Agenda item 11

Cabinet – 20 June 2012

Medium Term Financial Strategy 2012/13 – 2016/17

Portfolio: Councillor C. Towe, Finance and Personnel

Service: Finance

Wards: All

Key decision: No

Forward plan: No

1. Summary of report

This report seeks Cabinet endorsement of an updated corporate medium term financial strategy (MTFS); the framework within which the council's financial planning and management is undertaken, and the council's medium term financial plan (MTFP). It is good practice to regularly review and update this key strategic document and obtain formal Cabinet approval.

2. Recommendations

Cabinet are requested to approve the updated MTFS attached to this report.

3. Background information

Best practice financial management requires an MTFS which is regularly updated to take into account the changing environment in which we work.

4. Resource and legal considerations

The MTFS is the strategic framework within which the council's finances are constructed and managed. It is part of a suite of documents that together comprise the council's approach to effecting sound governance and good practice. It is how we translate of our vision, aims and objectives into a financial plan, which thereby facilitates delivery of these through the corporate and service planning process.

5. Citizen impact

The MTFS enables decisions to be made within a strategic and objective framework that ensure resources are targeted to priority areas and that resulting activity contributes to a longer term vision.

6. Community safety

None directly associated with this report.

7. Environmental impact

None arising directly from this report, although financial decisions clearly impact on the wider environment.

8. Performance and risk management issues

8.1 The MTFS is the overarching corporate financial strategy, sitting below the sustainable community strategy and corporate plan and above the other elements of the financial cycle. Below the MTFS sit the other financial strategies; the capital strategy and the treasury management strategy

8.2 The MTFS is an integral part of how the council integrates planning, performance and risk framework and is the framework within which the council's capital and revenue financial planning and management are undertaken. The document is key in bringing together the level of available resources with the demands for service delivery and investment, facilitating sound financial and service risk and opportunity management, whilst linking the impact on the council's capital resources and external funding opportunities.

9. Equality implications

None arising directly from this report.

10. Consultation

The strategy is prepared in consultation with relevant managers and executive directors. Budget consultation will take place more widely via scrutiny and key stakeholders.

Background papers

Various financial working papers

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31 May 2012

Councillor C. Towe
Finance and Personnel

31 May 2012

Walsall Council	**Medium Term Financial Strategy (MTFS)**

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1. INTRODUCTION

The council has been operating a medium term financial strategy (MTFS) since 1999. The main objectives of the strategy are to set out how the council will structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.

In practice the MTFS is very much a part of the council's mainstream activity, and whilst this document seeks to bring together in one place the major components of the strategy, in practice elements of it are evident in a range of council documents such as the corporate plan, capital strategy and monitoring reports, and of course in our activities, processes and culture. The MTFS document considers a wide range of issues, under the following headings:

- The Walsall Performance Framework
- The financial framework within the WPF
- Our key financial objectives
- The principles adopted in strategically planning our finances
- Our operational principles
- The identification and management of risk
- The impact of joint plans with other stakeholders
- The resulting medium term financial plan

The principles are intended to remain relatively constant thus providing a robust and consistent approach that maintains the council on a sound and stable footing, whilst enabling us to deliver better outcomes for our citizens, take out waste and radically change the way we deliver our services. Although intended to remain broadly constant, these principles will continue to be reviewed and refreshed each year to reflect our learning and our adaptation to the changing demands of our citizens.

The national and local context elements will vary more frequently and influence the baseline position and future outlook. For those reasons, these elements of the MTFS will change more substantially each year, whilst remaining true to the principles established.

Risk will be managed using our established best practice principles. Prevailing risks will be identified and managed within that framework and updated regularly, according to the nature of each risk. We also use this process to identify and maximise opportunities.

Councils increasingly operate within the wider local, sub-regional, regional and national communities; working with a range of partners and other stakeholders to deliver joint aims and objectives, most notably those in the local Sustainable Community Strategy (SCS). It is essential, therefore, that the financial implications of joint work are considered and addressed, demonstrating how the MTFS has contributed to the delivery of the council's own vision, and those of partners and stakeholders either collectively or individually. All the above components inform the production of a medium term financial plan (MTFP). This effectively translates the strategy into a practical plan of action for the council.

2. INTEGRATED PLANNING & PERFORMANCE

The diagram below shows how the various planning processes interlink and how services and resources are managed. It is a framework within which the council operates and is underpinned by functional frameworks that provide guidance and protocols. It is a means to embed performance management and continuous improvement into our normal business activities. It connects the following:

- Sustainable Community Strategy (SCS)
- Corporate Plan
- Service planning (of all levels) of the council and its partners
- Financial planning (of all levels)
- Local Area Plans
- Employee Performance Assessments

All of which take place in an environment of stakeholder influence, audit and inspection, internal control and monitoring in order to develop continuously improving services.

3. THE FINANCIAL FRAMEWORK

The financial framework is an integral part of our planning process and comprises a series of documents and processes which together facilitate our strategic financial planning and operational financial management. The financial framework does not exist in isolation; it is inextricably entwined with other planning processes, most notably the various levels of service planning, risk management and employee performance assessment.

