corporate Support/items	3,232	6,398	560	500	-	**10,690**
	92,179	**59,899**	**22,655**	**7,030**	**7,656**	**189,419**

This spend will be funded by:

	£000
* Capital Grants/Contributions	88,721
* Supported Borrowing	33,260
* Unsupported Borrowing	28,473
* Capital Receipts	28,283
* Section 106 / Revenue / Funds	10,682

We remain committed to a significant capital investment programme despite the current economic climate. The Council, engaging with partners in major regeneration of the City, will not only contribute towards delivering improvement priorities, but will also help to sustain much needed work opportunities in the local area (for example, the construction industry).

Significant schemes that will be delivered by 2014 include:

- £37.5m on a state of the art new college at Estover;
- £14.2m on improving Schools in the Southern Way Federation;
- £8.6m for a new School at Efford;
- £6m on the modernisation of Mill Ford special School;
- £22m on improving transportation Plymouth (Local Transport Plan);
- £60m on improving transport access in Eastern side of the City Centre;
- £3.2m on regenerating the West End;
- £3.88m on bringing Devonport People's Park 'back to life';
- £46.5m on the Life Centre.

We are developing our long term waste disposal solution with Torbay and Devon County Councils, building a multi million pound waste to energy plant, with the Waste Partnership looking to announce a preferred delivery partner in 2011.

Following the emergency budget announcements by the coalition government in June 2010 the Council has had its BSF funding removed and officers are awaiting details of what funding is likely to be available for those projects and 'basic need' schemes nationally.

Capital Receipts

We will regularly review the assets that we own to ensure that they are fit for purpose and optimise the use of capital receipts, where deemed beneficial, in order to support our overall capital investment programme. However, our ability to generate capital receipts has been severely impacted in recent months due to rapidly falling land and property prices.

In reviewing the capital programme as part of 2010/11 budget setting we have significantly **reduced our reliance on capital receipt funding to £28.2m over the five year period**. This funding is based on a schedule of specific assets, with current estimated valuations and proposed timing for disposals. Our view is that we will only dispose of very few assets over the next three years, with disposals increasing towards the end of the five year programme on the assumption that market conditions will improve.

The council has built in the requirement for **additional temporary borrowing** to cover the shortfall in capital receipt income for the 2010/11 and 2011/12 financial years. It is planned that this borrowing will be repaid in future years to coincide with our forecasted capital receipt income. Capital receipt generation will be kept under constant review by the Capital Delivery Board as part of regular monitoring. Any variations to the forecasted position will be reported to Corporate Management Team and Cabinet at the earliest possible opportunity.

Invest to save

A vital element of effective financial management for future years is our ability to commission, and deliver, invest to save projects that improve services provided to our customers and efficiencies in the way in which we work. As part of 2010/11 budget setting, we were open with our intent to develop relevant schemes, through capital funding, that will drive transformational change and generate revenue savings. The first of these to progress is the accommodation strategy which is rationalising the number of office premises to release revenue savings.

6. Our Approach to Treasury Management

The council's approach to Treasury Management has been significantly revised since the collapse of the Icelandic banking institutions in October '08. Plymouth has £13m invested with failed Landsbanki, Glitnir and Heritable Banks. As at October '10, we have received back £1.431m , however, it is still not known as to how much, in total, the council is likely to receive. We have therefore applied for, and successfully been granted, capitalisation directions of £5.7m to cover the worse case scenario of these investment losses which has been added to our five year capital programme. The council continues to vigorously pursue all outstanding monies.

The council's published Treasury Management Strategy details our borrowing limits and specifies approved institutes for investment, (with maximum limits), based on credit ratings and other pertinent factors. We maintain regular engagement with our Treasury Management advisors, ArlingClose, and constantly seek their advice on our strategic direction and key operational decisions.

Inevitably, our approach to Treasury Management activity is now much more risk adverse and entails only investing with a very small number of financial institutions with the highest possible credit rating backed by added security.

