

Medium Term Financial Strategy 2011 to 2015



Plymouth City Council
May 2011

Medium Term Financial Strategy 2011-15

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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 for 2011/12 and beyond.
- (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 2011/12 and continue to monitor and report on outcomes achieved through capital investment;
- (m) Generate the £23m of capital receipts required to deliver the capital programme by March 2013; and a further £1m for the following two years to 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 targets as set within the 2011/12 revenue budget
- (q) Aim to achieve 2011/12 in year income collection targets of:
 - Council Tax 96.5%
 - NNDR 97.5%
 - Commercial Rents 96.5%
 - General debtors 95.0%
 - Trade Waste 100.0%
- (r) Work towards the following Treasury Management targets under our revised (February 2011) strategy:
 - Maintain the council's overall investment portfolio at under £188m throughout the financial year;
 - Achieve a return on new investments in the 2011/12 year of 1.0%
 - Maintain an overall level of council borrowing of under £332m throughout the financial year;

2. Introduction

This summary Medium Term Financial Strategy, (MTFS), covers the period 2011-15. It identifies the likely costs and pressures that the council will face and matches these against the anticipated resource allocation over the period.

The Comprehensive Spending Review (CSR) was published in October 2010 and 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. It is difficult to do a straight comparison of 2011/12 funding from grants with previous years. This is because the Government have included a number of specific grants within the formula grant, and excluded others previously included.

With effect from the 11/12 financial year, the Council adopted 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 MTFS is a core document that enables the council to deliver against its four priorities, as detailed in the Corporate Plan 2011-14.

This document should not be read in isolation. It needs to be read in conjunction with the Council's 2011/12 Revenue and Capital Budget reports. This strategy supplements the figures noted in the budget for the current financial year 2011/12 and looks ahead and models the financial resources and spending plans for the next three years 2012/13 – 2014/15.

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 and December Settlement. Despite the CSR covering four years, the settlement only confirmed our grant funding with certainty for two future years, 2011/12 and 2012/13. We knew there would be significant spending reductions in the coming years; beyond the next two years we still have uncertainty. 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 2011/12 this equates to £630.0m spend and £421.8m income, leaving a net revenue requirement of £208.2m.

Housing Revenue Account (HRA) – The council successfully transferred its Housing Stock to Plymouth Community Homes in November 2009. In 2010 the council received formal approval from the Secretary of State to close the account with effect from 31 March 2011. The residual HRA Working Balance has therefore transferred to the General Fund and we will therefore no longer operate an active HRA.

Capital – The council has reviewed and updated its medium term 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 for the next two years up to the end of March 2013 is £119m.

Beyond this date we have additional commitment at this stage of £13m, and significant plans. At this stage we are awaiting further clarity from government on capital funding before finalising additional plans beyond March 2013. This clarification is anticipated progressively over the next few months and will be finalised via the quarterly monitoring reports.