The key aspects of the financial framework are as follows:

<table>
<tr><th colspan="6">THE FINANCIAL FRAMEWORK</th></tr>
<tr><th>CATEGORY</th><th>OVERALL</th><th>REVENUE</th><th>CAPITAL</th><th>TREASURY MANAGEMENT</th><th>RISK MANAGEMENT</th></tr>
<tr><td rowspan="2">Strategies</td><td colspan="5">MTFS</td></tr>
<tr><td colspan="2"></td><td>Capital Strategy</td><td>Treasury Management (TM) Strategy</td><td>Risk Management Strategy</td></tr>
<tr><td>Guidance</td><td>CIPFA & technical guidance</td><td>Budget Guidelines</td><td>Capital Guidelines</td><td>CIPFA Code of Practice for TM</td><td>Risk Management Toolkit</td></tr>
<tr><td>Plans</td><td>MTFP</td><td>Annual Budget</td><td>Capital Programme & Asset Management Plan</td><td>Treasury Policy Statements</td><td>Risk Management Action Plans</td></tr>
<tr><td rowspan="3">Governance</td><td>Constitution</td><td colspan="2">Budget Management & Control Manual & Annual Governance Statement</td><td>Prudential Indicators</td><td>Risk Register reporting and regular review</td></tr>
<tr><td colspan="4">Contract & Finance Rules</td><td>Audit Committee Reports and Annual Report</td></tr>
<tr><td colspan="5">Internal and External Audit Plans and our response to inspection and audit</td></tr>
</table>

A table setting out the people responsible for the development, maintenance and approval of these documents, a summary of what they contain, and the timing of their approval/ publication appears at Appendix A.

4. KEY FINANCIAL OBJECTIVES

The main objective for the council is to maintain good long-term financial health. Achieving this allows us to deliver good quality, value for money services, shaped by our customer demand. Services that are modern, efficient, effective, and fit for purpose. This requires a framework that delivers both continuous, adaptive improvement and core strength.

How we will achieve this is through:

1. Financial Governance and Leadership
2. Financial Planning
3. Finance for Decision making
4. Financial Forecasting and Monitoring
5. Financial Reporting

1 Financial Governance and Leadership

1. Our top management will be financially literate and able to understand fully the financial environment in which the council and our partners operate. Senior management and budget holders will operate within the approved financial framework at all times.

2 Financial Planning

1. Our financial planning will be inextricably linked to the council's strategic and corporate planning process. Our financial plans will reflect the councils key strategic priorities.
2. An annual medium term financial plan will integrate current expenditure plans and investment programmes, with cash-flow and balance sheet projections, developed in the context of a longer-term strategy, which supports the council's corporate plan and the SCS.

3 Finance for decision making

1. In developing our strategic and corporate plans we will consider the value for money achieved by allocating resources to different activities.
2. We will understand the financial implications of current and potential alternative policies, programmes, and activities.
3. We will analyse our cost profiles and cost drivers and how they will behave under different circumstances
4. We will understand the whole-life costs associated with capital investment.

4 Financial Monitoring and Forecasting

1. Top management will assure itself that financial performance to date and forecast financial outturns are in line with the plan, including cash-flow and balance sheet projections.
2. Variances will be identified as soon as possible, so that management can either take corrective action to manage unfavourable variances or apply any favourable variances to corporate priorities.
3. The underlying costs of the organisation's key activities and how these are profiled over time will be monitored and reviewed.
4. Financial information will be integrated with non-financial performance and activity information. Together, such information forms the basis for financial forecasts and enables value for money to be monitored.

5. The financial information used both for setting the budget and internal accountability, monitoring and forecasting throughout the year is derived from the same systems that are used to generate the results reported externally in the organisation's statutory financial statements.

5 Financial Reporting

1. To run the organisation effectively, top management will have up-to-date financial and non-financial performance information on a timely basis.
2. Reports will be presented in a form that is tailored to user needs, is easy to understand and highlights the key financial issues that they need to be aware of.

3. For its part, top management needs to provide timely, accurate and balanced information about its stewardship and use of resources and its non-financial performance to the organisation's different stakeholders. Such information will be presented in a form tailored to meet their needs.

The principles within which we will work to deliver our aims and objectives are described in the next section.

5. STRATEGIC PRINCIPLES

Our strategic principles relate to how we will deliver our overarching objectives, ensure good governance, a strong control environment and consistently adopt a longer-term perspective in all aspects of financial planning.

A: LEVELS OF RESERVES AND CONTINGENCIES

CONTEXT: The council shall maintain a prudent level of general reserves, which, in the same way as central contingency, will be index linked to the level of the net council tax requirement and continue to be informed by a financial risk assessment.

A1 The council will establish opening general reserves no lower than 5% of the net council tax requirement. The precise level being informed by risk assessment and set by the Chief Finance Officer (CFO).

A2 General reserves above that required by the MTFS will be appropriately and prudently earmarked in-year or at year-end by the CFO, in consultation with the Cabinet member with responsibility for finance.

A3 A generic central contingency of between 0.50% and 0.75% of the year's net council tax requirement will be established for each financial year. In addition, specific earmarked reserves and provisions will be established as required.

A4 The level of general reserves, specific earmarked reserves and central revenue and capital contingency will be reviewed each year by the CFO and reported to Cabinet, informed by a comprehensive risk assessment and consideration of the opportunity costs of maintaining reserves at certain levels.

B: MANAGEMENT OF FINANCIAL RISK AND OPPORTUNITY

CONTEXT: The council embraces the concept of risk and opportunity management, taking a proactive approach to the identification and management of risk to ensure we are best placed to seize the opportunities that we have.

B1 Financial activity will take place within the principles set out in the risk management strategy.

B2 In constructing and assessing the annual budget for the forthcoming year, a comprehensive financial risk assessment will be undertaken for all parts of the budget, including sensitivity analysis and active steps will be taken to manage identified risks.

B3 We will not be risk averse, and will seek to seize and maximise opportunities by the appropriate identification and management of risk.