With significantly lower interest rates from investments, we have adopted an approach of proactively reducing our overall borrowing and investment portfolio and associated revenue costs. Throughout 2009/10 we have reduced our investments by over £60m, making a corresponding reduction in council borrowing of over £100m (includes the transfer of council housing stock).

Borrowing Limits

The Council is required to set out its annual Borrowing and Investment Strategy recognising its implications on the Council's revenue budget.

It is a statutory duty under the Local Government Act 2003 for the council to determine and keep under review how much it can afford to borrow. The Council must have regard to the Prudential Code when setting its Authorised Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax and Council rent levels is 'acceptable'.

The council approved its revised Treasury Management and Investment Strategy in March 2010. In this Strategy with have approved the following borrowing limits:

- The Authorised Borrowing limits of 2010/11 = £347m, 2011/12 = £337m and 2012/13 = £324m;
- The Operational Boundary limit of 2010/11 = £295m, 2011/12 = £295m and 2012/13 = £293m

Devon Debt Rescheduling

At the start of 2010/11, the council still had a proportion of its debt managed by Devon County Council. This debt relates to the dis-aggregation of assets and liabilities upon the formation of Plymouth City Council at the last Local Government Re-organisation in 1997.

The value of this debt was approximately £34m. The associated revenue costs that we paid Devon for managing this debt was based on an average percentage rate of the County Council's entire borrowing portfolio. In 2009/10, PCC paid a rate of 5.4% on the £34m debt.

Over the last two years borrowing costs, nationally, have significantly reduced. In June 2010 we took the opportunity to 'buy back' the £34m debt from Devon County Council and rescheduled this debt at a reduced percentage rate in order to generate revenue savings.

In this MTFS, we have budgeted to generate revenue savings of £100k in 2010/11 through this transaction.

Treasury Management Targets

Our Treasury Management Board maintains weekly meetings making strategic decisions on managing risk whilst optimising our investment rate of return and minimising our borrowing costs.

In terms of our strategy moving forward, we will aim to maintain a modest investment and borrowing portfolio throughout this period of financial uncertainty. As a guide, we will aim to keep our overall investments below £188m and our borrowing below £281m.

Despite low interest rates, the council will still require to undertake a number of investments in each financial year which is linked to the timing of core income being received and payments being made. The Treasury Management Board has set itself clear targets for financial returns for **new investments** which have been built into the MTFF. Targets have also been set for, not only reducing our financial level of borrowing, but also the average rate of interest that we pay for our remaining borrowing portfolio.

Figure 10: Targets for Investment & borrowing Percentage Rates

Financial year	Rate of return for **new** investments	Average borrowing as @ 31 March
2010/11	1.25%	4.10%
2011/12	1.50%	4.50%
2012/13	2.50%	4.50%
2013/14	2.50%	4.50%

Minimum Revenue Provision (MRP) Policy

The Council is required to make a revenue charge each year to provide for the repayment of loans taken out to finance capitalised expenditure.

Government's Capital Financing Regulations places the duty for an authority each year to make an amount of Minimum Revenue Provision which it considers to be "prudent". The prudent provision is to ensure that debt is repaid over a period reasonably in line with that over which the capital expenditure provides benefits.

Under the regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP and submit it to the full Council. The approved policy for 2010/11 is as follows:

Supported Borrowing
For borrowing supported by Revenue Support Grant the Council will continue to use the current method of 4% of the adjusted Non-HRA capital financing requirement.

Unsupported Borrowing
For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual installments over the life of the asset.

Capitalisation Directions
For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made in equal annual installments over 20 years in line with DCLG guidance.

In all cases MRP will commence in the financial year following the one in which the expenditure is incurred.

7. Efficiencies and Value for Money

The 2007 Comprehensive Spending Review required councils to generate 'cashable' efficiency savings of 4% per year for each of the three financial years up to and including 2010-2011, a cumulative figure of £27m.

The Value for Money reviews that the council has undertaken to date provide evidence that we have reduced costs whilst either maintaining, or improving, service quality in areas such as planning, waste collection, learning disabilities and children's social care.

