

CITY OF PLYMOUTH

Subject: Medium Term Financial Strategy 2012-2016
Committee: Cabinet
Date: 12 June 2012
Cabinet Member: Councillor Lowry
CMT Member: CMT
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Key Decision: No
Part: I

Executive Summary:

This report covers the Council's Medium Term Financial Strategy (MTFS) for the financial years 2012/13 to 2015/16. Our last MTFS was approved by Cabinet in June 2011. We have updated our assumptions and strategy having completed both our 2011/12 outturn position and our detailed review and preparation of the 2012/13 Revenue and Capital Budget.

It is important that we continually review this document, and update when more information becomes available. For example, at this stage we are still unaware of our central government funding for next year 2013/14. We have to improve our approach to aligning revenue and capital spend to areas of highest and most strategic importance for our local communities and the people of Plymouth.

The MTFS is closely linked to, and compliments, all of the Council's core documents as contained within our budgetary framework.

With the new legislation around Welfare Reform, NNDR reform, reducing capital grant funding, and the lack of clarity around revenue funding for 2013/14 and beyond, it is imperative that the new administration takes the lead on more robust lobbying of central government. We must also consolidate our relationship with SIGOMA as a way into central government forums.

Following the new political administration taking control in May 2012 we will be flexing our resource allocations over the coming weeks and months to meet revised priorities whilst operating within our current resource constraints. The key driver for this will be the revised Corporate Plan to be presented to Council in July 2012.

Corporate Plan 2012-2015:

The Medium Term Financial Strategy (MTFS) is a core document that enables the Council to deliver against its priorities as detailed in the Corporate Plan 2012-15.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

The MTFS is the core document, underpinning our financial plans.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

The reducing revenue and capital resources across the public sector has been identified as a key risk within our Strategic Risk register.

Recommendations & Reasons for recommended action:

That Cabinet:-

1. Note the resource and spend forecast based on existing Council commitments
 2. Review spending priorities in the light of the new Corporate Plan
 3. Develop a revised strategic plan over the next six months to address the projected shortfall in 2013-15 and taking into account the priorities of the new administration
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Alternative options considered and reasons for recommended action:

Actions are recommended in response to specific variances in either performance and / or finances identified throughout the report.

Background papers:

- Sustainable Community Strategy
 - 2012 Plymouth City Council Corporate Plan
 - 2012/13 Revenue & Capital Budget papers published December 2011 to February 2012
 - Joint Performance and Finance Outturn Report – June 2012
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Sign off:

Fin	MC121 3.001	Leg	1482 0/D VS	HR	MG	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member M Coe											

Medium Term Financial Strategy 2012 to 2016

Plymouth City Council
June 2012

Medium Term Financial Strategy 2012-16

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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 with a tax 'freeze' in place for 2012/13;
- (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) 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:

- (k) Maximise delivery of the Council's budgeted capital programme for 2012/13 and continue to monitor and report on outcomes achieved through capital investment;
- (l) Generate the £11.4m of capital receipts required to deliver the capital programme by March 2013; and a further £5.2m for the following year to March 2014..
- (m) Deliver a year on year net revenue budget outturn within a tolerance of up to 2% underspend and maximum of 1% overspend;
- (n) Aim to achieve the required year end balances for specific reserves and provisions to meet the costs of known future financial commitments;
- (o) Reduce costs whilst maintaining or improving service quality to achieve the departmental targets as set within the 2012/13 revenue budget
- (p) Aim to achieve 2012/13 in year income collection targets of:
 - Council Tax 96.8%
 - NNDR 97.5%
 - Commercial Rents 96.5%
 - General debtors 98.5%
 - Trade Waste 100.0%
- (q) Work towards the following Treasury Management principles and targets under our revised (February 2012) strategy:
 - Continue to maintain the current overall investment portfolio at a level commensurate with our overall Treasury Management Strategy and prevailing market conditions.
 - Achieve a return on new investments in the 2012/13 year of 0.8%
 - Maintain an overall level of council borrowing of under £275m throughout the financial year;

2. Introduction

This summary Medium Term Financial Strategy, (MTFS), covers the period 2012-16. It sets out the financial implications arising from the Council's on-going provision of services for the people of Plymouth, within the context of the priorities for the city set out in the Corporate Plan 2012. It identifies the likely costs and pressures that the council will face and matches these against the anticipated resource allocation over the period.

The strategy has three principal components, covering revenue expenditure on day-to-day services; capital expenditure on assets and other investments; Treasury Management, covering our debt and investment portfolios.

The national Government is addressing the deficit in the public finances by reducing levels of public expenditure. The Comprehensive Spending Review (CSR) published in October 2010 showed national headlines of 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, although a straight year-on-year comparison is difficult because the Government have included a number of specific grants within the formula grant, and excluded others previously included. We have responded to this challenge by continuing to adopt a medium-term approach to our resource planning; our resource assumptions are regularly updated as new information becomes available, and the impact of decisions on the council can be assessed.