C: INCOME

CONTEXT: The council has a good track record in securing external grant funding. This will be embraced within a wider inclusive income generation strategy that seeks to maximise income in accordance with our priorities and receive all types of income as promptly as possible.

C1 We will develop and maintain an overarching income generation strategy and charging policy.

C2 We will seek to maximise income in accordance with the council's priorities.

C3 We will seek to promptly receive and recover all income due to us.

D: RESOURCE ALLOCATION

CONTEXT: The council will allocate resources in line with council priorities and with regard to our statutory obligations.

D1 Capital and revenue resources will be allocated according to the vision, aims, objectives, and priorities and approved by Council.

D2 Within the remit of D1 above, resources will be allocated through an options appraisal process, which has regard to: current and future required levels of performance, investment needs to secure service improvement and/or invest to save, legislative changes, best practice development, affordability tests and whole life costing where appropriate, in order to demonstrate value for money.

D3 The council will demonstrate value for money by critically examining services that meet citizen demand and how they meet quality cost and delivery metrics.

D4 All Government funding intended for schools will be passed through to schools unless there is a clear objective policy decision to do otherwise.

D5 No other predetermined earmarking of revenue funding will occur.

E: ACCOUNTABILITY

CONTEXT: The council requires managers to formally acknowledge they recognise their responsibilities to deliver services to the required standard within budget, and to implement any savings and investment allocated to their areas. Relevant members and managers are required to participate fully in all aspects of the financial processes.

E1 All senior managers (i.e.: chief executive, executive directors, assistant directors, heads of service, etc) and members of the Cabinet are required to participate fully in budget setting and management processes.

E2 Managers are personally accountable for delivering their planned service outputs within the cash limited budget allocated to them. This will be a key performance in all managers' annual employee performance assessments.

E3 The council (through the CFO) will regularly review its financial management arrangements to ensure they remain fit for purpose.

F: LOCAL TAXATION

CONTEXT: Our aim is to see that our council tax is appropriate to support the provision of good quality, value for money council services.

F1 The council will establish and maintain local tax at a level that ensures adequate ongoing income sufficient to support planned levels of expenditure.

F2 In setting the local tax level each year, the council will ensure that the annual increase is sufficient to ensure adequate resources are available to provide both the current and planned levels of service provision reflected in the annual budget and adequate specific and general reserves in the context of the medium term.

F3 We will publish indicative increases for future years where this is required, and if not required, where this is possible and appropriate.

F4 The use of future funding mechanisms such as Tax Incremental Financing (TIF) will require full analysis and approval before adoption.

G: TREASURY MANAGEMENT

CONTEXT: We have a successful track record of effective treasury management, securing low cost borrowing to fund capital investment. Our aim is to continue to do so within the requirements of the prevailing policies and codes of practice.

G1 All borrowing and/or investment activity will be carried out in accordance with the Prudential Code, the approved treasury management strategy and treasury policy statements and within approved prudential indicators, having the highest regard for prudence, affordability and sustainability in the longer term.

G2 The overriding investment strategy will be to protect the principal, ensuring liquidity, whilst minimising risk. Maximising yield will always be subsequent to these.

G3 Appropriate use will be made of the prudential code for capital investment within approved prudential indicators and subject to medium term affordability and sustainability.

G4 The treasury management panel, chaired by the CFO will oversee this and report on performance regularly to Cabinet.

H: CONSULTATION

CONTEXT: The council consults with stakeholders in advance of the budget being set. Our approach has become increasingly sophisticated in recent years, and we now have comprehensive consultation, the outcomes of which are used to inform the final budget.

H1 Residents, service users, business ratepayers, employee representatives and other stakeholders will be consulted on the annual budget and the presentation of financial information.

H2 An equality impact assessment will be conducted both for individual service changes and for the totality of the budget, prior to submission to full Council for approval.

I: CAPITAL PROGRAMME

CONTEXT: The capital programme represents, in financial terms, the council's capital investment priorities. This is a complex, regulated area and is governed by a defined capital strategy and guidance. The council has comparatively limited mainstream funds available for capital investment and therefore will focus on use of external and matchfunding to maximise a range of funding sources and the use of the prudential code, where appropriate and affordable, to deliver the council's objectives.

I1 The capital programme will be constructed in accordance with the principles outlined in the council's prevailing approved capital strategy, and aligned with the corporate property strategy and the asset management plan.

I2 Borrowing limits will be in line with the advice of the CFO and the treasury management strategy approved by full Council.

J: INTERNAL CONTROL AND REPORTING

CONTEXT: The maintenance of a sound governance framework and internal control environment is paramount, and the council has worked hard to embed good corporate governance. Within the prevailing internal and external protocols and guidance we will strive to deliver best practice in this important arena.

J1 We will re-affirm the Local Code of Governance approved in 2008.

J2 We will maintain at least an adequate overall internal control environment.

J3 Financial monitoring and reporting will be undertaken in accordance with the budget management and control framework and in line with the published corporate financial monitoring and reporting timetable. We will report on the current and estimated year end financial position, including progress against investment, efficiency and savings targets at regular intervals to both members and management.

J4 We will publish each year an annual statement and summary accounts that provide stakeholders with a clear statement of the operating and financial performance of the council compared to targets.

J5 We will publish on a quarterly basis a set of financial health indicators that are readily available to all stakeholders.

6. OPERATIONAL PRINCIPLES

Our operational principles relate to how we will conduct our day to day business in financial terms. These are set out below:

K: CALLS ON RESERVES AND CONTINGENCIES

K1 The central contingency will be allocated under the delegated authority of the CFO (or deputy in his absence), in accordance with prevailing designated criteria set out in the budget management and control manual.