3. The Corporate Planning Framework 2011-14

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

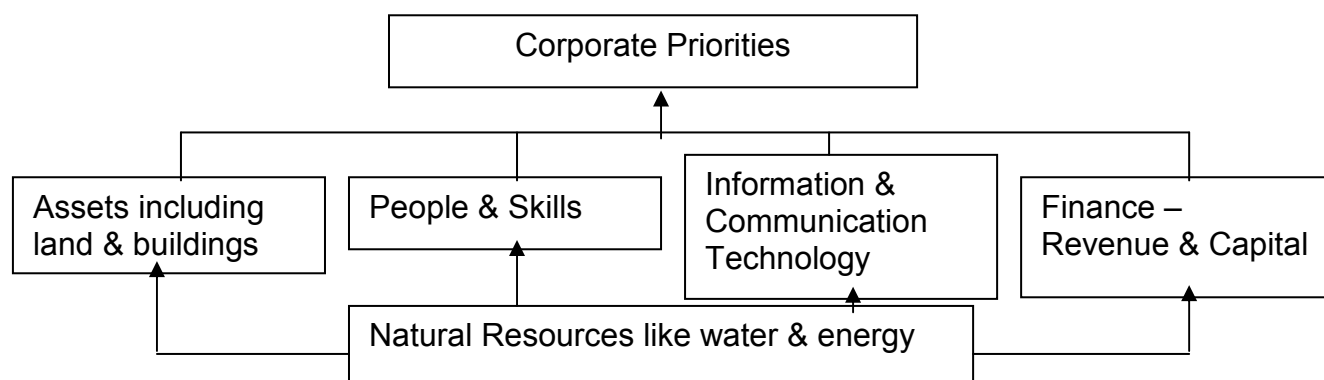
Reduce inequality

- 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) 2010 allowed the council to plan, with reasonable certainty, the revenue resources available up to, and including, the 2012-13 financial year. However, the revenue resources from 2013/14 onwards remain, 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 CSR review headlines Grant reductions of 7%+ per year.

The assumptions used to model our available resources :-

- 2011/12 and 2012/13 Formula Grant as confirmed
- 2011/12 Council Tax frozen at 2010/11 level

For the periods 2013/14 and 2014/15 there is still no clarity, however for the financial model there is an expectation of a further reduction in funding in 2013/14 and a modest increase in 2014/15.

The impact of such a permutation is as follows:

Figure 2: Revenue Resources Forecast

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Total Resources available	208.2	201.1	198.2	200.7

This requires the council to actually reduce revenue spend by a further £7.5m between 2011/12 and 2014/15, with no allowance given for growth or known service pressures..

Treatment of Specific Grant Funding

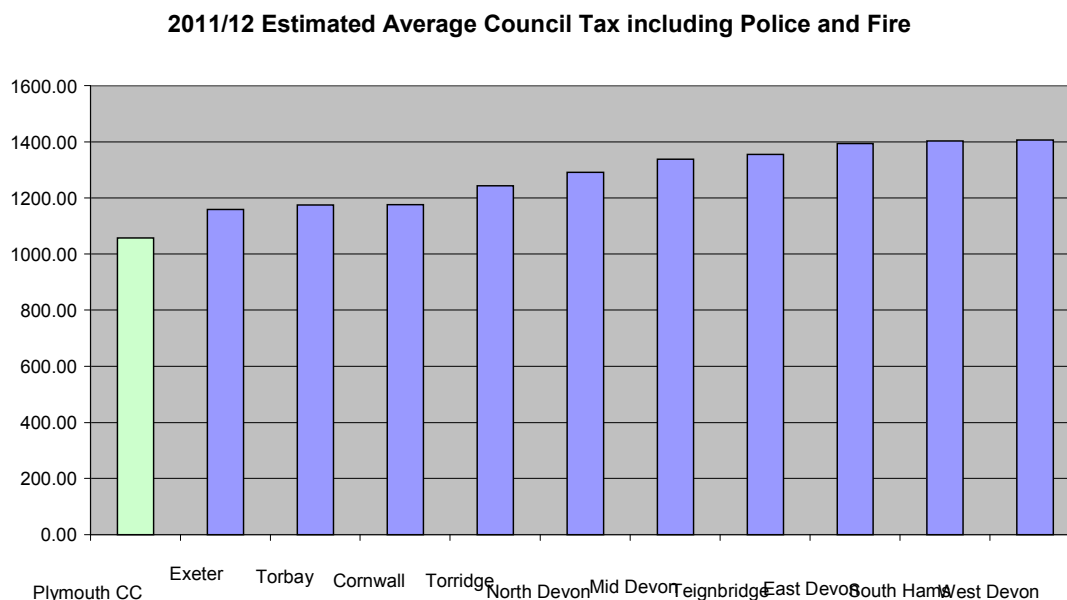
The largest specific grant that the Council receives is the Dedicated Schools Grant (DSG). In excess of £150m, the funding is spent either directly by Schools, (Primary, Secondary and Special), through their formula allocations, or by the authority on their behalf. The Schools Forum, (a representative group of Head Teachers and relevant stakeholders), are consulted on the local authorities formula distribution and the amounts administered centrally. Any over or under spends 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 levied by Plymouth City Council for 2011/12 has been frozen at the 2010/11 level. This 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: 2011/12 Devon Average Council Tax



We have frozen the council tax despite a number of specific revenue pressures on our budgets, 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 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.

