

# MELTON BOROUGH COUNCIL

## MEDIUM TERM FINANCIAL STRATEGY

2011/12 – 2013/14



D K Garton CPFA  
Head of Central Services

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## 1. INTRODUCTION AND BACKGROUND

- 1.1 The Council and its partners have set out its shared vision for the Borough of Melton in the Melton Sustainable Community Strategy. This is owned and delivered by Melton Community Partnership. The Council supports the strategy through its' Corporate Plan which sets out its priorities, goals and promises.
- 1.2 Delivering this vision and the priorities supporting it requires the allocation of resources whether they are financial, human or other assets. This Medium-Term Financial Strategy (MTFS) sets out how the Council will structure and manage its finances for the period 1 April 2011 to 31 March 2014 to ensure that the financial resources are available over this period to deliver this vision. It builds on the current MTFS which runs from 1 April 2010 to 31 March 2013. The financial strategy is reviewed on an annual basis.
- 1.3 The MTFS is the instrument for ensuring that the Council's strategies and policies are implemented in as financially effective way as possible as set out in the policy framework and financial procedure rules contained within the Constitution. The key objectives of the strategy are as follows:-
- To be the financial expression of the Council's aims, objectives, policies and procedures in respect of good financial management and governance.
  - To ensure income and expenditure match over the medium-term and set targets so that savings required can be achieved over the next three years.
  - To ensure that budget decisions are linked to community and council priorities for improvement.
  - To ensure that a strategic approach to financial planning and delivery is maintained and short term decisions are not made at the expense of long-term sustainability.
  - To enable the financial effects of potential changes in demand for services, legislative changes and community needs to be considered.
  - To enable policy alternatives to be financially evaluated.
  - To enable service demands to be matched to likely resources.
- 1.4 The MTFS is set within the context of a large range of national, regional and local drivers and influences. The document draws together the financial consequences of these drivers to enable Members to issue guidance regarding the magnitude of the 2011/12 Budget and later years (and the Council Tax levels associated with it) to be used for financial planning purposes.
- 1.5 In May 2008 two thirds of the Council's headquarters were destroyed by fire. Council activity is now being conducted from a variety of temporary accommodation whilst new methods of working are also piloted and tested. In addition a decision has been made on a permanent replacement of its offices. Work is progressing on the achievement of the new build and subsequent occupation in line with the project plan to ensure occupation prior to the end of the insurance cover for additional costs of working, which is three years from the fire. This involves partnership work with the building being shared with other partners. There continues to be implications for the Council's finances, both revenue and capital, as a result of the fire and these are summarised below:
- Abortive costs
  - Uninsured costs increased if occupation of the new build is not achieved prior to the end of the three year additional expenditure cover
  - Procurement risk costs
  - Allowance for contingencies with such a major project
  - Costs due to timing differences between income utilised to pay for new buildings and the expenditure on the new build

In addition a project of this size could also impact on the Council's capacity to deliver on other planned projects such as Waterfield Leisure Pools and the cattle market.

1.6 In addition to the fire the other key issues that will impact on the MTFS are:

- Formula Grant
- Working Balances/Level of Reserves
- Corporate Priorities
- Capital and Revenue budgets
- Inflation forecasts
- Major external changes e.g. economic, political
- Consultation with Stakeholders
- Modernisation, transformation and change initiatives

A large number of these are outside of the Council's control.

## 2. **LINKS WITH STRATEGIC AND SERVICE OBJECTIVES AND COUNCIL PRIORITIES**

2.1 Members are aware of the importance, particularly in times of financial stringency, of having 'a sustained focus on what matters', i.e. identifying corporate priorities and aligning resource allocation with such priorities. The Council has an approved Corporate Policy Framework which is contained within its Constitution (See Appendix A.)

The purpose of the Council's Framework is to provide a framework for the implementation of desired targets, standards and outcomes. It provides for responding to particular needs or issues, a platform for joined-up working, encourages innovation and provides a mechanism for accountability. The policy framework links to the corporate planning and budget framework through the diagram in Appendix B.

2.2 The Council's vision is structured around four priorities as set out below. The goals and promises underpinning these are set out in the Council's corporate plan:

- People – Supporting those most in need
- Place – Better places to live, work and visit
- Safer – Communities that are safe and feel safe
- A well run Council - Good services that are value for money

2.3 Each priority is supported by objectives and targets which link to national and community strategy priorities.

2.4 As a result of the fire a number of strategic objectives for business change have been approved as follows:

- To achieve interim accommodation that is "fit for purpose" to meet the Council's medium term business requirements.
- To redesign services that consistently meets customer expectations.
- To understand and promote new and efficient ways of working where this has proven to be advantageous.