K2 Services are required in the first instance to accommodate unforeseen expenditure and/or income shortfalls from within their cash limited budgets in any particular year, only seeking allocations from general reserves and contingencies where this is proven to be impossible.

K3 If general reserves are committed during a financial year, alternative savings will be identified and implemented in order to both mitigate the impact and replenish the general reserves in-year as much as possible.

K4 Any use of general reserves in a particular year by an individual service that is not replenished in that year of account will be paid back in the following financial year, by the identification and implementation of savings and efficiencies. It is recognised that on occasion this will be achieved over more than one financial year; this will be permitted only on the prior agreement of the CFO and be referred to as a “licensed deficit”.

L: WORKING WITH PARTNERS

L1 The MTFP will reflect partnerships and other arrangements to give an overall picture of funding.

L2 That any one-off and/or ongoing council contributions to the funding of and/or support in kind to partnership working will always be on the basis of:

- a clear policy decision to do so rather than by default.
- the existence of a formally agreed service level agreement (SLA) and (where appropriate) agreement to the accountable body protocol.
- the existence of a clear, robust and achievable exit strategy at the point of consideration for approval of any funding and/or support. The council will not automatically undertake to fund any ongoing additional costs at the end of any time-limited external funding of any kind.

M: BUDGET AND FINANCIAL MANAGEMENT PROCESSES

M1 The detailed principles applying to all aspects of financial management, including monitoring, reporting, internal control are set out in the council’s Constitution and budget management and control manual, and council employees are required to adhere to the principles set out within these.

M2 The annual budget process will be governed by the annual budget framework and guidelines.

N: INCOME

N1 When acting as accountable body for grant funding, we will at all times operate in accordance with the council's agreed practices, including complying with the grants manual and accountable body protocol.

N2 A detailed policy-led review of fees and charges at least once every two years, according to the corporate framework outlined in the budget management and control manual.

N3 Each review will be undertaken within the requirement of a total cost recovery approach or as determined by statute or regulations i.e. building control income.

N4 Any requests by services for use of surplus income will be considered using the councils existing carry forward protocol and will be subject to a council wide outturn within budget.

N5 All one-off, unplanned "windfall" income will be returned to the corporate centre and pooled for the "corporate benefit" and will not be utilisable by the service. It's use will be determined by the windfall protocol the details of which are set out in the budget management and control manual.

N6 The windfall protocol requires windfall income to be pooled centrally. A proportion of the resulting fund is transferred at year end (subject to the council outturning within budget) to the project reserve (established in 2010 to provide resources to supplement the revenue budget of the council and for major capital projects), the remaining proportion is to be utilised to manage volatile areas of spend and/or new pressures in year. The exact proportion within each is to be determined by a risk assessment and set by the CFO in consultation with the portfolio holder for finance. The detailed arrangements for managing this to be set out in the budget management and control manual.

O: COMPARATIVE SPEND & PERFORMANCE

O1 Comparative spend and benchmarking data will be used to inform the budget setting process. The demonstration of public value and value for money will be from a quality, cost and delivery matrix.

P: CAPITAL PROGRAMME

P1 The annual capital programme will be approved alongside the revenue budget and all known revenue costs arising out of capital spend will be included in the revenue budget.

P2 The capital programme will be compiled using bids submitted by services, with the bids being prioritised and approved according to the council's vision and priorities and within the context of the council's capital strategy.

P3 The capital programme for each year will include a prudent capital central contingency to accommodate unforeseen expenditure.

P4 As an incentive, a small proportion of newly identified usable (non-ringfenced and/or not subject to secretary of state approval) capital receipts (i.e.: up to 10% of the usable/non-ringfenced element only) are permitted to be recycled to projects either within the geographical area or service from which the receipt arises, with approval for any such earmarking being sought in advance from Cabinet.

P5 Where there is a statutory obligation to ring-fence receipts (e.g. playing fields or allotments) for a specific purpose, these receipts will be treated as specific, earmarked receipts. The spending allocation for these receipts will be required to be approved by Cabinet.

P6 In exceptional circumstances, earmarking may occur where there is a specific proven business case, approved in advance by Cabinet.

P7 Other than P4, P5 and P6 above, no other earmarking or underwriting of capital receipts is permitted in the interests of prudent corporate financial management and to enable corporate allocation using our policy-led medium term principles and in accordance with the capital strategy.

P8 Reallocation of existing capital funding within years is permitted, subject to compliance with the Constitution, and as set out in the budget management and control manual, provided that funds are guaranteed to be available and that the allocation aligns with the council's defined priorities.

P9 Where applicable, reserve list items approved by Cabinet and in priority order, are permitted to be started should funds become available, for example, by services reporting underspends and returning these back to the corporate centre.

P10 Prudential or unsupported can be used in the following circumstances:

- For schemes of strategic importance to the council, approved in advance by Cabinet and where a defined revenue stream is identified to fund the repayment of principal and interest.
- To cover temporary cash flow requirements in advance of a capital receipt, approved by Cabinet in advance.
- To support one-off invest to save schemes where there is an identifiable net saving to be gained.

P11 Borrowing limits must be in line with the advice of the CFO and the prevailing guidance in the treasury management strategy and policy statements.

Q: BUDGET REALIGNMENT

Q1 All budget realignment will be undertaken within the medium-term policy-led framework identified throughout this strategy document.

Q2 All potential budget reductions will be fully financially and operationally appraised and risk and impact assessed before approval and any one off delivery costs identified and reported alongside the reduction.