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' 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 2012-15.

This document should not be read in isolation. It needs to be read in conjunction with the Council's 2012/13 Revenue and Capital Budget reports. This strategy supplements the figures noted in the budget for the current financial year 2012/13 and looks ahead and models the financial resources and spending plans for the next three years 2013/14 – 2015/16.

The Strategy outlines the council's governance arrangements for effective financial management, and objectives for retaining adequate reserves.

The future of Local Government funding is still uncertain with more detail required. Despite the CSR covering four years, the settlement only confirmed our grant funding with certainty for two 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 2012/13 this equates to £558.7m spend and £354.9m income, leaving a net revenue requirement of £203.8m.

The Government funding for 2012/13 has remained in line with the revised arrangements in the previous year, which saw the Area Based Grant (ABG) reduced and elements of it absorbed into the Formula Grant. There were also a number of previously ring-fenced, specific grants which were un-ring-fenced. In recognition of the council tax freeze for 2011/12, the government reimbursed with a council tax freeze grant equivalent to a 2.5% increase on the 2010/11 basic amount of council tax multiplied by our Council Tax Base for 2011-12. This grant has continued for 2012/13, but has been subsumed into our Formula Grant. This has the effect of offsetting the reduction in our overall Formula Grant for 2012/13.

Also, in recognition of the council tax freeze for the second year, the Government has reimbursed Plymouth City Council with a one-off council tax freeze grant. Again, this is equivalent to a 2.5% increase, working from the 2011/12 basic amount of council tax multiplied by our Council Tax Base for 2012-13. As this is funding for one year only, we have tried as far as possible to allocate this funding to one-off in year spending requirements.

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 2014 is £87m, with a further £31m currently included in the programme for the following two years. The City Council's Capital programme, like the revenue budget, is being affected by the economic climate, resource constraints and changing grant allocations. In this challenging environment we remain ambitious, but will exercise continuing caution when considering new investment opportunities. We remain committed to only adding new projects once the source funding has been recognised.

Treasury Management – The Treasury Management Strategy sets out Plymouth City Council's approach to the management of its debt and investments, within the framework summarised in the Treasury Management Policy. Both reports were approved by Full Council in February 2012. In the current global economic climate, this strategy has taken on an added significance, as we balance investment returns against risk.

3. The Corporate Planning Framework 2012-15

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.

Figure 1: Corporate Vision



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.

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

Reporting to the 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 reasonably certainty, the revenue resources available up to, and including, the 2012-13 financial year. Indications are that, due to the level of national debt, future settlements will continue to be extremely challenging for local government resulting in significantly reduced funding.

We liaise closely with our Unitary Treasurer colleagues and DCLG contacts to ensure our modelling assumptions are in line with their assumptions. This also ensures we are aware of the latest bulletins and initiatives. The assumptions used to model our available resources for 2011/12 and 2012/13 therefore reflect what is known:-

- 2011/12 and 2012/13 Formula Grant as confirmed
- 2011/12 and 2012/13 Council Tax frozen at 2010/11 level
- 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.
- 2014/15 assumes a further modest increase in total funding

The Council has taken advantage of the Government's offer of a 2012/13 Council Tax Freeze Grant, which is receivable in 2012/13 only. The Council Tax Freeze Grant received by the Council for 2011/12 has now become part of our Formula Grant funding which ensures it will be received annually. It also means it may be subject to any future funding reductions.

The impact of such a permutation is as follows:

Figure 2: Revenue Resources Forecast

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Total Resources available	203.8	200.9	203.3	205.8

Although this model reflects a modest increase with effect from 2014/15, it also shows that from the 2012/13 base of £203.8m, we are still £0.5m short in 2014/15 with resources estimated at £203.3m. Two years and we have not moved forward. This £0.5m shortfall equates to approximately a 0.5% Council Tax increase. Set against this modest increase in resources, this report will detail the significant increases in service costs and demand.

Treatment of Specific Grant Funding

Dedicated Schools Grant – The largest specific grant that the Council receives is the Dedicated Schools Grant (DSG). In excess of £123m, 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 Future funding is still under review and full details are awaited.

Pupil Premium – In addition to DSG the Council also receives additional schools funding through the Pupil Premium. This allocates additional funding to schools that have pupils who are eligible for free school meals, are looked after by the City Council or have parents who are currently serving in the armed forces.

Early Intervention Grant (EIG) – The amount of specific, but un-ring fenced grant funding for EIG increased from 2011/12 to 2012/13. The Council made a decision to allocate the full grant available to the area indicated by Government. It is not yet known what our allocation will be for 2013/14 and future years. However, CMT agreed that this funding must be reviewed along with all other un-ring fenced grant monies; it is not a given that the full amounts will be allocated in full in future.

New Homes Bonus (NHB) – As with EIG, the amount of specific, but un-ring fenced grant funding for NHB increased in 2012/13. The Council made a decision to allocate the full grant available to the area indicated by Government. It is not yet known what our allocation will be for 2013/14 and future years. However, CMT agreed that this funding must be reviewed along with all other un-ring fenced grant monies; it is not a given that the full amounts will be allocated in full in future.