- To encourage wider participation, involvement and leadership from every part of the community.
  - To achieve an innovative “fit for purpose” new Council Headquarters.
- 2.5 Service plans for 2010/11 were approved in 2010 and cover a three year period. The financial implications of the service proposals for 2011/12 and later years are set out in these documents. Service plans are subject to quality control to ensure efforts are concentrated on agreed priorities and any items not consistent with such priorities are challenged. The 2010/11 forward looking service plans will be used to inform the budget setting process for 2011/12 as set out in Appendix B in order to ensure only those growth proposals included in service plans are put forward into the budget setting process and that disinvestments are consistent with corporate and service priorities.
- 2.6 The council looks to work in partnership where possible to enhance service provision to the public. The council looks to structure itself and direct its resources to partnership objectives. Where there are shortfalls the Council will aim where possible to re-engineer existing budgets to support partnership initiatives. In addition the Council's Corporate Priority Reserve can be utilised to support a number of initiatives of a non recurring nature as part of its annual budget setting process.
- 2.7 The Government has launched the Total Place initiative, looking at total public spending and local leadership in 13 places across England, to identify how local collaboration and prioritisation can lead to improved efficiency and effectiveness. One of these pilot areas covers the area of Leicestershire County Council and Leicester City Council. The Total Place is aimed at enhanced efficiency and effectiveness across the whole of the public sector operating in local areas. This theme continues as part of the community budget initiative of which Leicestershire is one of 16 pilots.
- 2.8 Under the Council's Project Appraisal system the Council's Programme Board, determines the relative priority of schemes submitted for funding as part of the budget setting process for 2011/112 for consideration and final approval for funding by Full Council at the budget setting meeting.
- 2.9 The Council approves a Treasury Management Strategy in advance of each financial year. The Investment Strategy and Debt Strategy contained within the Treasury Management Strategy have informed the revenue budget projections as applicable.

### 3. **COMPREHENSIVE SPENDING REVIEW AND FORMULA GRANT**

- 3.1 Traditionally the Government has conducted Comprehensive Spending Reviews (CSR's) every two years and its purpose is to set out for the forthcoming three-year period, how much the Government is going to spend in cash terms and in which policy areas. The CSR2007 introduced three year grants for the first time providing some certainty of resources over the period it covered.
- 3.2 The CSR2010 was announced on 20<sup>th</sup> October 2010 covering the 4 year period 2011-12 to 2014-15. This contained a range of proposals for the public sector and local government; the full details and implications of which in many areas are still to come. The most significant financial impact is the announcement of 29% reduction in funding over the 4 year period with much of this front loaded. Other areas of note for local government and district council's in particular are as follows:

- Where Councils choose to freeze council tax in 2011-12 the government will fund an equivalent of a 2.5% increase in that year for the 4 year period via a new Council Tax Freeze grant.
- Some revenue grants are to be rolled into Formula Grant and ring fencing removed.
- Reductions of 45% in capital funding.
- Council's able to borrow against future growth in business rates with the possibility of a return of setting business rates to local authorities.
- PWLB rates increased by 1%.
- Funding provided for supporting people, affordable housing and decent homes over the 4 years and retention of homelessness grants and Disabled Facilities Grants.
- Opportunities to bid for Regional Growth Fund providing a mix of revenue and capital funding.
- Council tax benefit cut by 10% and localised from 2013-14.
- Reform of social housing to continue.
- Higher rents for new HRA tenants.
- New Homes Bonus to reward communities that build houses.
- Capitalisation fund in 2011-12 to support those councils who wish to deliver efficiency savings through internal restructuring.
- Reform of public sector pensions.
- Removal of LAA targets and the national indicator set.
- Community budgets to be created in 16 pilot areas including Leicestershire.

3.3 Following the comprehensive spending review the local government finance settlement was announced provisionally in December 2010. The two year amounts issued for this Council are set out in the table below. A full review of local government funding is to commence in 2011 in order to inform the 2013/14 funding position. It is not clear if the full effect of the CSR 29% reduction in funding has been covered in the two year settlement with the 28.3% cut for Melton or whether there are to be sizeable reductions to follow. An estimate has been made for the purpose of the three year financial plan with a best case of a 7% reduction and the worse case 12.5% reduction.

#### **Formula Grant**

<b>Financial Year</b>	<b>£</b>	<b>% Reduction</b>
2011/12	3,021,415	15.8
2012/13	2,626,951	12.5

#### **4. WORKING BALANCES/LEVEL OF RESERVES**

4.1 When calculating Budget requirements, relevant authorities are required (by The Local Government Finance Act 1992) to have regard to the level of reserves needed for meeting estimated future expenditure. Reserves can be held for working balance, for contingency purposes (e.g. for emergencies), or as specific (i.e. "earmarked") funds. A clear protocol (covering purposes, utilisation, management, and review) exists for each reserve held in line with guidance. This is reviewed annually as part of the budget setting approval and is contained in the Council's Budget Book. The level of working balance an authority agrees is an individual matter for them based on their own unique circumstances, risk profile and risk appetite. It is not appropriate to compare/benchmark against other authorities in order to assess an appropriate level.