Q3 All approved budget reductions will be implemented according to a pre-determined implementation plan.

Q4 Each approved budget reduction will be allocated to a named individual who is accountable for the planning, implementation and delivery of that budget reduction in the timescale required.

Q5 Once Council has approved a budget reduction that decision cannot be reversed unless it is subsequently determined that implementation would be illegal or due to a change in policy by the controlling administration.

Q6 Where it is determined in-year that a budget reduction cannot be fully implemented, the accountable manager will implement a corrective action plan and, where required, seek alternative offsetting reductions.

Q7 Any proposed investment funding will be fully financially and operationally appraised and risk assessed before approval.

Q8 All approved investment funding will be implemented according to a pre-determined implementation plan.

Q9 All approved investment funding will be allocated to a named individual who is accountable for its planning, full implementation and post implementation review in the timescale required.

Q10 The investment will be held centrally until implementation has commenced. Where it is determined in-year that a budget investment cannot be fully implemented, the investment will be returned to the corporate centre in the year that it occurs, except where this is due to genuine slippage, as determined by the CFO.

R: CONSULTATION

R1 This will be achieved using the most appropriate methods, which may include opinion polls, questionnaires, focus groups, residents panels, presentations, the website and other methods and media, in accordance with the council's consultation strategy.

S: CARRY FORWARD PROTOCOL

S1 A carry forward protocol will be used to reward sound budget management, by allowing the carry forward of *planned* revenue underspends and/or achieved revenue savings, up to a maximum of 50% of said underspend/saving, excluding the use of windfalls/ unplanned underspends/savings. This is dependent on achievement of planned service delivery targets/ outcomes and no overspends appearing elsewhere within the service and a balanced position council wide at year end. Approval for under/over spend carry forwards rests with Cabinet, on the advice of the CFO, within a corporate context.

S2 Where it is proven that expenditure originally planned to fall in the previous year will now fall into the next year for sound operational reasons, up to 100% (dependent on requirements) will be permitted to be carried forward. This will be permitted to be spent on that item only and any excess not required will be returned to corporate reserves.

S3 Where it is clearly demonstrated that an overspend has occurred for any operational service reason and/or financial management reason, between 25% and 75% of the overspend may be carried forward into the following year. The percentage will depend on the ability to recoup, the nature of the service, the track record of the relevant service, and the reason for the overspend. This would not be applied where it can be clearly demonstrated that the expenditure was unforeseeable at the time the budget was set and beyond the control of the individual manager or the directorate management team, and where the directorate had made robust attempts to mitigate its impact.

T: PERFORMANCE MANAGEMENT

T1 The delivery of required service outcomes and the achievement of financial performance will be reviewed by line managers as an integral part of the council's performance management framework through various mechanisms including but not restricted to: service plan reviews, EPA's and performance boards.

T2 The principles outlined throughout this document will be used as objective measures of managers' performance.

7. THE IDENTIFICATION AND MANAGEMENT OF RISK

Walsall council has long embraced risk management as an integral and important part of its business processes. The concept and practices are a key element in the management of the council and it is an integral part of our governance culture.

The principles of corporate governance apply as much (if not more) in the public sector as they do in the private sector in exercising our community leadership role, working with a wide range of partners, providing diverse and sensitive services and making decisions that impact on the lives of residents, visitors, businesses and other stakeholders.

We will continue to use the risk management framework to identify, analyse and manage the risks associated with our activities with the objective of:

- Providing objective information to decision makers;
- Reducing health, safety and environmental risks as far as reasonably practicable;
- Minimising financial and reputational losses;
- Maximising opportunities;
- Identifying cost effective risk treatment options.

The councils approach to risk management is set out in its corporate risk management strategy (CRMS) which designates responsibility for the management of risk across all members and officers of the council.

The responsibility for ensuring that the council meets its statutory requirements as stipulated in the Account and Audit Regulations 2011 rests with the Audit Committee together with the responsibility for reviewing the mechanisms for the management and assessment of risk; giving assurance about the process and ensuring that corporate business risks are being identified and actively and effectively managed.

A comprehensive set of risk registers is maintained which are structured and reported as follows:

ELEMENT	REPORTED TO	FREQUENCY
Corporate Risk Register (CRR)	Corporate Management Team (CMT) Audit Committee and Directorate Leadership team	Twice a year Twice a year
Directorate Risk Registers	Directorate Leadership Teams	Quarterly
Service Risk Registers	Service Management Teams/ Performance Boards	As required

The CRR is reported to Audit Committee which selects risks for further scrutiny. Directorate risks are reviewed and discussed at directorate management teams/performance boards. Directorate risk registers are obtained quarterly and CMT receive details of all of the directorates' top risks and consider any for evaluation onto the corporate risk register.

Risks are evaluated both within regular monitoring reports to Cabinet and CMT and within the annual budget report to Cabinet and Council. The CFO uses this risk assessment to inform his decision on the appropriate levels of general reserves, central contingency and specific reserves.

8. NATIONAL POLICY, FINANCIAL CONTEXT AND MEDIUM TERM FINANCIAL OUTLOOK

Financial Context

The council continues to be financially stable in the normal local government context, however it is experiencing, as other local authorities are, a challenging financial position. The 2012/13 budget was set using our long standing policy-led, medium term approach, which delivered a balanced budget with a council tax freeze. A detailed financial risk assessment was undertaken to appraise and manage the potential impact of various demands on the budget.