Other un-ring fenced grants – Where practical, (depending on grant conditions), the Council aims to 'pool' all non- ring fenced 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.

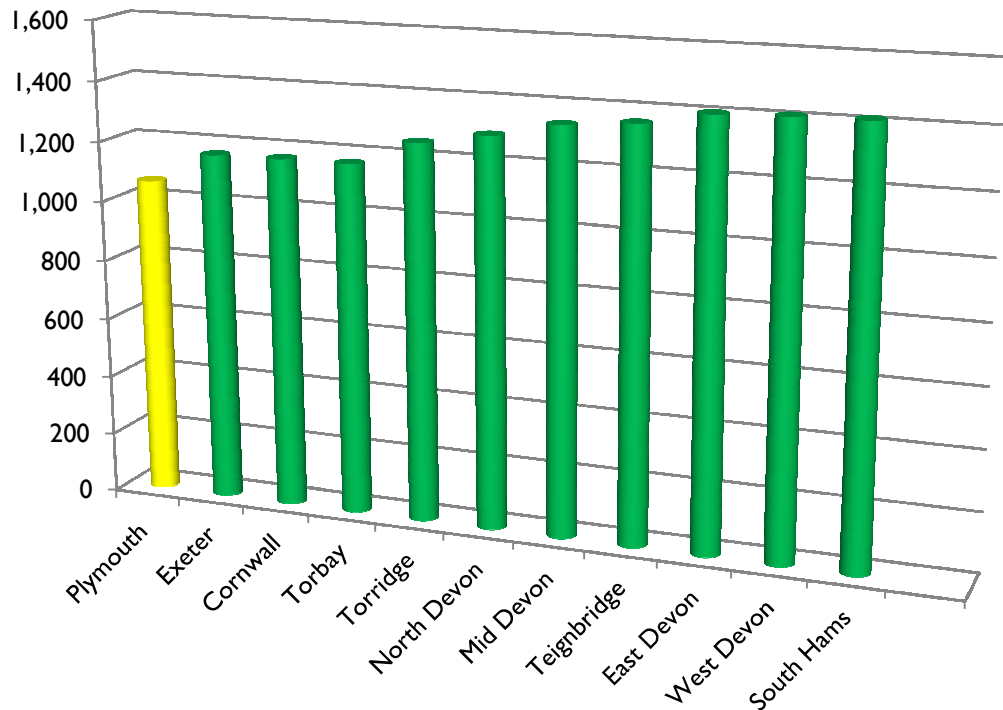
The finance department have developed a grant register to ensure we capture all grant funding receipts, and also ensure the appropriate receiving department are aware of the value and timing of receipts. Finance also work closely with departments to evaluate grant bid, ensuring there are no hidden costs or match-funding requirements.

Council Tax

The Council Tax levied by Plymouth City Council for 2012/13 has again 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.

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, and the increased costs of waste disposal. The economy is also placing pressure on revenue and capital budgets through falling income collection rates and reduced ability to generate capital receipts.

Figure 3: 2012/13 Devon Average Council Tax



The City Council is committed to ensure that Council Tax levels, and any increases, are maintained at as low a level as possible whilst not compromising the ability to deliver the required services to the people of Plymouth.

Not included in our resources figures, but included in our net spending plans for 2012/13, is the newly created Council Tax Grant. This is a specific one-off 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 this funding for 2013/14 and beyond. We have therefore had to assume this is a one-off receipt and allocated what are seen as one-off costs during 2012/13. This is to protect our services going forward. If we had allocated to on-going running costs, there would have been an immediate £2.4m funding gap from 2013/14 onwards.

There is a desire to maintain the status of being at, or towards, the lowest average council tax in the region.

NHS Funding to Support Social Care

During 2011/12, the Council received a Section 256 transfer from the NHS, which was included in the Adult Social Care portfolio budget. We will also receive, and have included in our budget, a further S256 transfer for 2012/13. Again, this has been included within the ASC budget. There is uncertainty about the transfer of resources and responsibilities in the medium term. When firm allocations are announced, spending will be restricted to match the level of available resources.

Section 106 Agreements

Section 106 (S106) of the Town and Country Planning Act 1990 allows a local planning authority (LPA) to enter into a legally-binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is termed a Section 106 Agreement.

These agreements are a way of delivering or addressing matters that are necessary to make a development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health and affordable housing.

Plymouth City Council's capital programme can be supplemented by resources generated from new development. At the moment this is primarily through Section 106 developer agreements, but in the future there is the opportunity to widen this through the use of the Community Infrastructure Levy (CIL).

We will work closely with developers to ensure we secure the best outcomes for our residents.

Budget Pressures and Medium Term Financial Forecast

The Council set its revenue budget for 2012/13 at the Council meeting 27 February 2012. 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 2011/12.