4.2 The current projection for the level of working balances is set out in the following table.

**Projected working balances:**

	<b>General Fund General Expenses</b> £	<b>General Fund Special Expenses</b> £	<b>Housing Revenue Account</b> £
Actual 1 April 2010	640,000	42,456	95,213
Original Budgeted Increase	85,080	0	145,190
Supplementary Estimates approved to date	-42,460	0	-2,920
Estimated Overspend (-)/Underspend	-209,030	-2,360	19,247
Reduced Transfer to Reserves	0	9,070	0
<b>Estimated Balance 31 March 2011</b>	<b>*473,590</b>	<b>*49,166</b>	<b>256,730</b>

*\* Members will need to consider the restoration of the working balance to its target level and the source of the funding required to do so.*

- 4.3 The target working balance for general expenses of £580,000 was temporarily increased to £640,000 when the 2009/10 budget was set to reflect the risks associated with the economic climate and the impact of this on a number of Council budgets, particularly income streams. The calculation has been updated for any changes in assumptions and is set out in Appendix C. It can be seen that the revised figures produce a mid-point of £800k. The size of this mid-point against the current working balance is primarily due both to the impact of the recession on the uncertainty of income levels and the effect this had in 2008/09, the estimated cost of emergency expenditure which takes into account the financial impact of the fire and also the significant capital programme currently in place as a result of the new build and the cash flow risk this carries if there is a need to fund temporary borrowing. Such events are extreme in their own right but to experience all at the same time leads to such a high impact on working balance estimates. Not all factors are likely to occur in any one financial year and the current enhanced level of £640k is within the range. A refinement has also been made to improve the risk attributed to fluctuating income levels to reflect the fact that on occasion income has exceeded budgets and on these occasions the working balance has benefited. As such it was approved by the Policy Finance and Administration Committee that in order to prevent unnecessary cuts in expenditure to increase the working balance at a time when the budgets are already extremely tight that the position be monitored and the temporary increase approved in 2009/10 be retained.
- 4.4 With regard to the £50,000 working balance for special expenses (Melton Mowbray) there is no justification for amending this amount based on prior year's history of supplementary estimates. However with the Special Expenses Reserve almost depleted it may be that there is a need to draw more on the working balance to fund unforeseen items.
- 4.5 The Housing Revenue Account (HRA) working balance was last increased to £250,000 in 2005/06. Comparisons with other housing authorities suggest this is a reasonable level. However, there is a history of overspending on this account following the experience of the last three financial years. Should this continue it may be necessary to take this into account and increase the level when this can be accommodated. The reform of the HRA would provide a useful point at which this could be reviewed taking into account the overall implications of such a radical change in the funding regime. It has been previously agreed that, should there be a surplus over the working balance then

this is available to support change initiatives or to accelerate the achievement of the decent homes standard.

- 4.6 In addition to the working balance the Council maintains general reserves for general and special expenses. It has been the policy to utilise these reserves for funding non-recurring items of capital and revenue expenditure that meet the Council's priorities. It is recommended that this policy be reaffirmed. The predicted position on these general reserves is set out in the following table.

	<b>Corporate Priorities Reserve General Expenses £</b>	<b>General Reserve Special Expenses £</b>
As at 1 April 2010	820,514	0
Latest Budgeted Increase/Reduction (-) 2010/11	-289,170	7,000
Funding Capital Schemes in 2010/11	-44,000	-7,000
<b>Estimated Balance 31 March 2011</b>	<b>£487,344</b>	<b>£0</b>

- 4.7 With regard to the Corporate Priorities Reserve commitments have already been made with regard to capital schemes carried forward and the balance of the funds set aside to support the new build. These commitments total £97,176 bringing the available balance to £390,168.
- 4.8 It can be seen from the above table that the General Reserve for Special Expenses is budgeted to be fully utilised by 31.3.11. This reduces the capacity on special expenses to fund capital schemes and non recurring revenue schemes without raising such funds via council tax increases. With such a low council tax base that opportunity is severely limited. Steps could be taken to continue with the decision taken with regard to the 2010/11 budget to rebuild this fund by smaller contributions each year, however, this would limit the funds available to spend on general expenses as the limitation on council tax increases applies to the total council tax charge by the council regardless of the fund. Special expense capital schemes could be funded from capital receipts although these are also required to fund a range of large scale general expenses schemes, as such capacity is limited.

## 5. INFLATION FORECAST

- 5.1 The Government's target for inflation is 2% CPI (Consumer Prices Index). Actual CPI stood at 3.1% in September 2010. The Monetary Policy Committee's inflation report has indicated that the rate is likely to remain above target in 2011 due in part to the rise in January 2011 in VAT. The estimates are that inflation will fall back to target around 2013 but there remains a substantial risk around the outlook for inflation. Labour costs have picked up slightly but remain subdued however they are estimated to pick up slightly over the next twelve months.
- 5.2 The 2010/11 local government pay has not yet been settled with 1.25% being provided in the estimates.
- 5.3 On the basis of these estimates and taking into account the likely financial position of local government the Council's Policy, Finance and Administration Committee resolved a nil general increase in both pay and non pay budgets but where budget holders have knowledge of price rises; adjustments can be made

to these budgets to reflect actual price changes. This will help ensure increases are generally made only where needed and help to reduce the overall pressure on the Council's finances

- 5.4 A Charging Policy has been agreed by the council and is attached as Appendix D. This provides guidance on the annual setting of various fees and charges and the linkages to the annual budget setting process.