Not included in our resources figures, but included in our net spending plans, is the newly created Council Tax Grant. This is a specific grant issued by the government to compensate those Local Authorities which implemented a Council tax freeze. The government is yet to announce its intentions around future funding.

Budget Pressures and Medium Term Financial Forecast

The Council set its revenue budget for 2011/12 at the Council meeting on 28 February 2011. Council Directorates have, for some time, identified known and anticipated expenditure pressures on a rolling three year basis. These pressures have been reported within the quarterly performance and finance reports presented to Cabinet and Scrutiny throughout 2010/11.

For the 2011/12 budget, we have allocated revenue funding to match spending requirements.

For future years, 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. Significant progress has been made in developing the long term waste solution for the city and a waste to energy plant is being developed through the Devon Waste Partnership, with Torbay and Devon County Councils. The Waste PFI project's procurement phase was successfully concluded in March 2011, with the plant due to come on line in 2013/14. 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 three 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 2011/12 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

For 2011/12 we have assumed a rate of 1.0% return on all new investments made. With the Bank of England base rate currently standing at 0.50% (as at March 2011), 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 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 four 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 have 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 has just received the outcome of its three year review of its pension fund assets and liabilities. Our actuaries have confirmed that our current employer superannuation contribution rate can remain at 19.4%. There is a strong risk that the next valuation, although three years away, could identify a significant funding gap on the Pension fund and require a higher employer contribution rate. The planned reductions in the workforce mean it is likely extra funding will be required in the coming years. Also, the Coalition Government is still studying the recommendations following a fundamental review of public sector pensions carried out during 2010. At the time of this report we do not know the impact of any possible funding changes.

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.

The 2011/12 budget setting process saw the introduction of departmental budget delivery plans, together with cross-cutting delivery plans. During 2010/11 the Government introduced in-year grant funding reductions of £2.5m which were translated into £4m of in-year budget challenges across all departments. These reductions were rolled into the 2011/12 base budgets as the "start point" and supplemented by the department budget delivery plans to close the funding gap.

In support of these plans and reduced funding, 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 continue to progress and be reported on throughout 2011/12.

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.

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

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Total Resources available	208.2	201.1	198.2	200.7
Forecast Spending Plans	223.9	225.7	231.1	235.8
Forecasted Funding Shortfall before Budget Delivery Plans	15.7	24.6	32.9	35.1
Off set by:-				
Council Tax Grant	(2.4)	(2.4)	tbc	tbc
Budget Delivery Plans	(13.3)	(15.8)	(26.0)	(26.0)
Revised forecasted Funding Shortfall	0.0	6.4	6.9	9.1

In summary, a possible scenario of reduced revenue resources combined with a revised approach on current spend plans could still result in a revenue funding gap of £6.4m in 2012/13 rising to £9.1m in 2014/15

It must be emphasised that this is very much the “worst case” scenario. The additional delivery plans of £5.0m introduced in response to funding reductions in 2011/12 have not been rolled forward into the financial model for future years. The figures also do not include any anticipated savings as a result of new initiatives, for example Category Management within procurement which is tasked with driving out up to £5m of costs within three years.

However, the underlying message is there is a funding gap on the horizon; and even in 2011/12 we have to achieve over £13m of delivery plans to balance the budget.

Full details of the departmental Delivery Plans were published as part of the Budget & Corporate Plan and proposed Council Tax Levels report dated 28 February 2011.

Income Collection

In-year collection targets have been set for Council Tax, Business Rates, Commercial Rent, and Sundry Debt Income, which includes our Trade Waste Income. The Council's major sources of income will continue to be monitored and reported on a regular basis, and will continue to be included in our quarterly Joint Performance and Finance Reports.

In 2011/12 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 % 10/11	Target % 11/12	Target % 12/13	Target % 13/14	Target % 14/15
Council Tax	96.1%	97.0%	98.0%	98.5%	98.5%
NNDR	97.3%	97.5%	97.5%	97.5%	97.5%
Commercial Rents	93.0%	96.5%	96.5%	96.5%	96.5%
Sundry Debt	92.5%	95.0%	95.5%	96.0%	96.5%
Trade Waste	95.6%	100.0%	100.0%	100.0%	100.0%

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 95.20% for 2009/10 and a further increase to 96.1% for 2010/11. We will continue to explore further options to maximise the level of income collected and are confident we can achieve our new target of 96.5%

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 achieved 93% in 2010/11 and have set a target of 96.5% each future year.