With effect from 18 October 2010 Councils are no longer required to report efficiencies to Central Government through NI 179 and the overall requirement for central data reporting is currently being reviewed by DCLG.

Nonetheless, the internal reporting of efficiencies has continued to improve substantially across the Council through development of a monitored VFM programme which is focused on Benefit delivery through the Budget Delivery Plans for each Directorate (all cashable efficiency savings are being reported against plans to achieve budget targets as well as general efficiencies to improve services to customers). The programme has ensured that governance of the VFM monitoring process has been enhanced and ensures that gains are challenged before inclusion, thus ensuring compliance with good practice.

In addition to formal VFM reviews and targets, the council will continue to progress with a number of initiatives that will improve efficiencies such as cascading out the 'lean systems' approach (following a successful pilot in Housing Benefits) and developing further partnership working such as the Waste Management PFI

The Council will continue to improve the alignment between Value for Money reviews and required efficiency returns through developing a council-wide VFM delivery plan.

Achieving Value for Money remains a key issue for the council. Our improvement activity in this area will focus on achieving outcomes under the following headings:

- Driving value for money through more effective support services;
- Driving value for money from our core services to customers;
- Ensuring that our key resources of finance, capital, ICT, assets and people are better aligned to our priorities;
- Developing a consistent approach, with our partners in tackling climate change issues.

We will also continue to develop our approach to driving VFM from capital investment, ensuring that 'invest to save' projects are carefully considered and evaluated to deliver tangible outcomes and maximum return from our investment.

8. Our Financial Governance Arrangements

The council has been working on improving its financial and governance arrangements for a number of years. Financial Management has improved, performance management has improved, scrutiny has developed and an independent audit committee is operating well. A comprehensive Budgetary Control Project has promoted ownership and effective financial management amongst budget managers in service directorates.

The council's medium term strategy focuses on joining up the individual elements to ensure effective, integrated monitoring and management of:

- Corporate Plan / corporate improvement priorities;
- Benchmarking spend and key performance indicator information;
- Revenue budget and spending linked to priorities;
- Delivery against revenue delivery plans;
- Delivery of Value for Money and overall efficiency targets;
- Delivery of the capital programme linked to corporate priorities
- Introduction of cross cutting budget delivery themes

We will continue to build upon the existing reporting template which joins up these core elements. In 2010/11 we have introduced quarterly integrated reports (supplemented by monthly scorecards) which will continue to be presented and challenged by:

- Corporate Management Team;
- Cabinet;
- Scrutiny Management Board

The **audit committee** will continue to provide an essential role in ensuring that we provide effective governance. In particular, their quarterly meetings will challenge progress made against the annual governance statement, internal and external audit plan, reports and recommendations. In addition, the audit committee has now assumed the lead member role in challenging and placing assurance on the council's Treasury Management arrangements. The committee has received relevant training and has had significant input in revising our Treasury Management Strategy for 2010/11.

Our internal audit service continues to be provided through the Devon Audit Partnership, a shared service arrangement with Devon County and Torbay Councils. The core objective of this arrangement is to improve the quality and efficiency of audit services.

To ensure that our financial procedures and practices are reviewed, up to date and reflect the operational business requirements and risks that the council faces, Financial Regulations and levels of Delegated Authority will be submitted to, and approved by our audit committee on an annual basis.

Consultation

The Council continues to keep its partners and the community fully informed of its financial position and plans through the Local Strategic Partnership, meetings with the Chamber of Commerce, awareness sessions at Area Committees, promoting summarised statement of accounts and specific meetings held with partners and community groups. A special two day Scrutiny Panel robustly challenges the council's alignment of resources to corporate priorities as part of the annual budget setting process. Consultation continues to evolve and improve and plans for 2011/12 budget include a web site 'You Choose' tool for direct engagement with the public and interested parties

Measuring our progress

Quarterly reporting of progress made against specific corporate plan measures and targets will continue to be presented to senior officers and members. The key targets as detailed in this medium term financial strategy will be incorporated within the finance and performance reports with any key changes recommended to, and approved through, Cabinet.