## 6. REVENUE BUDGET

- 6.1 The Council's budget strategy has been to set a balanced budget (i.e. to ensure that net revenue expenditure, with the exception of funding for capital/new initiatives, is met from Council Tax and Government grants). This strategy was also based on ensuring that working balances were retained at a sufficient level to meet any unforeseen expenditure that could not reasonably be budgeted for.

- 6.2 The Original Revenue Budget for 2010/11 is summarised below:-

	General £	← Special Expenses →		Total £
		Melton Mowbray £	Other £	
Net Expenditure met by:	6,672,640	485,080	14,040	7,171,760
External Support	-3,931,930	0	0	-3,931,930
Council Tax	-2,790,100	-501,150	-11,903	-3,303,153
Collection Fund Deficit	-7,850	0	0	-7,850
Surplus (-)/Deficit for Year	-57,240	-16,070	2,137	-71,173
Transfer to /from (-) Reserves/Balances	-27,840	16,070	0	-11,770
	-85,080	0	2,137	-82,943
Balance b/fwd 1 April 2010	-554,920	-50,000	-2,137	-607,057
Balance c/fwd 31 March 2011	-640,000	-50,000	0	-690,000

- 6.3 A balanced budget was set for 2010/11 with a Council Tax increase of 2.9% (4.6% Melton Mowbray Special and 2.5% general expenses). The use of the reserves for general expenses was to fund a number of non-recurring items in the revenue budget.

- 6.4 The purpose of the financial plan is to use financial modelling to forecast, at an overview level, what the Council's Net Budgets could potentially be for the forthcoming three financial years. Commencing with the current (2010/11) Revenue Budget, it will seek to determine changes thereto – some committed, some not; some increasing expenditure/reducing income, some reducing expenditure/increasing income; some triggered by legislative changes, some for other reasons. As far as practicable, it also incorporates the financial implications of schemes aimed at meeting the Council's priorities.

- 6.5 The end product of this exercise will be a three-year forecast, consistent with the Council priorities. After taking into account the estimated levels of Government support, the forecast will also provide indicative figures of Council Tax levies. With that information, Members can then determine whether the MTFS can be supported in total or, if not, can determine the Net Expenditure figure to be used for Budget preparation.

6.6 For general expenses the budget forecast for the period 2011/12 to 2013/14 is attached at Appendix E. This forecast incorporates both known and anticipated changes to the budget in the coming years. Some of the key issues affecting the Council in future as set out in Appendix E are:

- Melton Local Development Framework and the phasing in of the costs over the period of the production of the new Local Plan in addition to the likely level of any Government grant through the New Homes Bonus.
- The level of capital receipts and estimates regarding the timing of these being received and expended.
- Pension fund contributions in light of the recent triennial valuation of the fund.
- Inflation levels including pay and interest rates particularly in the current economic climate.
- Changes to external funding such as benefit administration grant, Housing and Planning Delivery Grant, Climate Change Grant, partnership projects etc.
- The long-term strategic plans for both the Waterfield Leisure Pool and the Cattle Market which have not been quantified. These will be covered by separate reports at the appropriate time.
- Increased use of mobile and electronic working and the ongoing revenue implications of this technology.
- The impact and timing of disinvestment and efficiency reviews.
- Demand led income budgets such as building control and planning fees particularly in the current economic climate.
- The impact of the Comprehensive Spending Review 2010 and the reduced Formula Grant resulting in addition to the move in responsibility to Leicestershire County Council for concessionary fares.
- Revenue costs of property following the move to the new Council offices and the level of service to be provided to the public at various community locations.
- The ongoing financial implications of the insurance claim and the completion date of the new build and subsequent move.

6.7 One of the major issues affecting the Council's budget is the current economic climate. The impact of this on the Council's financial position continues to be felt with income from investments remaining low and income from planning and land charges continuing to decline. In addition there is financial pressure on certain services such as benefits as they respond to the increasing needs of the community.

6.8 A key financial implication for the future for any local authority is that of an older population. This will put greater revenue pressure in the future on such services as benefits, leisure, community safety and engagement with older people.

6.9 In order to keep Council Tax increases within the capping limit and to benefit from the council tax freeze grant in 2011/12, the following deficit/surplus will need to be addressed through analysis of service options. They are at this stage only an indication as budgets and forecasts continue to be refined. A number of items are also awaiting further information to support a more robust estimate.

**Estimated Deficit/Surplus (-):**

<b>Year</b>	<b>Worst Case Scenario £000</b>	<b>Best Case Scenario £000</b>
2011/12	790	-518
2012/13	380	-275
2013/14	523	-39

- 6.10 The Comprehensive spending Review introduces a new Council Tax Freeze Grant for the four years covered by the review. Where council's freeze council tax a grant will be made available based on a 2.5% increase. This is only funded for the four year period after which its future is uncertain.
- 6.11 With regard to the HRA, a Business Plan has been approved by the Council covering a ten-year period. An extract from the Plan is attached at Appendix F. The projection shows a small surplus for each of the year's up to reform as continuing pressure affects the HRA and the requirement to achieve the £250k working balance is maintained. It is anticipated that the HRA Reform will go through with a start date of 1 April 2012 and the Council will need to maintain investment in the day-to-day management of the repairs service and for the continual implementation of rent restructuring over the remaining three-year period, so the budget will continue to need to be closely scrutinised and monitored as the HRA cannot budget for a deficit. The HRA final subsidy determination for 2011/12 is yet to be received and following receipt the Business Plan will need to be revisited.

