

Executive

MEDIUM TERM FINANCIAL STRATEGY AND 2008/09 PROJECTED REVENUE & CAPITAL OUT-TURN

6 April 2009

Report of Strategic Director for Customer Service and Resources and the Chief Accountant

PURPOSE OF REPORT

This report presents the proposed revised Medium Term Financial Strategy, setting out the context, objectives, and fundamental principles for the planning of the Council's financial resources over the next four years.

This report also summarises the Council's revenue and capital projections for the financial year 2008/09 as at 28th February 2009.

This report is public

Recommendations

The Executive is recommended:

- 1) To approve the new Medium Term Financial Strategy (MTFS) and, specifically:
 - i) the objective to eliminate revenue dependence on investment income by 2012/13
 - ii) the intention to relax our 'debt-free' policy to give us future flexibility (although any proposal to do this will be subject to further discussion)
- 2) To note the revenue and capital projections at Feb/May 2009 (Appendix 2 and 3).
- 3) To agree that a provision of £80,000 be made from the Investec interest gains achieved in December 2008 to fund support for the Horton Hospital and to fund work to increase the community benefit of places of worship in Bicester.
- 4) To agree that the accrued interest expected from investments at risk in the Icelandic Bank Glitner of £551k be written off to zero in the 2008/09 financial statements.
- 5) To agree that £3,897,623 of capital schemes listed in Appendix 2a approved as part of the 2008/09 budget and profiled for expenditure in 2008/09 are carried forward for utilisation in 2009/10.
- 6) To agree that £300,000 of the Woodgreen capital schemes profiled for expenditure in 2009/10 be brought forward for utilisation in March 2009.

Executive Summary

Medium Term Financial Strategy

- 1.1 The strategy commits us to eliminating our revenue dependency on investment income within the remaining 4-year lifetime of the strategy. This requires some limited and reducing support from reserves during the period to ensure effective implementation while protecting service levels during any transition period.
- 1.2 A number of potential actions are identified to secure the required reduction in net expenditure – circa £2.6m at today's values. These actions are neither an exhaustive nor prescribed list.
- 1.3 Some of these actions will drive savings. The Council's public promises and high priority areas remain the focus for investment. Non customer-facing support services together with lower priority services and services delivering poor value for money will be the main focus of savings proposals. Working in partnership with others, strategic procurement and delivering services in different ways offer further opportunities to reduce costs.
- 1.4 Other actions aim to generate additional, sustainable income. Changes to our approach to asset management will be key to this, via plans to share overheads and co-locate with partners.
- 1.5 Eliminating our revenue dependency on investment income enables the Council to utilise this income in a number of different ways, including:
 - Growing the capital base to allow for future investment
 - Funding capital financing arrangements for major scheme
 - Funding short-term one-off revenue based activities in the future
- 1.6 The investment strategy review, now underway, will include consideration of appropriate future capital funding mechanisms. In reviewing our approach it may become appropriate to change the Council's current "debt free" status. The Council has reaped all the financial benefits associated with the current policy and our declining capital base is unlikely to be able to support all desirable activities. The Medium Term Financial Strategy proposes that we relax this policy to give us the flexibility to consider borrowing in the future.
- 1.7 The proposed revised Medium Term Financial Strategy is attached at [Appendix 1](#).

Revenue and Capital Projections

- 1.8 In line with good practice budget monitoring is undertaken on a monthly basis within the Council. The revenue and capital position is reported monthly to the Corporate Management Team and formally to the Executive on a quarterly basis. This is the final budget monitoring report prior to the financial year end 2008/09.
- 1.9 Due to the downturn in the economy, impact of the credit crunch on Council services and the volatility of the financial markets, the Council has been faced

with a number of budget pressures that could not have been foreseen. This has resulted in officers spending additional time on projections in order to take compensatory steps to reduce potential overspends and to ensure minimal impact on front line services.

- 1.10 Projections until the end of the financial year, building on the December position and making reasonable and robust assumptions up to 31st March 2009, indicate a likely overspend against budget of £251k. This can be split between an overspend in services of £430k and an investment income deficit of £251k. The latter assumes full loss of the Icelandic bank interest for the current and previous financial year. The General Fund reserve of £1.95m is adequately funded to meet this deficit.
- 1.11 The latest projection for the capital programme indicates a capital outturn of £25m subject to recommendations 5 and 6.
- 1.12 The variances which result from these revenue and capital projections are within the Council's stated tolerances of +2% / -5%.
- 1.13 A number of compensatory actions have been taken to offset in part the impact of the downturn in the economy and the interest impact of the investment in the failed Icelandic bank.
- 1.14 If the Glitner interest is returned during the administration process there is a potential that this will give rise to additional income. If this should be the case, officers will make recommendations for reallocating these funds.

Background Information

Revenue Projection 2008/09

- 2.1 The projected revenue out-turn for 2008/09 is set out in Appendix 2 which summarises the main variances between outturn and the 2008/09 budget by Directorate.
- 2.2 The downturn in the economy has given rise to a number of unanticipated budget pressures. One of the most immediate impacts of the credit crunch in Cherwell, like elsewhere, is the rapid slowdown in the housing market. This year we expect to be £158k short in land charges income and £297k short in planning fee income. We have also seen fluctuating fuel costs and we are forecasting an extra £45k in the cost of fuel for the full year. These combine into a projected £500k shortfall related to the downturn which we can reasonably say we could not have forecast.
- 2.3 We have £6.5m in Glitner, one of the failed Icelandic banks, with accrued interest to the end of 2008/09 of £551k yet to be paid. These were long term investments and we were not expecting either the capital or the interest imminently. The fact that we have no access to this money at the moment makes no difference to our ability to deliver services or meet operational costs.