Spending Review 2010 (SR10)

In the Spending Review 2010, DCLG announced a 28% reduction in funding to local government. A two year settlement was announced in 2010. In 2011/12 and 2012/13, Walsall experienced reductions in formula grant of £26.6m and a further reduction in specific grants of £12.2m, the total overall reduction therefore being £38.8m. This equates to a 7% reduction in total funding compared to the councils opening net budget for 2011/12.

Future Funding and Walsall's Medium term outlook

Each year a medium term financial plan is produced which integrates current expenditure plans and investment programmes with cash-flow and balance sheet projections, developed in the context of a longer-term strategy, which supports the council's corporate plan and the SCS.

A further two year settlement is expected for 2013/14. According to SR10, Walsall should expect further funding reductions for 2013/14 and 2014/15 totalling around £16m, however on May 17 it was announced that a number of specific grants would be rolled into the settlement, and it is expected that this will lead to further reductions.

A preliminary revised estimate is a reduction in 2013/14 of c£12m and a further £14m in 2014/15, totalling £26m over the two years. This includes the impact of the localisation of council tax support and the impact of rolled in grants. The implications of the localisation of the Business Rate Retention (BRR) scheme are still being worked through. Walsall will be a top-up authority and should business rate yields reduce, the operation of the safety net as part of the new funding arrangements may mean a further impact of up to £3.4m.

The current council tax benefit is to be abolished and local authorities will be required to adopt a local scheme from 1 April 2013, whereby recipients will receive a discount in future rather than a benefit. Council tax support will be reduced by 10% (c£2.6m for Walsall). Options for the new scheme are currently being developed for consultation. As well as a reduction in funding of £2.6m, there is an additional impact of this new scheme, as the granting of a discount impacts the council tax base and therefore the amount which can be collected. Every 1% increase in council tax currently generates about £1.1m in council tax income. From 2013/14, it is estimated that every 1% increase will generate only £800k.

In line with the rest of local government, the medium term financial outlook (MTFO) is challenging. Our latest monitoring reflects many national and regional spending patterns. As with all councils and public sector organisations, there are pressures in current and future years that need to be funded. A particular issue for us is the Government funding reductions mentioned above. Alongside this, the implementation of a new referendum requirement and a reduced income yield available from council tax, restricts our ability to generate income overall to offset cost pressures.

The starting point for the MTFO is the approved 2011/12 base budget and provisional estimates for future years. These are currently being updated to reflect currently available information. In particular the following assumptions are used:

- A focus on a policy-led budget setting approach using corporate priorities established by Cabinet
- Provision for inflation, contractual inflation and pay awards to all services.
- PTE/environmental agency levies are based on up to date soundings.
- All education schools spend and resulting budget pressures are to be funded via dedicated schools grant and other specific education grants where applicable.
- Prudent provisions and contributions in 2013/14 including implementation of business rate retention, localised council tax support, welfare reform, fall out of 2012/13 council tax freeze grant, other grant reductions and income shortfalls.
- Account will be taken of changes to the council tax base and collection rates. Council tax collection rates assumed to be 98.5%.
- Full year effect of 2012/13 approved investment and savings approvals are funded.
- Sensitivity analysis will be conducted on our key activities and the impact if any on the plan.

Work is ongoing in respect of the medium term financial outlook. The level of business rate yields, income generated via fees and charges and council tax informs the level of overall efficiencies required to deliver a balanced budget. At this point in time, it is estimated that savings in the region of £67m will be required over the next four years in order for the council to set a balanced budget. Decisions on a local council tax scheme may increase this, dependent on the model chosen. A budget framework with indicative cash limits will be issued in the coming month to all services to commence the process for 2013/14 onwards.

KEY DOCUMENTS – RESPONSIBILITIES
APPENDIX A

DOCUMENT	BRIEF DESCRIPTION	DETAILED DRAFTING	OFFICER APPROVAL	MEMBER APPROVAL	DATE	REVIEW FREQUENCY
Medium Term Financial Strategy (MTFS)	Sets out how the council wishes to structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.	HF	CFO	Cabinet	Summer	Annual
Capital Strategy	The council's intentions for its capital income and expenditure to deliver the organisation's aims and objectives.	HF	CFO	Cabinet	Autumn	Every 2/3 years
Treasury Management Strategy and Policy Statements and Annual Report	The council's overarching strategy and operational procedures in the management of it's debt portfolio and investments. Annual report on performance.	TM	CFO	Cabinet Cabinet Audit Committee	Strategy: Feb/Mar Policy Statement – Sept/Oct Annual Report – June/July	Annual
Risk Management Strategy	The council's approach to managing risks to avoid unnecessary cost and reduce liability, whilst still maximising opportunities available.	RM	CFO	Audit Cttee	Winter	Annual
Budget Guidelines	Guidance to practitioners on the construction of the annual revenue budget.	HF	CFO	N/A	Summer	Annual
Capital Guidelines	Guidance to practitioners on the construction of the annual capital programme.	HF	CFO	N/A	Summer	Annual
CIPFA guidance	• Annual Governance Statement • Codes of Practice • Prudential Code	CIPFA	Implementation HF	N/A	Various	As required