## **7. CAPITAL BUDGET**

- 7.1 The Council has a five-year capital programme. The Programme Board are taking a proactive approach in ensuring a realistic and affordable programme is developed that meets the Council's priorities and objectives as set out in the various strategies set out in the Corporate Policy Framework.
- 7.2 The resources available to support the capital programme are limited. For the HRA there is support by way of supported borrowing in the current year but uncertainty as to future year's awards and then there is the Major Repairs Allowance (MRA). Capital receipts from the sale of Council houses has declined substantially in the current economic climate and at the current very low levels will impact not only on the HRA but also the general fund where a proportion has traditionally been used to fund general fund housing projects. For General Fund services the Council receives no general supported borrowing from the Government. As such the Council is very much reliant on external funding opportunities such as grants and third party contributions. Since the introduction of more specialist property management expertise into the organisation the Council has benefited from capital receipts from the sale of surplus land, both General Fund and HRA, however the general disposal programme will continue to be monitored according to market conditions, which has seen a weakening in property and land prices in the market with the odd exception where receipts have exceeded expectations. Proceeds from surplus HRA land may be limited in the future if the land is transferred at less than market value to support housing initiatives. The Council does have a significant sale in progress relating to land being sold to Sainsbury's however until this is certain no projections have been included in this financial plan and the strategy. Once a capital receipt is certain the Council will need to consider the use the funds could be put in terms of capital spend/revenue support through investment. Such a large receipt would significantly impact on the Council's ability to support its priorities and other significant projects such as the Cattle Market and Waterfield Leisure Pools.
- 7.3 In addition to capital receipts the Council does hold non-earmarked reserves which can be utilised to support corporate priorities, although these have declined over the past year as major projects such as the Cattle Market and the new Council Offices project have had a need to draw on these.
- 7.4 The opportunity to utilise unsupported borrowing does exist but as this would impact on the Revenue Account, where capacity is limited, this source should

be primarily reserved for invest to save schemes. As a guide this would cost approximately £92 per annum per £1,000 borrowed based on an assumed interest rate of 5.2% on a loan of 25 years. Where an asset has a life below 25 years provision for the repayment of that debt will need to be over a shorter period. Whilst there continues to be no requirement to set aside a provision for the repayment of debt within the HRA it is considered prudent that a voluntary Minimum Revenue Provision (MRP) is provided for within the General Fund for any unsupported borrowing at a rate in line with the life of the asset.

7.5 The likely availability of capital funding over the next three years for all Council funds is set out below:

Assumptions made:

- Capital receipts are assumed in respect of a number of land holdings and an empty property which have been approved as being surplus to requirements. These will be sold at auction subject to a reasonable market reserve expectation being achieved. As set out above no allowance has been included for the sale of land at Nottingham Road to Sainsbury's.
- Previous policy has been to utilise £130,000 per annum of HRA capital receipts to fund General Fund housing schemes. Due to the decline in Council house sales predicted receipts are below this amount. It is assumed 100% of receipts from Council house sales will be utilised on such projects up to a maximum of £130,000.
- No supported borrowing on the HRA is assumed for future years. The likelihood for receipt is now much more uncertain following the change to a bid system of allocation. Previously an annual sum of £300k was allocated as part of the HRA subsidy determination; the likelihood of receipt was then much more certain.
- The use of the Corporate Priorities Reserve is shown at the maximum available over the three-year period. The use of the Special Expenses Reserve assumes that an annual surplus of £26k is added to this reserve.
- Disabled Facility Grant (DFG) estimates are based on bids submitted; actual grant will vary but the assumption is that funding will continue at the existing level.
- Decent Homes Grant estimates are based on an allocation notified for 2010/11 and an assumption that no funding will be received for the following two years.
- Repairs & Renewals Fund – refers to Council Property and Vehicles & Equipment (including Christmas Lighting) and the estimate for 2011/12 represents the balance remaining on these funds.
- Planning Delivery Grant (PDG) - The estimate for 2011/12 for the PDG represent the minimum grant allocation which must be used for capital purposes. Due to the costs of the LDF this fund has been ring-fenced for this project.
- Housing & Planning Delivery Grant (HPDG) - The estimate for 2011/12 for the HPDG represents the balance remaining of the grant allocation which can be used for capital or revenue purposes. Due to the costs of the LDF these funds have been ring-fenced by The Council to support this programme in order to negate the impact on the revenue account.

