

# DRAFT FINANCIAL STRATEGY 2008 – 2011

## PORTFOLIO RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

21 FEBRUARY 2008

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### Wards Affected

County-wide.

### Purpose

1. For Cabinet to make its final recommendations to Council on the budget, Council Tax and treasury management strategy for 2008/09. The draft financial strategy for 2008 – 2011 encompasses these issues. Approval of the budget, Council Tax and treasury management strategy for 2008/09 and the financial strategy for 2008 – 2011 is a decision reserved to Council. Council will be meeting on 7th March, 2008 to consider these issues.
2. For Cabinet to consider the Strategic Monitoring Committee's views on the draft financial strategy 2008 – 2011 as it finalises its recommendations to Council.

### Key Decision

This is a Key Decision because it is likely to result in the Council incurring expenditure above agreed budgets for the service or function (shown as a line in the budget book) to which the decision relates but allowing for virements between budget heads and savings within budget heads of up to £500,000; and it is likely to be significant in terms of its effect on communities living or working in Herefordshire in an area comprising one or more wards.

It was included in the Forward Plan.

### Recommendation(s)

**THAT Cabinet considers the draft financial strategy 2008–2011 attached to this report and recommends its approval to Council on 7 March 2008.**

### Reasons

To ensure that the Council Tax and supporting decisions are taken in accordance with statutory obligations.

### Considerations

3. Cabinet received a report from the Director of Resources on 24th 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.

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Further information on the subject of this report is available from  
Sonia Rees, Director of Resources on (01432) 383519

4. Following detailed consideration of that 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 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 includes a 4.4% increase in Council Tax for 2008/09 and the final local government finance settlement figures.
7. The Financial Resource Model included in the financial strategy document attached to this report includes further amendments as follows:
  - a. The results of the latest triennial actuarial valuation of the pension fund received since Cabinet on 24th January, 2008. Assumptions in the Financial Resource Model about the likely level of increase have therefore been replaced with firm figures.
  - b. The final local government finance 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 on the provisional local government finance settlement that this would not happen.
  - c. Revised assumptions on increases in the Council Tax base following a review of this element of the Financial Resource Model.
  - d. Inclusion of the very latest information on the capital programme and related capital financing costs.
8. The effect of the changes outlined in paragraphs 6 and 7 above is a reduction in the total budget for 2009/10 of £142k and a further £145k in 2010/11.
9. The following table shows how the financial capacity figures have changed between those forecast in the report to Cabinet on 24th January, 2008 to those now presented in the Financial Resource Model included in the draft financial strategy 2008 – 2011:

<i>(All figures in £000's)</i>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
<b>Estimated financial capacity as reported to Cabinet on 24th January, 2008</b>	<b>542</b>	<b>3,002</b>	<b>4,689</b>
<b>Less:</b>			
Reduction in income resulting from lower planning assumption for Council Tax increase	-221	-234	-247
Reduction in the local government finance settlement figures and transfers in to Formula			

Grant for borrowing costs	-76	-66	-62
Increased superannuation costs	-43	-85	-88
Capital programme updates	+9	-475	-629
<b>Plus:</b>			
Additional growth in Council Tax base	+145	+153	+161
Change in total budget	0	+142	+147
<b>Updated estimate of financial capacity as a result of the above</b>	<b>356</b>	<b>2,437</b>	<b>3,971</b>

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 decided to monitor the impact of any reduction in estimated financial capacity on the level of reserves. The month 10 financial monitoring reports will be available when Cabinet considers this report. Further improvement on corporate budget headings is indicated. It is therefore likely that the sum available to establish the earmarked reserve for Modernisation Plans will be greater than the lower level of £2.056m.
12. The proposed revision to the financial policy for general reserves set out in section 6.4 of the financial strategy remains prudent in terms of:
  - a. Best practice guidance.
  - b. Advice from the external auditor to continue developing policies on reserves and balances.
  - c. The level of risk associated with changes in the key variables within the Financial Resource Model as outlined in section 7.5 of the financial strategy.

## Financial Implications

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

## Risk Management

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

## Alternative Options

The CMB considered a number of options for managing the financial pressures to produce a balanced revenue budget for 2008/09 with cash allocated to priorities and flexibility for the future. The reasoning underpinning the recommended approach is explained in the body of the report on the draft financial strategy considered by Cabinet on 24th January, 2008.

## Consultees

The Strategic Monitoring Committee has been consulted on Cabinet's draft budget and

financial strategy proposals.

## **Appendices**

The Director of Resources' report for Cabinet dated 24th January, 2008 entitled 'Draft Financial Strategy 2008 – 2011' is appended to this report for ease of reference.

The draft Medium Term Financial Management Strategy 2008 – 2011 prepared in the light of Cabinet's decisions on 24th January, 2008 is appended to this report.

## **Background Papers**

None identified.