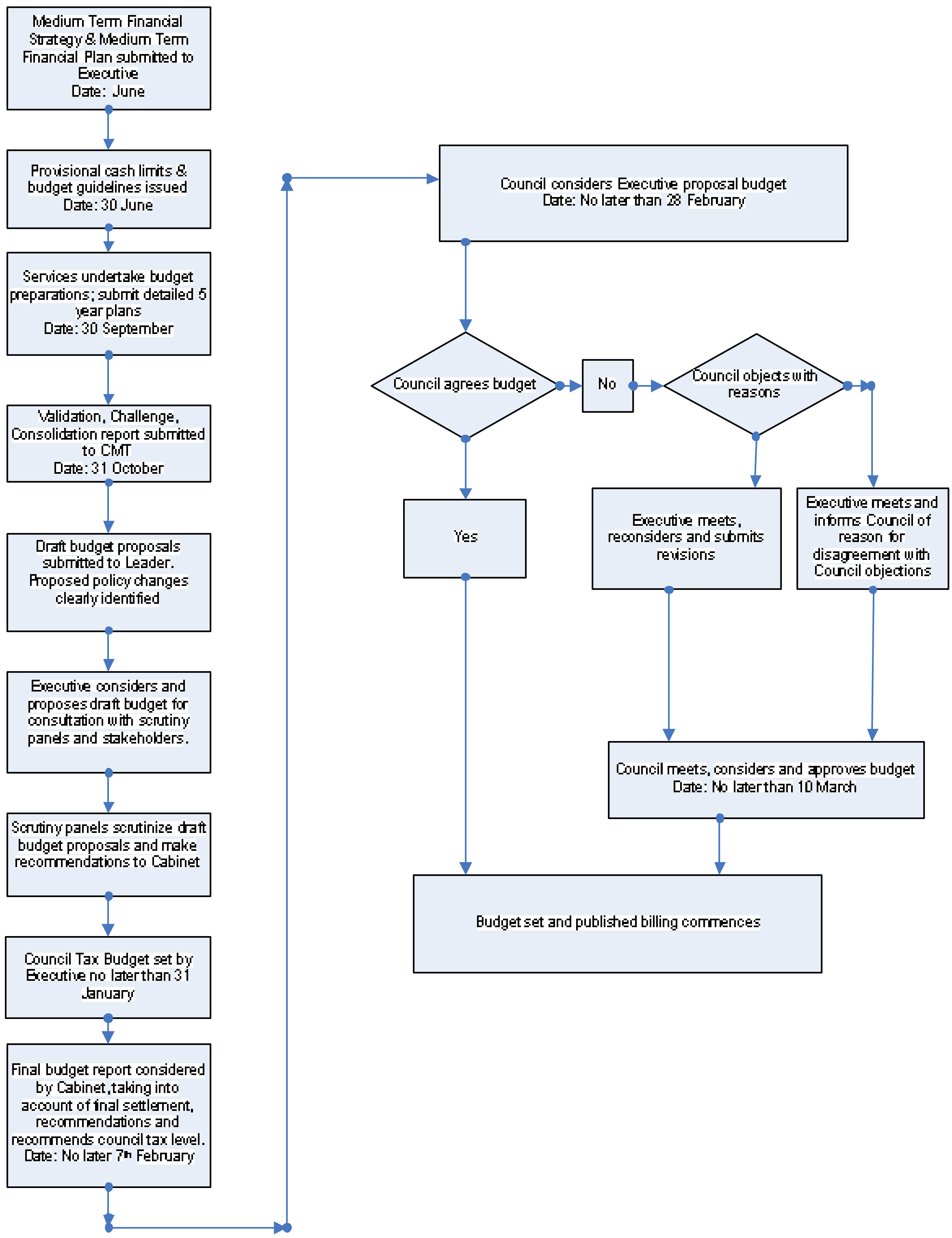
Medium Term Financial Plan (MTFP)	The annual 5 year revenue budget plan.	HF	CFO	Cabinet	Summer (with MTFS)	Annual
Budget Management and Control Manual	Detailed guidance for practitioners on the management and control of budgets and allied activities.	HF	CFO	N/A	Spring	Every 2/3 years or as required
Annual Governance Statement (AGS)	Statement setting out the council's approach to implementing and reviewing governance procedures, including internal control mechanisms in order to ensure the management of the council is adequate, including the reduction of risk.	HF	CFO/CEO	Leader and Audit Committee	September with Statement of Accounts	Annual
Revenue Budget	The annual budget used for setting the council tax and the allocation of financial resources to the services	HF	CFO	1. Cabinet 2. Council	February February/March	Annual
Capital Programme	The annual capital programme	HF	CFO	1. Cabinet 2. Council	February February/March	Annual
Asset Management Plan (AMP)	The overall plan setting out the council's approach to managing its asset base and securing value for money in their deployment	Asset Manager	Executive Director - Regeneration / CMT	Cabinet	Summer/Autumn	Annual
Constitution	The overarching document setting out the council's governance arrangements	ADL (MO)	CMT	1. Cabinet 2. Council	As required	Bi-Annual/ as required
Contract Rules (CRs) & Finance Rules (FRs)	Detailed guidance setting out procedures to follow in procuring goods and service, securing value for money and ensure the financial management of the council is adequate and safeguarded	HIA/HF/HL	ADL / CFO in consultation with Executive Director - Resources	1. Cabinet 2. Council	As required	Annual/ as required

ADL – Assistant Director of Law & Constitutional Services (Monitoring Officer)
CFO - Chief Finance Officer/S151 Officer
CEO – Chief Executive Officer
ED – Executive Director
HIA – Head of Internal Audit

HF - Head of Finance
RM – Risk Manager
TM – Treasury Manager
CMT – Corporate Management Team
HL – Head of law (non-contentious)