## Potential Sources of Capital Funding

	Prov. 2010/11 £000	Projected		
		2011/12 £000	2012/13 £000	2013/14 £000
<b>General Expenses</b>				
Unsupported Borrowing	623	0	0	0
Capital Receipts	210	72	73	74
Grants - Decent Homes	300	0	0	0
- DFG	95	95	95	95
- Repairs and Renewal Fund	15	287	0	0
- PDG	13	3	0	0
- HPDG	0	144	0	0
Corporate Priorities Reserve	44	205	92	93
Third Party Contributions:				
- New Council Offices	4,159	0	0	0
- Cattle Market Phase 1	0	140	0	0
- Car Parking Contributions	38	0	0	0
<b>Total Available Funding</b>	<b>5,497</b>	<b>946</b>	<b>260</b>	<b>262</b>
<b>Of which:</b>				
Ringfenced to individual type of scheme		669	95	95
Not Scheme Specific		277	165	167

	Prov. 2010/11 £000	Projected		
		2011/12 £000	2012/13 £000	2013/14 £000
<b>Special Expenses (MM)</b>				
General Reserve	7	26	26	26
Capital Receipts	3	0	0	0
Third Party Contributions:				
- Children's Play Project	105	0	0	0
<b>Total Available Funding</b>	<b>115</b>	<b>26</b>	<b>26</b>	<b>26</b>

	Prov. 2010/11 £000	Projected		
		2011/12 £000	2012/13 £000	2013/14 £000
<b>Housing Revenue Account (HRA)</b>				
Supported Borrowing	300	0	0	0
Major Repairs Reserve	1,197	1,214	0	0
Cash Backed Depreciation	0	0	1,647	1,676
Capital Receipts	0	0	0	0
<b>Total</b>	<b>1,497</b>	<b>1,214</b>	<b>1,647</b>	<b>1,676</b>

- 7.6 As can be seen from the above tables the availability of funding for non-scheme specific resources is limited to the Corporate Priorities Reserve and capital receipts. The Corporate Priorities Reserve may be required to support non-recurring revenue schemes which meet the Council's priorities. The capital programme for the next 3 years is likely to be affected by the pressure on capital receipts so unless projects are funded by other means there is a limited likelihood of projects being funded.

- 7.7 There are a number of pressures on these resources. In addition to the capital implications of the new Council offices set out earlier there are other financial pressures on capital. The results of a stock condition survey are now known, which indicates that the revenue budget is sufficient to fund a five year programme of works including provision for responsive maintenance but there is pressure on providing resources for capital schemes i.e. WLP and car park maintenance. As mentioned previously the decline in Council house sales may require a re-appraisal of the use of such receipts on General Fund Schemes. This has been eased by the extension of decent homes grants but once this ceases the Council will need to revisit its previous decision to implement a loan scheme for decent homes works which will require capital resources to get this started. Also mentioned earlier is the pressure from an aging population. This is likely to put pressure on capital resources particularly in the area of housing such as decent homes, adaptations and sheltered accommodation.
- 7.8 The special expense reserve is now depleted and as such any items of capital or non-recurring revenue projects will need to be funded either directly by Council Tax, through general fund capital receipts or through unsupported borrowing with repayments funded through Council Tax increases.
- 7.9 The Government's HRA Reform proposals, whilst providing more opportunities and freedom for Councils to plan long term, have created much uncertainty over the future of funding for the HRA in the interim. The original proposed start date of 1 April 2011 has now slipped to a revised date of 1 April 2012. The likely implications are that there will be a large increase in debt in exchange for rent income being retained locally. Also, whilst the original consultation paper advocated Right to Buy capital receipts being retained locally; the Government's intentions have become less clear. These will both impact on the capital programme for both the HRA and the General Fund. In light of this uncertainty the income from the Major Repairs Reserve has been retained in the projections above as known for 2011/12 with the expectation that self-financing will begin in April 2012 as further illustrated in the Housing Revenue Account at Appendix F.

## **8. FINANCIAL MANAGEMENT AND MONITORING**

- 8.1 The delivery of the MTFs requires robust management and monitoring arrangements. These are set out in the Council's budget setting, monitoring and control protocol. This is contained within the Council's Budget Manual.
- 8.2 There is a programme of training for budget holders. All new budget holders receive basic training from their service accountant on the policies, procedures, and forms etc., set out in the budget manual. They also receive training on the use of the Oracle financial system on request. Training has been provided periodically for all budget holders on local government finance through the use of external facilitators. This is now provided through the Finance Advisory Network's training and development forum for service managers.
- 8.3 The policy of seeking external funding for capital projects and working in partnership with other local authorities to attract funding to supplement the Council's own resources will continue and will be vital in ensuring that sufficient resources are available to deliver the programme of capital works.

## **9. CONSULTATION ARRANGEMENTS**

- 9.1 The general public have been consulted via a questionnaire which seeks to obtain their views on overall value for money in addition to those areas the public would like to see reduced/remain the same or in a limited number of