For the 2012/13 budget, we have allocated revenue funding to match spending requirements. This has been achieved in part because it is a "stand still" budget. Directorates have not had their resources increased to cover items such as general inflation, utility inflation, increased adult and children placements. Directorates will have to fund these increases from existing resources, effectively increasing their already stretching savings plan targets.

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:

Pensions

The Council has just started year two 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 could identify a significant funding gap on the Pension fund and require a higher employer contribution rate. The planned reductions in the workforce, together with outsourcing of services and transfers to Academies, 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, despite recommendations, we do not know the impact of any possible funding changes. We have set

aside £1m into a Pension Reserve to cover any potential shortfall in contributions during the current three year valuation period. Indications are that this will be required during 2012/13 and 2013/14. Hence the additional pressure being forecast from 2014/15 onwards, estimated at an additional premium of 1% or £0.8m per annum.

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. In previous years, we have set up a Waste Reserve of £2.4m to fund the resource gaps. During 2011/12 we have drawn down our first tranche of £0.8m; the 2012/13 budget also assumes a further drawdown of £0.8m. This will leave the reserve balance at £0.8m and this is assumed to be required for drawdown to balance the 2013/14 waste disposal costs. The new waste solution is on track to go live during 2015/16 with an assumption that we will be able to balance our costs and resources in this year. However, that still leaves a gap in resource for 2014/15 and hence the inclusion of additional spending requirement of £0.8m for 2014/15.

Utilities inflation

The assumption built into the 2012/13 budget is that utility costs will be offset from the savings generated due to the Corporate Accommodation Strategy. As we reduce our building footprint, we also reduce our utility costs. From 2013/14 onwards, we have assumed that these accommodation changes are in place and such savings are exhausted. This plan therefore assumes extra resources required from 2013/14 onwards, at a modest 5% per annum.

Adult Social Care inflation

The assumption in the 2012/13 budget is that the department will self - manage any impacts of inflation on the costs of the service. This approach is not sustainable long term. From 2013/14 an allowance for 2% inflation per annum has been included.

Adult Social Care Demographics

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.

As with inflation, no allowance has been built into the 2012/13 budget. With our ageing population we need to be aware that costs will need to rise. We have therefore assumed an allowance of an extra £1m per annum from

2013/14, or an increase of 1.5%. However, there is still a strong risk that this allocation will be insufficient to meet with actual demand.

Children's Services Placements inflation

The assumption in the 2012/13 budget is that the department will self - manage any impacts of inflation on the costs of the service. This approach is not sustainable long term. From 2013/14 an allowance for 2% inflation per annum has been included.

Children in Care

As with inflation, no allowance has been built into the 2012/13 budget to allow for an increase in the number of looked-after children. We need to be aware that costs are likely to rise. We have therefore assumed an increase of around 7%, allowance of an extra £0.750m per annum from 2013/14.

Pay Award

For both 2011/12 and 2012/13, council employee salaries have been frozen across all levels of staff. The Council will continue to follow national pay settlements however the assumption in this report is for a 2% increase per annum from 2013/14 onwards.

Carbon Reduction Commitment (CRC)

Commencing for the financial year 2011/12, the Government has introduced a new Carbon Reduction Commitment Levy. For 2011/12 this amounted to a total charge of £0.400m including schools and academies. After recharging the Council's net cost was £0.240m and was funded from Corporate Items Contingency. For the 2012/13 budget we have allocated an additional £0.240m from one-off funding. We need to now increase our funding allocation for 2013/14 and beyond and are assuming a charge of £0.3m. We are working with Salix on a number of projects to reduce our carbon footprint. This is necessary for our green credentials but will also benefit us with reduced base costs. In schools for instance we have implemented a plan of boiler replacements. In the Council we are replacing aging lighting in public buildings such as the Guildhall with energy efficient lighting solutions.

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 2012/13 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 2012/13 we have again assumed a rate of 0.8% return on all new investments made. With the Bank of England base rate currently standing at 0.5% (as at May 2012), this target is challenging and represents a risk. It must also be put into the context of the problems within the European economy and

the knock on effect of reducing confidence in all banking institutions making it more difficult to spread our investments to gain the best return. The safest option for our overnight call money is the Government backed DMO where the rate of return is only 0.25%.

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. Any future capital monies derived 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

The 2012/13 budget built on the process of departmental budget delivery plans, together with cross-cutting delivery plans.

In support of these plans and reduced funding, the Corporate Management Team is working with the Cabinet to develop a change programme that fundamentally challenges the organisation's culture, structure and approach to service delivery. This change programme, and newly formed Change Management Office within the Corporate Services Directorate will continue to progress these plans and ensure we focus on the "Big Ticket" transformation plans. Progress will be reported on throughout 2012/13.

The Corporate Management team are also working with the Cabinet to challenge all of the underlying assumptions used in the spending plans.