APPENDIX B

Budget Process



APPENDIX C

GLOSSARY OF TERMS

Accountable body	Responsible body for finance and governance purposes, accountable for ensuring financial and governance arrangements are adequate.
Base budget	The amount required for services to continue at their current level, adjusted from the previous year's budget for inflationary pressures, not changes in service levels provided.
Baseline	The starting point for financial planning. The current position taking into account all currently known financial issues.
Benchmarking	The process by which a council service, process and/or cost is compared with that of other councils, organisations, prices and/or functions.
Billing authority	Walsall Council is the billing authority responsible for the collection of the council tax and non-domestic rates which includes amounts from the local precepting authorities – the West Midlands Fire and Civil Defence and Police Authorities.
Business rate retention	A new funding scheme for local government being implemented in 2013/14 to replace the current Formula Grant funding scheme.
Capital expenditure	Expenditure on major items e.g. land and buildings, which adds to and not merely maintains the value of existing fixed assets.
Capital grants	Specific targeted grants to cover capital expenditure.
Capital programme	The annual plan of capital spending and how it is funded, approved by full council each February/ March.
Capital receipts	Money received from the sale of council assets e.g. land.
Capital strategy	The council's intentions for its capital income and expenditure to deliver the organisation's aims and objectives.
Carry forward protocol	The process by which annual underspends are carried forward between financial years to either reward good financial management.
Central contingency	A small budget set aside each year to cover unforeseen items of expenditure.
Collection fund	A statutory account which billing authorities have to maintain for the collection and distribution of amounts due in respect of council tax, NNDR and residual community charge accounts.
Corporate plan	Our current corporate plan covers the period 2011/12 -2014/15 and sets out the main objectives the council will be pursuing to improve services and make Walsall a better place. The plan looks at our priorities now and in the future.
Council tax	The tax levied on domestic properties, which depends on the 'band' of value for the property based on estimated property values at 1 April 1991.
Council tax base	The total number of band D equivalent properties upon which the council tax can be levied.
Council tax support localisation	Council tax benefits are to be abolished from April 2013 and replaced with a new local scheme of council tax discounts. Options are currently being pulled together for consultation.
Earmarking	The process of setting aside a specific sum of money for a specific activity, liability or incident.

Financial standing	The council's financial health and solvency.
Financial strategy	The policy whereby the council establishes the financial principles upon which it builds its revenue and capital budgets.
Formula grant (FG)	A central government mechanism of dividing up resources allocated to local authorities in the government spending review. It is not a measure of how much a council should spend but a way of allocating grant according to councils' relative circumstances.
Employee Performance Appraisal	The process for reviewing the performance of individuals, which translates the priorities from directorate, service and team plans into individual targets. It demonstrates how each person contributes to service priorities and the council's vision.
Internal control	Mechanisms and systems to ensure that the arrangements for financial management are adequate.
Levies	Charges made upon Walsall council by other organisations which serve several authorities (eg: Passenger Transport Authority)
Licensed deficit	A specific permission (given in advance) for a service to overspend and for that overspend to be temporarily funded from general reserves. Any such overspend would have to be for a particular reason to a predetermined level. Any such permission is given on the basis of an agreement to pay it back in full over a defined period, usually the following financial year.
Medium-term financial planning/outlook (MTFP/O)	Consideration and forward planning of the council's finances over a period of at least three years.
Medium term financial strategy (MTFS)	The main objectives of the strategy are to set out how the council will structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.
National non-domestic rates (NNDR)	A tax levied on business properties, also referred to as business rates. NNDR poundage is set annually by the Government. Rates based on properties' rateable values are collected by billing authorities and paid into a national pool. The proceeds are then redistributed by central Government as a grant to local authorities according to population. The new BRR scheme will replace this in 2013/14.
Net council tax requirement	The amount of council spending needed to be financed by council tax, following the receipt of central Government formula grant, other specific grants, use of reserves and external fees and charges.
Net revenue expenditure	The amount of council spending needed to be financed, following the receipt of specific grant, to be met from reserves, revenue support grant, national non-domestic rates and council tax.
Options appraisal	The process by which several possible courses of action are assessed against a range of objective criteria to determine the best way forward.
Policy led budgeting	A system of budgeting where resources are linked to council priorities to ensure that projects with the highest priority receive the funding necessary to implement them.

Precepting authority	An authority e.g. police and fire which sets a 'precept' on billing authorities, who collect it on their behalf.
Prudent	The minimum the council has to do to ensure financial health, manage financial risks and deliver services.
Reserves	The total level of funds the authority has accumulated over the years. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves (also known as balances) arise from an accumulation of previous years' surpluses and deficits and are available to support one-off revenue expenditure.
Revenue expenditure	Expenditure on the day-to-day running costs of services e.g. employees, premises, furniture and equipment.
Revenue support grant (RSG)	The main central government grant paid to each authority to finance its general expenditure. The distribution of the grant between authorities is intended to allow the provision of similar standards of service throughout the country for a similar council tax levy.
Ring fenced	This refers to the statutory requirement for certain funds to be separately maintained.
Risk management	A systematic and proactive way of evaluating potential risks and identifying practical ways in which those risks can be reduced or eliminated so that the objectives of the council can be achieved without interruption.
Risk register	A comprehensive list of risks to the delivery of services at a project, service, directorate or corporate level.
Service plans	A document setting out what a service plans to do for a specified time period. It gives clear direction about priorities and targets and sets out how they will be delivered and resourced.
Treasury management	The proactive management of the council's loans portfolio and cash flow, seeking to minimise interest on borrowing whilst maximising funds for capital expenditure to deliver the council's objectives.
Unsupported borrowing / Prudential borrowing	Borrowing where interest and repayment costs are not supported by government revenue grants but are funded from within the council's revenue budget.
Walsall performance framework	The mechanism by which this council undertakes all of its financial, service, performance and risk management and planning.