Swanage Town Council

Medium Term Financial Strategy 2011/12 – 2013/14

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1. Introduction

The objective of the Council's financial strategy is to structure and manage its finances in support of the Council's Corporate Performance Plan. Good financial management is essential so that the Council may deliver quality services but also effectively manage public monies. The strategy will help the Council make decisions to ensure that its corporate objectives are met.

2. Corporate Plan Framework

The Council's Mission Statement is to:
"Maintain and enhance Swanage for the well-being and prosperity of present and future generations"
In order to achieve this, the Council has identified its corporate objectives as:

- To preserve the unique identity of Swanage and promote its heritage for the benefit of future generations whilst trying to encourage and promote tourism for the economic and commercial benefit of the town;
- To ensure that the Council's assets are properly maintained, refurbished or replaced by setting a programme to achieve this;
- To establish and promote Swanage as the Eastern Gateway to the Jurassic Coast World Heritage Site;
- To represent the views and wishes of the citizens of Swanage and to deliver services that meet local needs;
- To consult with and take due regard of all comments from other statutory bodies, voluntary organisations and individuals, to ensure improvement in the standards of service;
- To enable residents to enjoy quality social, recreational and sporting facilities within the town.

These corporate objectives underpin the development of the Council's Medium Term Financial Strategy.

3. Three Year Financial Strategy

The Medium Term Financial Strategy (MTFS) does not exist in isolation. It provides the framework for the Council's strategic and financial policies and plans which will ensure the proactive financial management of the Council. Projecting the financial needs of the Council over the next three years will identify potential problems in advance so that the Council will be able to adapt to any eventuality. Active risk management plays a pivotal role in ensuring that the Council can adapt to circumstances over which it has no control, but still be able to deliver its corporate objectives.

The following Medium Term Financial Strategy contains details of the Council's revenue budget, capital programme and treasury management strategy over the term of the next three financial years, identifying areas of risk and how the Council will manage that risk effectively. As the MTFS requires forward planning over a number of years, the budget projections are provisional and will be reviewed annually as part of the budget setting process.

4. Risk Management

The Council, through its system of internal control, has developed a culture of risk management as part of its overall strategic management. The Council aims to identify, quantify and control all risks and put into place arrangements in order to protect the Council and ultimately its stakeholders from the consequences of the risks identified. The Council has compiled a risk register which specifies control measures and allocates action points to relevant officers and council committees.

4.1 Financial Risk Management

The annual budget setting report will detail all of the most significant financial risks that have been identified as part of the budget setting process and may adversely affect the Council's MTFS. The MTFS has been based on numerous assumptions:

- Inflation rates;
- Interest rates;
- Inflationary pay awards;
- Income generated from fees and charges;
- Potential legal challenges;
- A continued level of service provision.

In developing its capital and revenue budgets and its investment strategy, the Council has considered the financial risks that it faces and has tried to mitigate that risk. The Council has in developing its MTFS:

- Adopted a prudent approach in its financial forecasting;
- Appointed the services of external treasury management advisors;
- Developed a Reserves and Balances Policy to ensure that the Council has adequate contingent balances so that the MTFS is affordable and deliverable;
- Developed a realistic and deliverable Capital Programme;
- Introduced earmarked reserves to provide a contingency against anticipated future spending requirements.

The Town Council operates in a sound financial control environment. Each member of the management team has a clearly identified accountability for specific budgets and is allocated responsibility for implementing recommendations arising from the internal auditor's reports. Member scrutiny is provided through the Finance and Performance Management Committee which has responsibility for overseeing and reviewing the effectiveness of the Town Council's governance framework and system of internal control. It approves the internal auditor's interim reports and plays a key role in budget monitoring in receiving quarterly reports containing year-end projected out turns and an analysis of budget variances. This enables the Council to review on a quarterly basis if it has adequately mitigated risks or whether any further action needs to be taken in year in order to ensure that the Council is not adversely affected financially and can deliver its MTFS.

5. Reserves and Balances

An essential requirement in developing the Council's MTFS is making an assessment of the adequacy of the Council's reserves and balances over the term of the strategy. Section 50 of the Local Government Finance Act 1992 requires that the Council gives due regard to the level of reserves and balances for the forthcoming years and the RFO is required to set a balanced budget.