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 (1)

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Total Resources available	203.8	200.9	203.3	205.8
Forecast Spending Plans	203.8	201.8	208.9	213.6
Forecasted Funding Shortfall	0.0	0.9	5.6	7.8

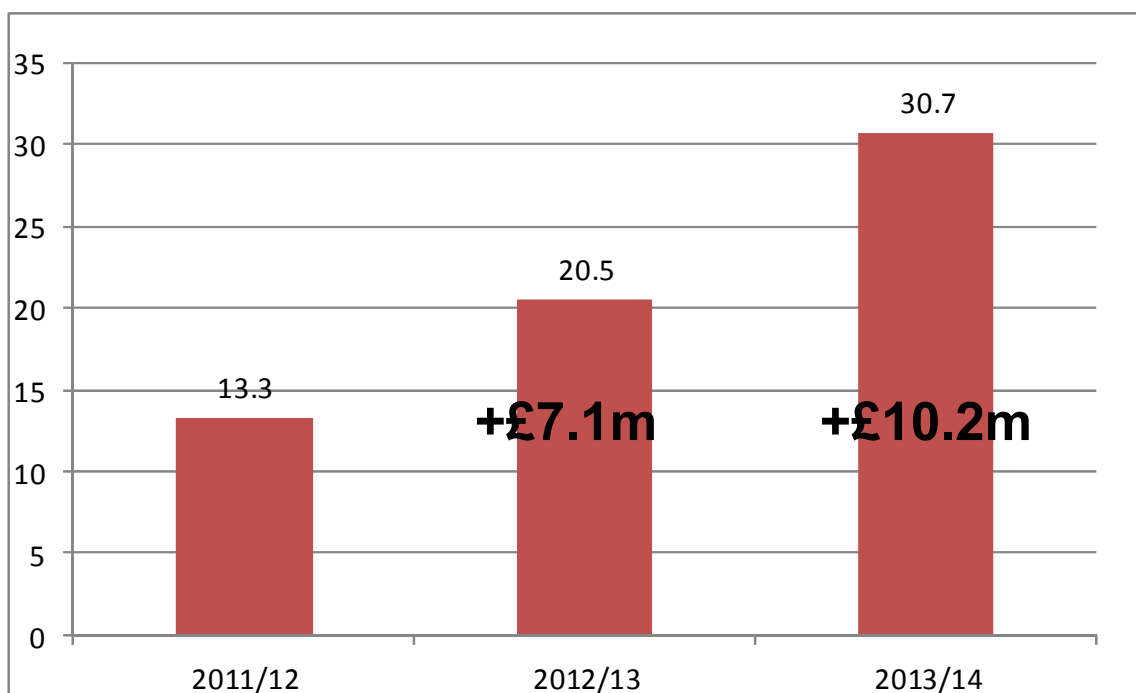
In summary, a possible scenario of reduced revenue resources combined with a revised approach on current spend plans could still result in a revenue funding gap of £0.9m in 2013/14 rising to £7.8m in 2015/16.

It must not be overlooked that the spending plans for 2013/14 and future years assume that the £30m of budget delivery savings plans have been achieved in full.

Revenue Delivery Plans

As part of the 2011/12 budget setting, and covering the periods 2011/12 to 2013/14 Directors, Assistant Directors and Cabinet 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

Figure 5: Budget Savings Plans



Governance

1. Department budgets will remain with ultimate responsibility and accountability resting with Directors and their DMTs, with overview provided by CMT.
2. 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 continue to be monitored throughout 2012/13 as part of standard performance and finance reporting.

Figure 5 above shows the scale of the Budget Saving (Delivery) Plans required to be achieved in each financial year to deliver a balanced budget.

Period	Budget Delivery Plans	Net Expenditure
2011/12	£ 13.3m	£ 208.2m
2012/13	£ 7.1m	£ 203.8m
2013/14	£ 10.2m	£ 200.9m

We must not underestimate the scale of the challenge presented by these savings plans. We have risks around some of the major plans including the Corporate Accommodation Strategy, and the delays around our exit from the Civic building; outsourcing plans including blue collar workers; procurement savings and new ways of working which need to be embedded into the Council's culture.

If we then factor into our thinking the possible impact of reduced funding from the Government's Welfare Reform initiative, together with funding reductions from the NNDR reform, affecting our resources by £2.5m and £12m respectively per annum, the figures are as follows:

Figure 6: Revenue Forecast –resources vs spending plans (2)

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Resources available as above	203.8	200.9	203.3	205.8
Council Tax Benefit Reform *		(2.5)	(2.5)	(2.5)
NNDR Reform **		(12.0)	(12.0)	(12.0)
Adjusted Resources	203.8	186.4	188.8	191.3
Forecast Spending Plans	203.8	201.8	208.9	213.6
Forecasted Funding Shortfall	0.0	15.4	20.1	22.3

Council Tax Benefit Reform * Plymouth City Council presently spends circa £25m each year on Council Tax Benefits. During 2012/13, the Council will be preparing to replace council tax benefit which is due to be abolished with effect from 31 March 2013 as part of the welfare Reform Act. This will be subject to further reports to Cabinet; an anticipated 10% reduction in grant would equate to over £2.5m in funding. Dependent on the policy adopted by the Council, this may require further amendments to the MTFS.