Sundry Debt

Despite the current difficult economic climate, we did manage to achieve our 10/11 target of 92.5%, by focusing our efforts on risk, materiality and our key

customers. Our new 3 year targets, at 95%, will enable us to compare favourably with the Unitary average.

Trade Waste

We had a successful year in 2010/11, managing to achieve a collection rate of 95.6%. The targets for 2011/12 and future years have been set at 100% as this reflects our new initiative of charging customers in advance of collections. If they default on payment, then the service is not provided.

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	2011/12	2012/13	2013/14	2014/45	Sensitivity
Pay (excluding lower paid)	0.0%	0.0%	2.0%	2.0%	+/- 0.50% = £0.500m
Superannuation increased employer contribution	0.0%	3.0%	3.0%	4.0%	+/- 1.0% = £0.162m
Utility inflation– increases off set by accommodation changes until 2014/15	0.0%	0.0%	0.0%	3.5%	+/- 5.0% = £0.149m
Income – fees and charges	Determined by individual departments				+/- 0.50% = £0.182m
Return on council investments	1.0%	2.50%	2.50%	2.50%	+/- 0.50% = £0.181m
Specific Departmental Assumptions					
Social Care Commissioning	0.0%	0.0%	2.0%	2.0%	+/- 0.50% = £0.349m
Supporting people	0.0%	0.0%	2.0%	2.0%	+/- 0.50% = £0.041m
Children’s services placements	0.0%	0.0%	2.0%	2.0%	+/- 0.50% = £0.032m
Total Sensitivity / Risk re: changes to the above Expenditure assumptions:				+/- £1.596m	
Resources					
					Sensitivity
Total resources	(4.59)%	(3.4)%	(1.44)%	1.3%	+/- 0.50% = £0.500m
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, resulting from 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. Thematic Groups for the cross cutting plans will continue to 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)
3. 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 2011/12 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 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.

Invest to Save

Following a full review by CMT, funds not used from earmarked reserves were transferred to a new Invest to Save reserve scheme. These reserves will be allocated to projects which will generate future savings. Departments will be able to “bid” for funding from this reserve by providing a robust financial model showing a return on their investment.

Redundancy Costs

To achieve a balanced revenue budget for 2011/12, 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.

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 requires significant investment. Funding has been set aside to progress with alternative office accommodation whilst meeting the costs of essential 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 7 represents what we are planning will be in these reserves and provisions at the end of each of the next four financial years:

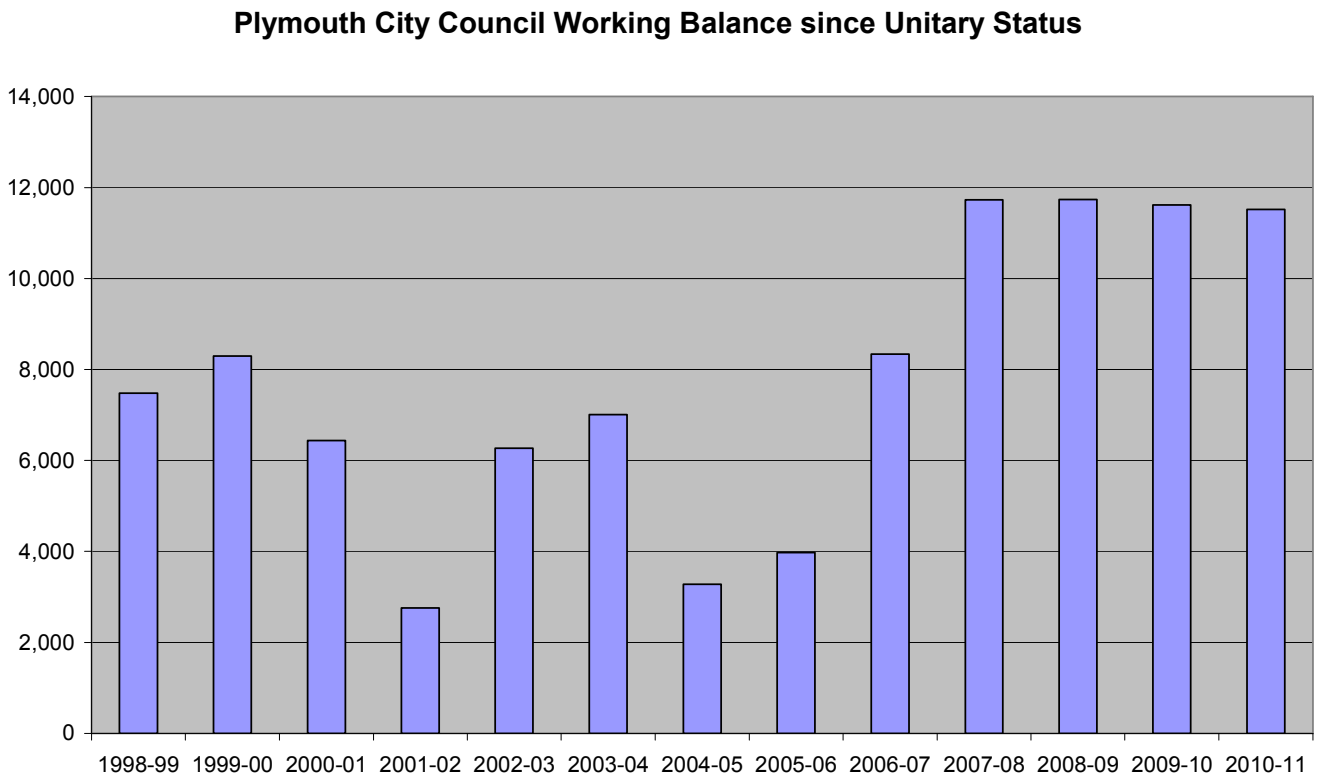
Figure 7: Targeted significant reserves and provisions

	Actual for 31 Mar '11 £m	Target for 31 Mar '12 £m	Target for 31 Mar '13 £m	Target for 31 Mar '14 £m	Target for 31 Mar '15 £m
Waste Management Reserve	2.4	2.4	2.4	2.4	0.0
Redundancy Costs	2.6	1.5	0.7	0.3	0.0
Capital Financing Reserve	0.9	0.7	0.5	0.0	0.0
Accommodation provision - Civic Centre	1.8	1.5	1.2	1.0	0.0
Insurance – General Fund Reserve	1.0	1.0	1.0	1.0	1.0
Invest to Save	2.3	1.1	0.5	0.5	0.5

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 2011, stands at £11.4 million. This equates to approximately 5.5% 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 council's reserves 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 revised programme for the period 2010/11 to 2014/15 can be sub-divided into two periods; 2011/12 and 2012/13; then 2013/14 and 2014/15.

Due to the current economic climate, the council continues to challenge the affordability of its capital programme for the period 2011/12 to 2014/15. There remains significant volatility around future capital grant funding and income generation through capital receipts. Although the funding is known for both periods, it is important to note that for the 2013/14 and 2014/15 programme we are still awaiting further confirmation of available funding. As more information is received, the programme will be adjusted to reflect the changes.

Figure 9: Departmental Capital Programme

	Planned Programme			Commitments at this stage			Total £000s
	2011/12 £m	2012/13 £m	Sub total £m	2013/14 £m	2014/15 £m	Sub total £m	
Children's Services	37	10	47	1	0	1	48
Community & Neighbourhood	27	2	29	0	0	0	29
Development & Regeneration	10	2	12	1	0	1	13
Corporate Support/items	23	8	31	6	6	12	43
	97	22	119	8	6	14	133

This spend will be funded by:

	2011-13	2013-15
	£m	£m
* Capital Grants/Contributions	59	12
* Unsupported Borrowing	22	0
* Capital Receipts	23	1
* Contributions, Revenue & Funds	5	0
* Section 106 / Revenue / Funds	10	1

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:

- £38.8m State of the art new college at Estover;
- £15.1m Improving Schools in the Southern Way Federation;
- £20.8m East End Transport Improvement Scheme

- £4.6m Bringing Devonport People's Park "back to life".
- £46.5m on the Plymouth Life Centre

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 we have continued to significantly reduce our reliance on capital receipt funding over the 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 2014/15 period, working 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 2011/12 and 2012/13 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 (I2S)

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.