5.1. The General Fund Balance

The General Fund Balance, commonly termed the "working balance", is a balance on the Council's revenue account which is not held for any specific purpose other than to cushion the Council's finances against any unexpected short term problems in the Council's cash flow. It is the account where all the Council's day to day income and expenditure in the provision of its statutory and discretionary services is recorded, details of which are included in the Budget Book and Annual Budget Report.

The General Fund Balance projections over the next three financial years are detailed below. Consideration has been given to a financial risk assessment, which will be carried out annually in line with the Reserves and Balances Policy and set out in the annual budget report. For the 2011/12 financial year a risk assessment has determined that a minimum of £220,000 should be maintained as the general fund balance so that the Council may mitigate any financial risks that may materialise within the year.

	Revised 2010/11 £	Estimate 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £
General Fund Balance for Year	122,860	52,350	101,020	102,615
General Fund Balance Brought Forward	67,079	189,939	242,289	343,309
General Fund Balance Carried Forward	189,939	242,289	343,309	445,924

5.1.1. Expenditure

In the context of the current adverse economic climate the Council must look to continue its policy of proactively controlling its costs, in order to minimise the impact upon the tax payer.

- **Efficiency:** Efficiency and value for money are the bedrock of the Council's decision making process. In formulating its budget the Council through its Finance & Performance Management Committee reviews and challenges whether it is delivering value for money. The Council looks to identify savings and efficiencies that can be made without affecting service delivery;

- **Procurement:** During the term of this strategy the Council will continue to look at accessing greater purchasing power through partnership procurement, as the Council has done with its gas and electricity supplies. Several service contracts are due for renewal and the Council will look to achieve efficiency through procuring the same or better service at a lower cost to the Council;
- **Employee Costs:** The Council will review its operational resources on an ongoing basis and look to maintain well controlled employee costs. The Council will also look to optimise the use of its staff throughout the organisation.

5.1.2. Income

The Council does not receive any income other than those charges levied for its service provision, rental income, investment income and the precept.

- **Fees and Charges:** The Council considers its scale of fees and charges on an annual basis. The Council consults with stakeholders through inviting group user representatives to its Committee meetings. The Council complies with legal requirements in setting its charges and has due regard to affordability, elasticity of demand for its services and accessibility. The Council will look to achieve the maximum level of income that market forces in operation at the time will allow.
- **Investment Income:** Investment income is projected in line with the Council's Annual Investment Strategy. The current economic climate is challenging in terms of finding the balance between security and yield. The Council will continue to consult its treasury advisers on the most appropriate strategy.

5.1.3. Tax Base & Parish Precepts: The tax base is a figure that is determined by Purbeck District Council annually and is the baseline for setting council tax charges.

In accordance with the Local Authorities (Calculation of Council Tax Base) regulations 1992, Purbeck District Council has given a tax base figure of £4,963.63 for the parish of Swanage for 2011/12 (£4,912.00 for 2010/11). This figure is based upon the estimated number of chargeable dwellings, expressed as the equivalent number of Band D dwellings, after allowing for reliefs, discounts and non-collection.

During the setting of the revenue and capital budgets due consideration has been given to the current economic climate, together with the request from central government that town and parish councils exercise restraint and ensure that no council taxpayer sees an increase in bills. However, consideration has also been given to the need for the Council to increase its reserves and balances being mindful of future capital, revenue and treasury requirements. With the increase in the tax base to £4,963.63 from £4,912.00 in 2010/11, this allows the Precept to be increased by £6,150 from £588,000 in 2010/11 to £594,150 in 2011/12 without an increase being levied upon the individual tax payer, as shown below.

	Approved 2010/11	Estimated 2011/12	Estimated 2012/13	Estimated 2013/14
Precept	£588,000	£594,150	£609,000	£624,225
Increase in Precept	3.1%	1.0%	2.5%	2.5%
Council Tax on a Band "D" Property	£119.70	£119.70	£121.78	£123.89
Increase in Council Tax on a Band "D " Property	2.9%	0.0%	1.7%	1.7%

With the overriding need to maintain an adequate level of reserves and ensure high-standards of service provision, an assumption of a 2.5% increase in the Precept for the 2012/13 and 2013/14 financial years has been made. The estimated charge to the council tax payer has been calculated using a 0.75% increase (the average over 11 years) in the 2011/12 tax base of £4,963.63. The figures for council tax on a Band D property are likely to change when the tax base for future years is announced.