NNDR Reform ** The Government began a review of local government finance in March 2011. Phase one involved a review of how the local retention of business rates can be achieved. The new system will be introduced from 1 April 2013. The Government acknowledges that some local authorities generate more business rates than they would need to spend annually and also some will generate less. Therefore the Government is intending to "top up" authorities that generate less business rates than they require annually to meet their spending requirements. Plymouth City Council is currently a net gainer from the central allocation of NNDR. Under Government proposals, designed to encourage local business expansion, we would have to retain the

local NNDR we collect, and lose the “top up” which presently amounts to approximately £12m per annum. However, it is prudent that the Council continues to make resource assumptions based on the current system of resource distribution in the medium term until further details are announced.

It must be emphasised that this is very much the “worst case” scenario. However, the underlying message is there is a funding gap on the horizon, and even in 2012/13 we have to achieve over £7m (£10m for 2013/14) of delivery plans to balance the budget.

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 2012/13 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 7: Income Collection Targets

Type of debt	Actual % 11/12	Target % 12/13	Target % 13/14	Target % 14/15	Target % 15/16
Council Tax	96.3%	96.8%	97.0%	97.0%	97.0%
NNDR	96.2%	97.5%	97.5%	97.5%	97.5%
Commercial Rents	96.4%	96.5%	96.5%	96.5%	96.5%
Sundry Debt	98.5%	98.5%	98.5%	98.5%	98.5%
Trade Waste	100.0%	100.0%	100.0%	100.0%	100.0%

Council Tax and Non-Domestic Rates

For Council Tax collections, we have continued to make significant progress, improving from collecting 92.5% in year for 2007/08, rising to 95.20% for 2009/10 and a further increase to 96.1% for 2010/11. For 2011/12 we achieved a collection rate of 96.3% We will continue to explore further options to maximise the level of income collected and are confident we can achieve our new target of 96.8% rising again to 97.0%.

Our collection of Non-Domestic Rates (NNDR) remains a challenge due to the general economic pressures affecting the local economy and businesses. In this context 96.2% is an excellent collection rate. We are working closely with our local business colleagues to offer assistance if required and have a Hardship Fund in place to give short term relief where required.

Sundry Debt

Despite the current difficult economic climate, we surpassed our 11/12 target of 95.0%, achieving a record setting 98.5%. We have therefore revised our targets in the medium term to 98.5% to ensure we maintain this excellent result. Our new 3 year targets will enable us to compare very favourably against the Unitary average.

Trade Waste

We continue to set future years' targets 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 8: Key spending / inflation assumptions

Description	2012/13	2013/14	2014/5	2015/16	Sensitivity
Pay (excluding lower paid)	0.0%	2.0%	2.0%	2.0%	+/- 0.50% = £0.500m
Superannuation increased employer contribution	0.0%	0.0%	1.0%	1.0%	+/- 1.0% = £0.800m
Utility inflation– increases off set by accommodation changes until 2013/14	0.0%	5.0%	5.0%	5.0%	+/- 5.0% = £0.149m
Income – fees and charges	Determined by individual departments				+/- 0.50% = £0.182m
Return on council investments	1.0%	1.0%	2.5%	2.5%	+/- 0.50% = £0.181m
Social Care Commissioning	0.0%	2.0%	2.0%	2.0%	+/- 0.50% = £0.349m
Supporting people	0.0%	2.0%	2.0%	2.0%	+/- 0.50% = £0.041m
Children's services placements	0.0%	2.0%	2.0%	2.0%	+/- 0.50% = £0.032m
Total Sensitivity / Risk re: changes to the above Expenditure assumptions:				+/-	£1.596m

Resources					Sensitivity
Council Tax					+/- 0.50% = £0.475m
Formula grant variation					+/- 0.50% = £0.530m
Council Tax total collected	98.5%	98.5%	98.5%	98.5%	+/- 0.10% = £0.100m
Total Sensitivity / Risk re: changes to the above Resource assumptions:				+/-	£1.105m

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 rising sharply each year. 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 have entered into a Private Finance Initiative, (PFI), with Devon County and Torbay Councils to build a new 'waste into energy' plant. We have been putting aside regular contributions to meet the anticipated increased cost of waste disposal. At the start of 2011/12 the reserve stood at £2.4m. However to balance the 2011/12 outturn we had to draw down £0.8m; the 2012/13 budget anticipates a further draw down of £0.8m. This leaves an estimated balance at the end of 2012/13 of just £0.8m, enough to fund a further year's resource gap.