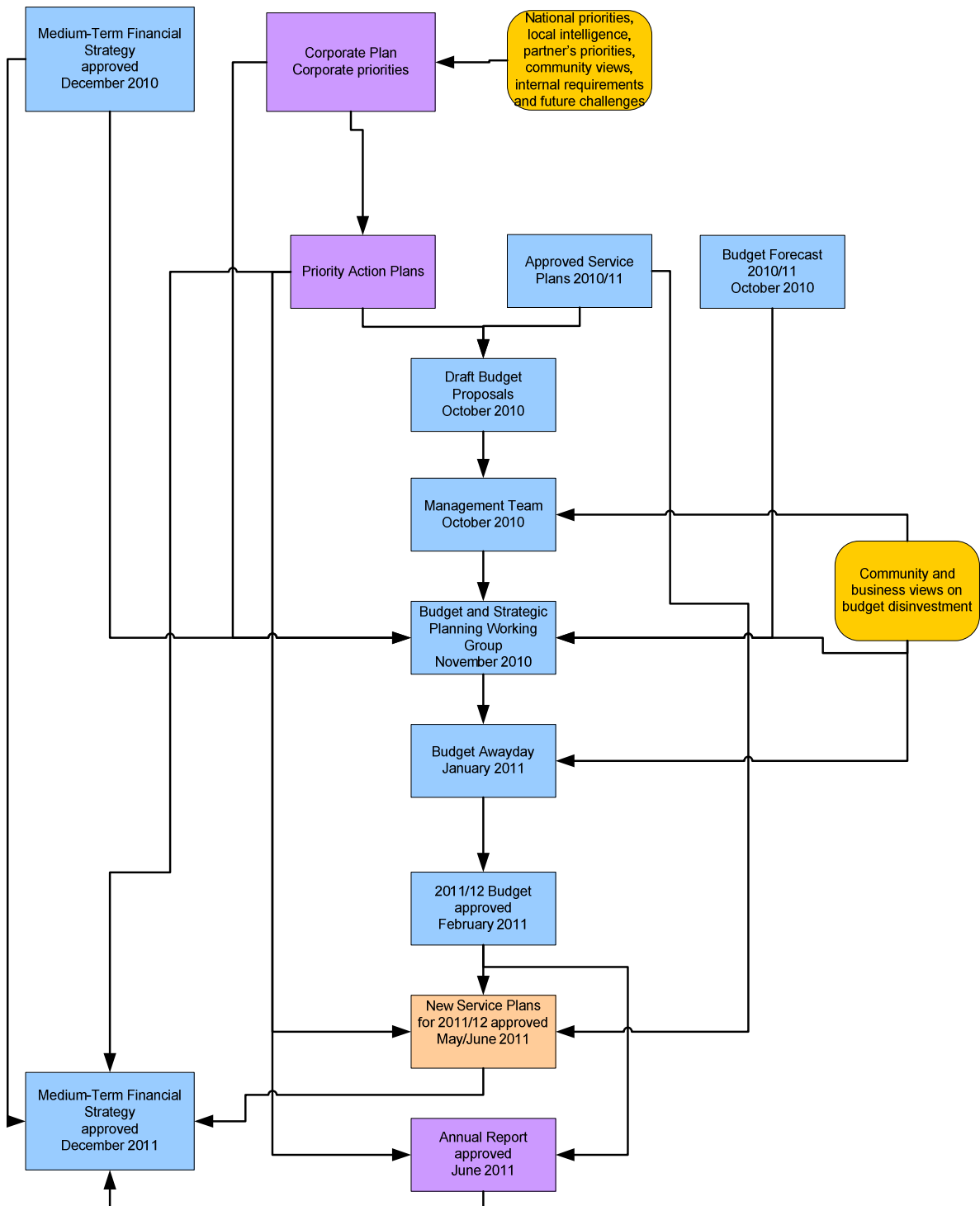
areas increased. The questionnaire has been made available on the web and in paper form and promoted through a number of channels. This is to link with the substantial reductions in central government funding. The outcome of this consultation will inform the development of disinvestment proposals and also assist members in determining the budget for 2011/12 and later years. It is intended that the exercise will be developed for later financial years so that consultation can be built on and improved.

- 9.2 Following the success of the 2010/11 exercise businesses will be consulted through an on line survey based on draft council budget proposals.

## New Corporate Policy Framework



Appendix A: Corporate Planning and Budget Framework 2011/12



## LEVEL OF WORKING BALANCE

	As at 2009 Range (£'000)	As at 2010 Range (£'000)
<p><b>Adequacy of inflation or interest rate provisions in budgets</b> Nationally agreed pay awards can be uncertain, as can price and interest rate changes, and are outside the control of individual local authorities.</p>	Up to 230	Up to 230
<p><b>Effects of Capital Finance</b> As cash flow on capital expenditure is often difficult to predict accurately, any expenditure which cannot be financed from other sources would need to be either charged to revenue balances at the year end or, with the introduction of the prudential code, covered by additional borrowing within the defined limits. The repayment of this would need to be financed from the revenue account.</p>	Up to 110	Up to 290
<p><b>Cash Flow Management</b> The availability of resources to assist cash flow management can avoid the need for potentially expensive short-term borrowing for revenue.</p>	Up to 100	Up to 50
<p><b>Debt Collection Expenditure/Uncertainty of Income</b> Although proper bad debt provisions are made in accordance with the Guidance Note to the Code of Practice on Local Authority Accounting, a significant surge in bad debts or sudden reduction in income would impact on revenue balances. Uncertainty of income also occurs because of the unpredictability of the annual grant settlement (though the move to three-year settlements has helped in this respect).</p>	Up to 290	-210 to 380
<p><b>Unpredictable and demand-led expenditure</b> Unpredictable expenditure and volatile or demand-led budget heads may be managed through a robust budgetary control system. However, as budgets become tighter, flexibility to accommodate the unexpected recedes and mandatory demand-led items represent unavoidable expenditure which will always require financing. Procedures for allowing supplementary estimates will influence the need for balances</p>	160-300	160-300
<p><b>Emergency Expenditure</b> One example of unpredictable expenditure is the cost of emergencies, which by their nature are unforeseen and any uninsured costs must be financed. A Government scheme may partially protect from the huge costs of such events but significant costs will still have to be covered from reserves or balances.</p>	Up to 390	Up to 240
<p><b>Management of Change</b> Local authorities need to have available resources to manage change (redundancy and retraining) and take advantage of investment opportunities which will produce future savings. The lack of such resources could stifle effective management.</p>	10-150	Up to 160
Overall Range	170-1,570	-50-1,650
Midpoint	870	800