6. Earmarked Reserves

In addition to the general fund, the Council also maintains reserves that are earmarked for a particular purpose. The Council has, through its Asset Management Plan and development of a Reserves and Balances Policy, highlighted future capital expenditure requirements and established earmarked reserves in order to finance the expenditure when it is required. Details of the projected balances on the earmarked reserves are given below. The Council will continue to monitor the adequacy and relevance of its earmarked reserves on an annual basis.

Earmarked Reserve	Revised 2010/11 £	Estimate 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £
Festive Lights	2,180	2,180	2,180	2,180
Vehicle & Plant Replacement	15,000	30,000	45,000	60,000
King George's Play Area and Skate Park	11,000	22,000	33,000	44,000
Play Equipment-General Areas	15,000	30,000	45,000	60,000
Car Park Machines	10,000	20,000	30,000	34,000
Tennis Courts Refurbishment	7,200	14,400	21,600	6,800
Repairs & Renewals Fund	80,260	120,260	160,260	200,260
King George's Changing Facilities	6,960	6,960	6,960	6,960
De Moulham Back Roads	15,730	17,200	19,000	20,800
Insurance & Contingency Reserve	10,000	20,000	30,000	40,000
Total	**173,330**	**283,000**	**393,000**	**475,000**

7. Capital Programme

7.1. Capital Expenditure

The Council's capital programme is attached at Appendix A. This programme has been developed from the Council's Asset Management Plan, albeit substantially reduced, to include the capital projects that are deemed to be achievable and affordable within the time frame set out. The programme reflects the Council's priorities that have either been highlighted through a risk assessment or are deemed imperative in achieving the strategic objectives as stated in the Council's Corporate Performance Plan.

The Council has a large property portfolio, comprising of public offices, buildings and public conveniences and large areas of open spaces, including play areas, car parks, sports facilities, cemeteries and gardens. The Council has historically under-invested in its properties and as a result has a large back-log in its maintenance programme requiring a substantial capital investment so that the buildings are fit for purpose. The Council also has items of equipment in its play areas that have exceeded their useful life and need replacing. Improvement schemes in turn generate additional long-term repairing obligations, such as the requirement to maintain the play area and skate park at King George's Field.

During 2010/11 the Council's fleet of vehicles were replaced. The Council will continue to maintain a fleet that is economic and efficient. The Council will review its fleet capabilities annually and has introduced a rolling replacement programme.

Within the scope of this strategy the Council looks to ensure that it has adequate financial resources available in order to meet its aspirations as laid out in the capital programme.

Estimated Capital Expenditure

	2010/11 Revised £000s	2011/12 Estimate £000s	2012/13 Estimate £000s	2013/14 Estimate £000s
Capital Expenditure	**142**	**574**	**444**	**128**

The Council may in future wish to invest in the acquisition of fixed assets in the local area that are seen to bring benefits to the community. It is anticipated that such an asset acquisition would have to bring the same or greater income yield as that of any treasury investment, so as not to impact upon the revenue account. No specific schemes have been identified at the present time but they may be considered in the future if preferential circumstances prevail.

7.2. Capital Financing

In order to meet its estimated capital expenditure, the Council has several areas from which financing may be met:

7.2.1. Capital Receipts

Capital receipts are derived from the sale of a fixed asset and can only be used to fund capital expenditure. Accordingly capital receipts are usually the first reserve used to finance capital expenditure, as the use of the reserve is limited in its application. However when capital receipts are used to finance capital expenditure there is a direct effect upon the revenue budget, resulting from a reduction in interest earned. In applying any capital receipts consideration has been given to any resulting loss of revenue from the Council's investments. Accordingly the Council has determined that a minimum of 85% of the net proceeds that were derived from the disposal of Swanage Bay View Holiday Park should be retained for investment, so as to ensure that adequate revenue is generated to apply to the revenue account and to meet the Council's budget requirement.

The Asset Management Plan established the Council's policy regarding the identification of surplus assets for disposal. The Council does not currently have any plans to dispose of any of its land and buildings over the next 3 years other than the site of the public conveniences at Herston. The Council is currently in discussion with the Emmanuel Baptist Church and the issue should be resolved in the next few months. The Council is confirming negotiations with the Swanage Railway Trust regarding the future ownership and management of the Railway Station building and land.

In reviewing the Council's Asset Management Plan, the council will continue to assess the availability of surplus assets that may be suitable for disposal in order to meet future capital expenditure. This process will streamline the Council's asset portfolio and ensure that the asset base is fit for purpose.