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. The 2011/12 balance has been allocated to projects. The fund will continue to be topped as part of future reviews of reserves and 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 the balanced revenue budget for 2011/12, and future year budgets, 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 maintain 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 cash flow 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, is not structurally secure. Funding has been 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 9 represents what we are planning will be in these reserves and provisions at the end of each of the next four financial years:

Figure 9: Targeted significant reserves and provisions

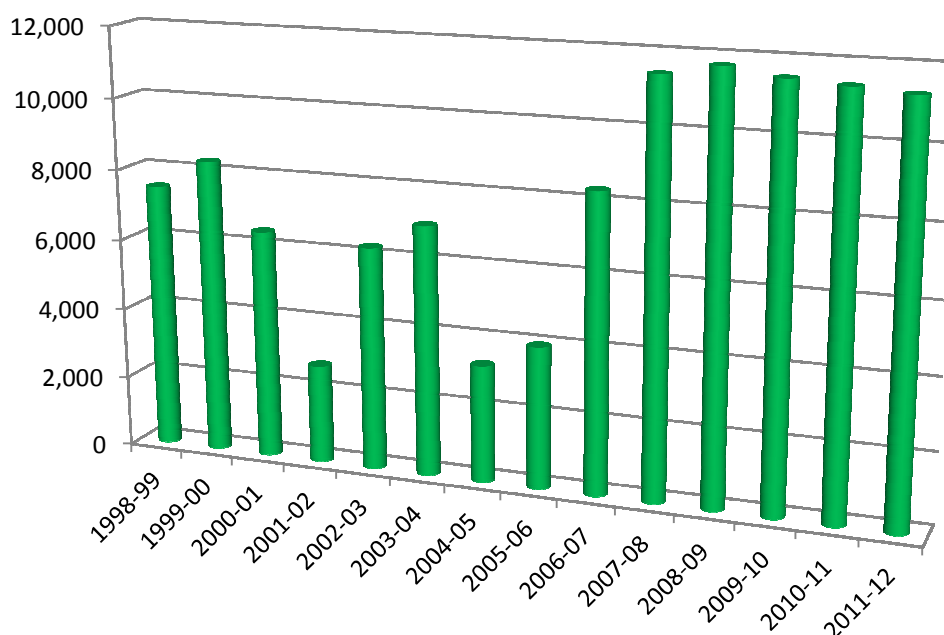
	Actual for 31 Mar '12 £m	Target for 31 Mar '13 £m	Target for 31 Mar '14 £m	Target for 31 Mar '15 £m	Target for 31 Mar '16 £m
Waste Management Reserve	1.6	0.8	0.0	0.0	0.0
Redundancy Costs	2.6	1.6	0.0	0.0	0.0
Capital Financing Reserve	0.9	0.7	0.5	0.0	0.0
Accommodation provision - Civic Centre	1.3	0.9	0.4	0.0	0.0
Insurance – General Fund Reserve	1.1	1.0	1.0	1.0	1.0
Invest to Save	1.3	0.5	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, stood at £11.4 million. As at March 2012 it now stands at £11.3m. This equates to approximately 5.5% of net revenue budget for the year which is 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.

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.

Figure 10: Working Balance Levels



5. Our Capital Programme

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 four year capital programme for the period 2012/13 to 2015/16. There remains significant volatility around future capital grant funding and income generation through capital receipts. The criterion that the council applies in prioritising the programme is detailed in **Appendix B**.

The revised programme for the period 2012/13 to 2015/16 of **£118m** was approved by Cabinet in June 2012, which excludes the 2011/12 figures which were part of the last published MTFS.

Figure 11A: Four Year Capital Programme

	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	Total £000s
Total	72,472	58,379	28,493	14,940	16,032	117,844

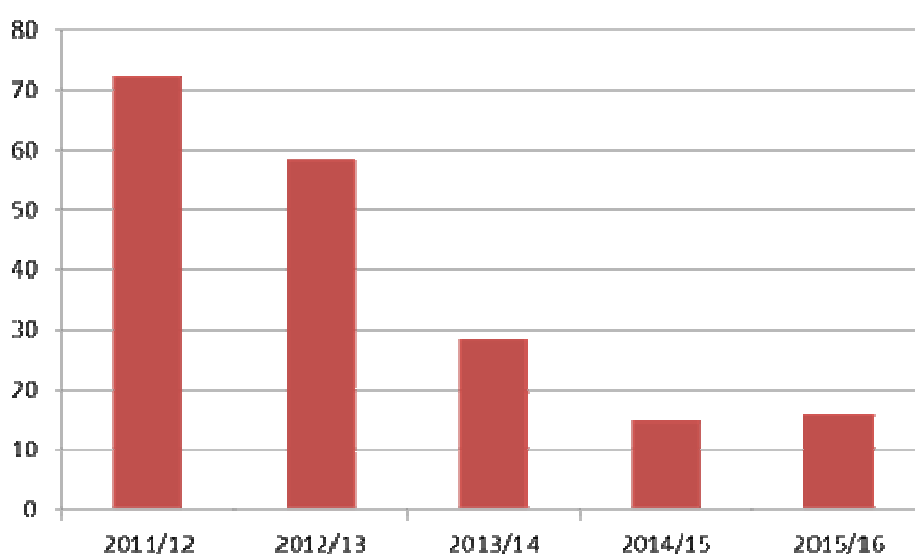
Figure 11B: Four Year Capital Programme Funding

	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	Total £000s
Capital Receipts	18,526	11,420	5,152	0	0	16,572
Unsupported Borrowing	17,617	7,649	750	750	500	9,649
Supported Borrowing	217	107	0	0	0	107
Grants	27,656	35,705	22,293	12,603	12,432	83,033
Contributions	2,321	846	50	0	0	896
S106	1,898	1,163	50	1,250	3,100	5,563
Revenue	2,096	134	21	0	0	155
Funds	2,141	1,355	177	337	0	1,869
Total	72,472	58,379	28,493	14,940	16,032	117,844

(2011/12 excluded from the totals and shown for comparison purposes only)

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).