Council has subsequently approved the following I2S projects

- Developing the Care First system to improve our management of client information
- Launching a new website for our customers, allowing 24/7 access and much greater functionality enabling us to increase the level of more efficient electronic transactions with the council
- A Children and Young People's scheme to help reduce the cost of expensive out of city residential placements
- A scheme where we can work with partner agencies to reduce the overall trend of increased numbers of children entering the formal care system

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. 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.

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.

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.

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 February 2011. In this Strategy with have approved the following borrowing limits:

The Authorised Borrowing limits

- 2011/12 = £379m,
- 2012/13 = £376m
- 2013/14 = £373m;

The Operational Boundary limit

- 2011/12 = £343m
- 2012/13 = £332m
- 2013/14 = £313m;

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.

The revenue savings generated by this buy-back have been included in our budget assumptions.

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 £332m.

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 MTF. 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
2011/12	1.0%	3.5%
2012/13	2.0%	4.5%
2013/14	3.0%	4.5%
2014/15	3.0%	4.5%

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 2011/12 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.

Finance managers are an integral part of Department Management Teams and also Management Boards. They offer financial advice and challenge to Senior Management as part of the process.

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

- Corporate Plan and Priorities;
- Benchmarking spend and key performance indicator information;
- Revenue budget and spending linked to priorities;
- Delivery against revenue delivery plans, including Value for Money analysis;
- Delivery of the capital programme linked to corporate priorities
- Budget Delivery Plans

We will continue to build upon the existing reporting template which joins up these core elements. In 2010/11 we 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 2011/12.

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, 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. This on-line tool will be further developed and refined for the 2012/13 budget setting process.

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.

These reports will continue to be supplemented by monthly internal DMT reports and challenges, plus monthly scorecards for CMT to monitor departmental positions.

External Assessment

Prior to the proposed abolition of the Audit Commission its annual Use of Resources assessment was the main measure that demonstrated progress regarding improving our financial monitoring and management.

Following the proposed abolition, there is still uncertainty about the long term future of external assessments, if any. In the meantime the Council is still subject to numerous assessment regimes with the financial challenge provided by Grant Thornton, our independently appointed external auditors. Their conclusions are reported via the Council's Audit Committee.

Appendix A

Notional 3 Year Revenue Forecast vs Spend Commitments

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Total Revenue Resources available	208.2	201.1	198.2	200.7
Budgeted Spending plans for 2010/11	223.9	223.9	223.9	223.9
Pay (excluding lower paid) 2% from 2013/14		0.4	2.0	4.0
Pension - increased contribution based @ 3% / 3% / 3.5%		1.0	1.0	1.5
Utilities increases absorbed by accommodation changes until 14/15		-	-	0.5
Adult Social Care -Inflation (2% per annum from 13/14)		-	1.4	2.8
Children's Services placements inflation (2.5% per annum)		-	0.2	0.4
Children in Care - increase in number looked after		-	2.2	2.3
Carbon Reduction Commitment		0.4	0.4	0.4
Known Spending Plans	223.9	225.7	231.1	235.8
Funding Shortfall	15.7	24.6	32.9	35.1

Off set by:

Council Tax Grant	(2.4)	(2.4)	-	-
Budget Delivery Plans	(13.3)	(15.8)	(26.0)	(26.0)
Revised Funding Shortfall	0.0	6.4	6.9	9.1

Criteria applied to the Council's Capital Programme

The following criteria are applied to the revision of the council's five year capital programme as part of the 2011/12 budget setting process:

- We will retain the principle of a 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 maximise 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 2011/12 and three year Medium Term Financial Forecast;
- Political priorities need to be considered in finalising the revised five year capital programme.