Estimated Usable Capital Receipts Reserve

	Revised 2010/11 £000s	Estimate 2011/12 £000s	Estimate 2012/13 £000s	Estimate 2013/14 £000s
Opening Balance	6,789	6,761	6,312	5,968
Applied	(84)	(474)	(344)	0
Generated	56	25	0	0
Closing Balance	6,761	6,312	5,968	5,968

7.2.2. Revenue Contributions

The Council may use any surplus on the general fund above the required balance to fund capital expenditure, in line with the Reserves and Balances Policy. The Council has also established earmarked reserves so that internal funding will be available in future to meet the anticipated capital expenditure that will not impact upon the Council's investment requirements.

7.2.3. Funding

The Council will look to source external funding for all suitable capital projects, in partnership with other authorities. No funding for the Council's budgeted capital programme has been sourced at the present time. The Council has however acquired the services of the Project Development Officer at Purbeck District Council who will assist the Council's officers part-time in identifying and accessing funding streams.

Total Estimated Capital Financing Sources

	Revised 2010/11 £000s	Estimate 2011/12 £000s	Estimate 2012/13 £000s	Estimate 2013/14 £000s
Capital Expenditure	142	574	444	128
Capital receipts	84	474	344	0
Revenue contributions	58	100	100	128
Total Financing and Funding	142	574	444	128

8. Treasury Management Strategy

The Council defines its treasury management activities as:
"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

The Council's estimated investment capacity is shown in the table below. This figure has been derived from projecting the council's balance sheet forward over the next three financial years (Appendix B). Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

Estimated Investment Capacity

Gross to Net Borrowing Requirement (Projections)					
	Actual 31-Mar-10 £000s	Estimated 31-Mar-11 £000s	Estimated 31-Mar-12 £000s	Estimated 31-Mar-13 £000s	Estimated 31-Mar-14 £000s
External Borrowing & Other Long Term Liabilities (at Nominal Value)	-25	-8	0	0	0
Balances & Reserves	6,978	7,124	6,837	6,704	6,889
Net Borrowing Requirement/ (Investment Capacity)	**6,953**	**7,116**	**6,837**	**6,704**	**6,889**

8.1. Borrowing Strategy

In July 2011 the Council will make its final repayment of all outstanding PWLB loans. It is the Council's policy to remain debt free for the duration of this strategy.

8.2. Investment Strategy

One of the more challenging areas that the Council now faces is the prudent investment of the capital receipt derived from the disposal of Swanage Bay View Holiday Park in October 2009, with a minimum of 85% to be retained for investment purposes. The Council adopted its first Treasury Management and Investment Strategy in November 2010 in full compliance with the CLG's Investment Guidance and CIPFA's Treasury Management Code of Practice (revised 2009). This document was developed in close conjunction with the council's newly appointed treasury advisers, Arlingclose.

In compliance with the above guidance the Council has determined that its investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- to obtain an optimum yield which is commensurate with security and liquidity.

The Council has placed an upper limit for principal sums invested for over 12 months, by determining that a minimum of £1m should be held in short term investments. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Current and projected investment position

	Current Portfolio £000s	%	31-Mar-11 Estimate £000s	31-Mar-12 Estimate £000s	31-Mar-13 Estimate £000s	31-Mar-14 Estimate £000s
External Borrowing:						
Fixed Rate – PWLB	9	100	8	0	0	0
Total Gross External Debt	9		8	0	0	0
Investments:						
Managed in-house						
- Short-term monies (Deposits/ on call /MMFs)	5,000	72	5,000	2,700	2,600	2,700
- Long-term investments *(maturities over 12 months)*	0		0	2,000	2,000	2,000
Managed externally						
- By Fund Managers	0		0	0	0	0
- Pooled Funds	2,000	28	2,000	2,000	2,000	2,000
Total Investments	7,000		7,000	6,700	6,600	6,700
(Net Borrowing Position)/ Net Investment position	6,991		6,992	6,700	6,600	6,700

The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income. The low interest rates on offer place more importance on finding the balance between security, liquidity and yield as generally the higher the return the greater the risk. The Council will annually determine its Investment Strategy with guidance from Arlingclose to ensure that risk is minimised and return maximised. The council is currently projecting an annual yield of 2.94% on its current investments.

A more detailed analysis of the Council's Treasury position and policy is contained within the Treasury Management Strategy Statement and Investment Strategy 2011/12-2013/14.