

**DRAFT FINANCIAL STRATEGY 2008-2011****Report By: DIRECTOR OF RESOURCES****Wards Affected**

County-wide

**Purpose**

1. To seek the Strategic Monitoring Committee's views on the draft financial strategy for 2008 - 2011. The Committee's views will be considered by the Cabinet on 21<sup>st</sup> February 2008 when it finalises its recommendations to Council on 7<sup>th</sup> March 2008 on the budget and Council Tax for 2008/09 and financial strategy for 2008 - 2011.

**Financial Implications**

2. As outlined in the draft Medium Term Financial Strategy 2008 – 2011 appended to this report

**Background**

3. Cabinet received a report from the Director of Resources on 24<sup>th</sup> January 2008 that set out the Corporate Management Board's (CMB) detailed recommendations for updating the current financial strategy to cover the 2008 – 2011 period. A copy of that report is attached for ease of reference.
4. Following detailed consideration of the report, Cabinet resolved to approve CMB's recommendations subject to:
  - a) Inclusion of the final local government finance settlement figures for Herefordshire for 2008/09 and the indicative figures for 2009/10 and 2010/11.
  - b) A revised planning assumption for a Council Tax increase of 4.4% in 2008/09.
  - c) Continued discussion on the level of reserves in the light of a) and b) above.
5. The draft Medium Term Financial Management Strategy 2008 – 2011 attached as an appendix to this report takes into account the updated approach recommended by CMB as amended by Cabinet. It also includes the draft Treasury Management Strategy for 2008/09 as it impacts directly on both the capital and revenue spending plans for the year.
6. The Financial Resource Model included in the financial strategy document attached to this report therefore includes a 4.4% increase in Council Tax for 2008/08 and the final local government finance settlement figures.

7. The Financial Resource Model included in the financial strategy document attached to this report includes three further amendments. The results of the latest triennial actuarial valuation of the pension fund have been received since Cabinet on 24<sup>th</sup> January 2008. Assumptions in the financial resource model about the likely level of increase have therefore been replaced with firm figures. The assumptions around increases in the Council Tax base have also been reviewed and updated, partially offsetting the adverse impact of the other changes.
8. In addition the settlement has changed the amount of supported borrowing for capital projects the authority has to repay following a shift from grant to this funding source. Central government had indicated in consultation that this would not occur.
9. The following table shows how these changes have impacted on estimated financial capacity:

<i>(All figures in £000's)</i>	2008/09	2009/10	2010/11
Estimated financial capacity as reported to Cabinet on 24 <sup>th</sup> January 2008	542	3,002	4,689
<b>Less:</b>			
Reduction in Council Tax income	-221	-234	-247
Reduction in financial settlement/RSG transfers	-76	-66	-62
Increase in superannuation costs	-43	-85	-88
Capital Programme and Project updates	+9	-475	-629
<b>Plus:</b>			
Additional growth in Council Tax base	+145	+153	+161
Adjustment to Budget capacity brought forward	0	+142	+147
Estimated financial capacity as a result of the above	356	2,437	3,971

10. The overall impact of the above changes is a reduction in estimated financial capacity in 2008/09 of £186k and a corresponding reduction in the amount estimated to be available to establish an earmarked reserve for Modernisation Plans (paragraph 42 of the Cabinet report attached as an appendix refers). The estimated sum now available is £2.056m compared to £2.242m.
11. Cabinet is monitoring the impact of any reduction in estimated financial capacity on the level of reserves. The month 10 financial monitoring reports will be available to Cabinet on 21<sup>st</sup> February 2008 when it considers the Strategic Monitoring Committee's comments on the draft financial strategy and finalises its recommendations to Council on the budget

and Council Tax for next year. If the outturn position improves further as the current trend suggests, the estimated sum available for establishing the earmarked reserve for Modernisation Plans would increase from the lower level of £2.056m. It is therefore suggested that a final decision on the level of reserves be taken in the light of the month 10 financial monitoring report.

## **RECOMMENDATION**

**THAT the Strategic Monitoring Committee examines the draft Medium Term Financial Management Strategy 2008 – 2011 attached as an appendix to this report and formulates a response to Cabinet.**

## **APPENDICES**

- The Director of Resources report for Cabinet dated 24<sup>th</sup> January 2008 entitled 'Draft Financial Strategy 2008 – 2011' is appended to this report.
- The draft Medium Term Financial Management Strategy 2008 – 2011 prepared in the light of Cabinet's decisions on 24<sup>th</sup> January 2008.