External Assessment

Prior to the dissolution of the Audit Commission it's annual Use of Resources assessment was the main measure that demonstrated progress regarding improving our financial monitoring and management.

The council exceeded the Use of Resources improvement targets that it set for 2008 and were successful in achieving an **overall rating of 3** as follows:

Figure 11: Use of Resources Targets and Scores

UoR Category	2007 Score	2008 target	2008 Actual
Financial Reporting	1	3	3
Financial Management	2	2/3	3
Financial Standing	2	2/3	3
Internal Control	2	3	3
Value for Money	2	2/3	2

The revised UoR framework under Comprehensive Area Assessment measures how the council, and its partners, successfully delivers tangible outcomes to the local area. We scored well in this new framework in 2009 (inaugural year) and set targets and plans for future improvement. With the demise of the commission, the council is seeking new internal measures to ensure the momentum of previous improvements are not lost.

Appendix A

Notional 3 Year Revenue Forecast vs Spend Commitments

Revenue Resources:	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Formula Grant (based on 2.5% reduction)	**106.022**	**100.721**	**95.685**	**90.901**
Council Tax income (@ 2.5% increase per annum)	95.803	95.803	95.803	95.803
Total Resources available	**201.825**	**196.524**	**191.488**	**186.704**

Budgeted Spending plans for 2010/11	**201.825**	**201.825**	**201.825**	**201.825**
Pay award (based on 1% per annum)	-	1.000	2.000	3.000
Pension - increased contribution based @ 5%	-	0.800	0.800	0.800
Redundancy costs - transformational change	0.500	0.750	-	-
Inflation - utilities (5% increase per annum)	-	0.150	0.300	0.450
Adult Social Care -Inflation (2% per annum)	-	1.400	2.800	4.200
Adult Social Care – demographics (assume '10/11 plans complete)	-	1.000	2.000	3.000
Children's Services placements inflation (2.5% per annum)	-	0.160	0.320	0.480
Children in Care - increase in number looked after	-	0.750	1.500	2.250
Building Schools for Future – Revenue costs of project	-	0.500	0.500	0.500
Increased Waste Disposal costs – Partnership PFI	-	-	-	-
Known Spending Plans	*** 202.325**	**208.335**	**212.045**	**216.505**

Forecasted Funding Shortfall	**0.500**	**11.811**	**20.557**	**29.801**

- Assumes that **all** 2010/11 Budget Delivery Plans are achieved on time.
-

(a) Receive a year on year decrease of 5% on formula grant
(b) Decide to freeze council tax for the next 3 years
(c) Take no management action such as invest to save

Appendix B

Criteria applied to revise the 5 year Capital Programme

The following criteria was applied to the revision of the council's five year capital programme as part of the 2010/11 budget setting process:

- We will retain the principle of a 5 year fully funded capital programme. No schemes will be placed in the programme without clarity on how the specific scheme will be funded;
- Capital schemes must contribute towards delivering the council's priorities;
- Added priority will be given to schemes that contribute towards cross-cutting issues i.e. deliver improvements against more than one priority;
- All significant capital schemes will be challenged by the Capital Delivery Board in a consistent and fair manner;
- We will continue to maiximise the amount of external grant that the council is able to attract in support of the capital programme;
- New schemes requiring funding will need to deliver against invest to save principles whereby revenue savings will be required as a result of the capital investment;
- Approval of capital schemes will consider the context of the credit crunch and likely timing of related future developments (in particular housing)
- We will actively manage areas of high financial risk through ensuring that a maximum threshold is set for the reliance on unsupported borrowing and capital receipt generation (based on known disposals);
- The council's overall borrowing portfolio, compared to other unitary councils, will be considered in setting thresholds for any additional borrowing requirements;
- Any revenue costs associated with additional borrowing will be factored into the council's revenue budget for 2010/11 and three year Medium Term Financial Forecast;
- Political priorities need to be considered in finalising the revised five year capital programme.