- 2.4 We are working closely with the LGA and Deloitte and Touche, who have been appointed as administrators of Glitner, to seek recovery of our principal sum and accrued investment income.
- 2.5 While this money is currently deemed at risk, we have for the purpose of the projections since September 2008 assumed the worst and assumed that the £551k of accrued interest will not be received. We propose in this report to write it off formally in the 2008/09 accounts.
- 2.6 We have not yet made any assumption on the likelihood of repayment of the £6.5m principal sum and in line with official guidance from CIPFA we do not propose any impairment of these investments at this stage. We will review this as part of the 2008/09 closedown report.
- 2.7 We have benefited as a result of the uncertainty of the interest rates in the first 9 months of the year and project that we will receive £810k additional investment income compared to budget. The continued reduction in interest rates, currently 0.5%, will result however in a reduction in investment income for the last quarter of 2008/09 and we have therefore reduced our December forecast by £145k.
- 2.8 We propose to make a provision of £80k of this gain (from Investec returns in December) to enable support for the Horton Hospital (detailed in a later report on this meeting's agenda) and to increase the community benefit of places of worship in Bicester, which will be subject to detailed report in 2009/10.
- 2.9 The residual investment income gain of £730k will wholly offset the Glitner write off of £551k and partly compensate for the economic downturn effects referred to above.

Capital Projection 2008/09

- 2.10 The projected spend for capital schemes in 2008/2009 is £24,731,367 of which £17,499,367m relates to the Sports Centre Modernisation Project. This includes £300,000 bought forward from the 2009/10 programme and schemes totalling £3,897,623 deferred to 2009/10.
- 2.11 Appendix 3a summarises the main variances between projected capital outturn and the 2008/09 budget.
- 2.12 The £300,000 relates to the Woodgreen scheme and the requirement to bring forward this approved expenditure in order to meet the opening date of 18 July 2009.
- 2.13 Appendix 3b summarises the £3,897,623 of capital schemes budgeted to be spent in 2008/09 that will now slip into 2009/10.

Key Issues for Consideration/Reasons for Decision and Options

- 3.1 The Medium Term Strategy (MFTS) is the Council's key financial planning document. It is driven by our Corporate Plan and the four strategic priorities which lie at the heart of it. These strategic priorities underpin the decisions Councillors make about services and funds.

- 3.2 The current economic climate has highlighted the vulnerability of the Council's revenue dependency on investment income. This, together with our reducing capital base, demands a fundamental shift in the Council's approach to financial planning in the medium-term.
- 3.3 The Council is well placed to meet the challenges described above and is in a strong financial position to do so. The proposed revised Medium-Term Financial Strategy is designed to ensure this financial strength is sustained in the long term.
- 3.4 This report also illustrates the Council's provisional performance against the 2008/09 Revenue and Capital Budget.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

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| Option One | To review current performance levels and consider any actions arising. |
| Option Two | To approve or reject the recommendations above or request that Officers provide additional information. |

Consultations

Corporate Management Team Jan – March 2009
Extended Management Team 10/03/09

Implications

Financial: Financial Effects – The Medium Term Financial Strategy sets the framework for the Council's medium-term financial planning, enabling it to meet future financial commitments and the financial effects are as outlined in the report.

It should be noted that the information in this report is in the format used for budget monitoring purposes. Proactive action will continue to be taken as part of the budget monitoring process to identify areas of underspend or additional income that can offset the unavoidable additional costs currently forecast.

Efficiency Savings – There are no efficiency savings arising from this report directly however the budget 2008/09 was based on a number of efficiencies carrying forward from Gershon and achieving our targets for 2008/09. In addition to our own internal efficiency targets we also have to meet the Governments 3% efficiency target – National Indicator 179. Not all of our efficiencies can be counted towards this target and the finance team are therefore undertaking an exercise to allow progress against the Government target to be reported.

Comments checked by Phil O`Dell, Interim Head of Finance, 01295 227098.

Legal: There are no legal implications arising from this report.
Comments checked by Liz Howlett, Head of Legal and Democratic Services, 01295 221686.

Risk Management: Without a clear Medium Term Financial Strategy, the Council runs the risk of not being able to deliver its service objectives in future years.
The revenue and capital position to date highlights the relevance of maintaining a minimum level of reserves and budget contingency to absorb the financial impact of changes during the year.
Comments checked by Rosemary Watts, Insurance and Risk Manager, 01295 221566.

Wards Affected

All

Corporate Plan Themes

An Accessible and Value for Money Council

Executive Portfolio

Councillor James Macnamara
Portfolio Holder for Resources

Document Information

Appendix No	Title
Appendix 1	Medium Term Financial Strategy 2009/2013
Appendix 2	Revenue Projection 2008/9 and Analysis
Appendix 3a	Provisional Capital Outturn 2008/2009
Appendix 3b	Capital Analysis - c/f to 2009/10 Capital Programme
Background Papers	
2009/10 Budget Booklet 2009/10 Capital Asset Strategy 2009/10 Investment Strategy	

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