Figure 11C: Four Year Capital Programme £m



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 2012/13 budget setting we have continued to significantly reduce our reliance on capital receipt funding to £16.6m over the four 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 two years; for future programmes we will have to work on the assumption that market conditions will improve.

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.

6. Our Approach to Treasury Management

The council's approach to Treasury Management has been significantly revised due to the current global economic climate and impact on the banking sector. 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. Throughout 2011/12 we have reduced our investments by over £100m, making a corresponding reduction in council borrowing of over £80m.

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 2012. In this Strategy with have approved the following borrowing limits:

The Authorised Borrowing limits

- 2012/13 = £275m
- 2013/14 = £251m
- 2014/15 = £243m

The Operational Boundary limit

- 2012/13 = £245m
- 2013/14 = £235m
- 2014/15 = £228m

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.

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 MTFs. 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 12: Targets for Investment & borrowing Percentage Rates

Financial year	Rate of return for new investments	Average borrowing as @ 31 March
2012/13	0.8%	4.5%
2013/14	0.8%	4.5%
2015/16	0.8%	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 2012/13 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 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 Council recognises that real term resources will fall in the period of this MTFS, but it will continue to safeguard resources for front-line services so far as possible and continue to review and reduce the support costs. Therefore, the Council is continually looking for new ways to generate on-going value for money (VFM) efficiency gains.

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, learning disabilities, children's social care, and Revenues & Benefits.

Budget Delivery Plans remain our main mechanism for reviewing and monitoring how we drive out efficiencies and deliver VFM. We continue to utilise annual benchmarking information in order to identify high cost and low performance services, using this information to inform our budget delivery plan process.

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;
- Undertake a full analysis of our asset base to ensure we are making the best use of our assets
- The Council must continue to develop services to reduce dependency and to enable and encourage self sufficiency
- Generate income by exploring all opportunities

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. 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;
- Delivery of the capital programme;

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.

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 and has meetings with the Chamber of Commerce, promoting summarised statement of accounts and specific meetings held with partners and community groups. A special three day Scrutiny Panel robustly challenges the council's alignment of resources to corporate priorities as part of the annual budget setting process. The Budget Consultation continues to evolve and improve and for 2012/13 included our Strategic Partners being scrutinised for the first time.

Measuring our progress

Quarterly reporting of progress made against specific corporate plan measures and targets will continue to be presented to members and senior officers. 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 dissolution of the Audit Commission its annual Use of Resources assessment was the main measure that demonstrated progress regarding improving our financial monitoring and management.

Our external auditors, Grant Thornton, undertake an annual "Financial Resilience" audit and corresponding judgement on the effectiveness of our arrangements. The audit opinion regarding our financial resilience has been extremely positive over the last few years.

Appendix A

Notional 3 Year Revenue Forecast vs Spend Commitments

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Total Revenue Resources available	203.8	200.9	203.3	205.8
Base Budget Spending plans for 2012/13	206.2	206.2	206.2	206.2
Budget Saving Targets		(10.2)	(10.2)	(10.2)
Net Budget Spending plans	206.2	196.0	196.0	196.0
Pension - increased contribution based @ 1% After current fixed period to 2013/14			0.8	0.8
Increased Waste Disposal costs "gap" year			0.8	
Utilities increases absorbed by accommodation changes until 13/14 – assume 5%		0.2	0.3	0.5
Adult Social Care -Inflation (2% per annum from 13/14)		1.4	2.8	4.2
ASC Demographics		1.0	2.0	3.0
Children's Services placements inflation (2% per annum)		0.2	0.3	0.5
Children in Care - increase in number looked after		0.7	1.5	2.2
Pay Award freeze 2012/13 then 2%		2.0	4.1	6.1
Carbon Reduction Commitment CRC Levy		0.3	0.3	0.3
Known Spending Plans	206.2	201.8	208.9	213.6
Funding Shortfall	2.4	0.9	5.6	7.8

Off set by:

Council Tax Freeze Grant 2012/13	(2.4)	-	-	-
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Appendix B

Criteria applied to revise the 4 year Capital Programme

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

- We will retain the principle of a 4 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 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 2012/13 and three year Medium Term Financial Forecast;
- Political priorities need to be considered in finalising the revised four year capital programme.