## Corporate Charging Policy

### What services are covered?

It is the Council's policy that service users should make a direct contribution to the cost of providing services (both discretionary and statutory) at their point of use except where:

- The service in question is delivered to all residents or households equally and which could therefore be considered to be funded from Council Tax;
- The administrative costs associated with making a charge would outweigh any potential income;
- There is no legal basis for making the charge;
- Charging may be counterproductive i.e. it may result in a substantial reduction in usage of the service;
- It is difficult to establish the beneficiary.

### How should the amount to charge be determined?

Where the council controls the level of the charge to be made for a given service, it is the Council's policy that the charge should be such that it covers the actual cost of providing the service (including overheads). It is recognised that this will not be appropriate in all circumstances and the actual amount proposed will need to take into account:

- Any relevant Council strategies and policies and any subsidy or concessions given;
- Market conditions and prices charged by competitors;
- The need to avoid any potential distortion of the market which might otherwise occur from pricing services below the levels charged by private sector concerns for similar services;
- The need to avoid any exploitation of customers who have no option but to use the Councils' services;
- The desirability of increasing usage of any given service;
- The possibility of increasing income to the Council.

Consideration should be given in all cases as to whether VAT is applicable. Advice on this matter can be provided by Financial Services.

All discretionary fees and charges will be set in line with the approved charging policy for that service and should fall into one of the categories set out in the following table:

<b>Charging Strategy</b>	<b>Objective</b>
Commercial Charges	The Council aims to cover the cost of providing the service and make a surplus
Full Cost Recovery	The council aims to recover the costs of providing this service from those who use it
Subsidised	The council wishes users of the service to make a contribution to the costs of providing it. This might be to meet a service objective or allow competition with other providers
Free	The Council chooses to make the service available at no charge to meet a service objective
Statutory	Charges are determined in line with legal requirements

The resulting charging structure should not be too complicated. It should be clear and cost effective to collect.

### **Which service users should receive a subsidy?**

In some circumstances it may be appropriate to consider offering subsidy to all users or certain key groups where this is consistent with achieving the Council's objectives. Recognising this, it is Council policy that when charges are reviewed, concessions where appropriate, should be considered for certain groups. In some circumstances concessions may not be appropriate and it will be necessary to consider the impact on income levels before introducing a concession.

The policy of the council is to offer concessions to those on income support.

It is not appropriate to fix a level of concession in this policy as this would remove all discretion; however, a concession up to 50% of the charge may be appropriate in some cases.

### **How will any surplus income be used?**

Income that is derived from charging for services will firstly be used to offset the cost of providing the service. Any surplus is then returned to the General Fund to be distributed as required by Members. This enables resources generated through charging to be used wherever the highest priority exists and for a corporate view to be taken regarding where those priorities exist.

It is therefore Council policy that any surplus generated from charging to be viewed as a corporate resource to be used where need is greatest, provided this is not prohibited by any statutory requirements or government guidance.

### **How will this policy be implemented?**

Charges are to be reviewed annually as part of the Council's budget setting process. The review of charges will be undertaken having regard to the guidelines set out within this policy.

Budget Holders will complete the corporate template for the review of fees and charges; these will form the basis for reports to the relevant Policy Committee as part of the annual review of charges. Increases each year will generally be in line with the level of inflation assumed as part of the budget setting process or RPI, subject to the consideration of specific issues in relation to each service area. The changes in overall income as a result of this process will be built into the relevant budget as part of the budget setting process.

As part of the annual service planning process each Head of Service should consider if services currently provided free should be subject to a charge or if good reasons exist for maintaining a free service. Where a charge is being implemented for the first time consideration should be given as to whether this should be subject to public consultation and the public should be informed of the reason for the decision. In addition an equalities impact assessment will need to be undertaken. Reasonable notice should be given of the decision to charge, reasonable notice is considered to be at least one calendar month. The effects of any new charge on service usage and income should be closely monitored by the Head of Service over the first twelve months.

Heads of Service should maintain such records in support of the process covering the cost, usage, and any benchmarking data. This will support data contained within service plans and proposals put forward as part of the annual review of fees and charges.

## BUDGET FORECAST GENERAL FUND GENERAL EXPENSES 2011/12 to 2013/14

Ref		2010/11 Budget	2011/12 Worst Case Scenario	2011/12 Best Case Scenario	2012/13 Worst Case Scenario	2012/13 Best Case Scenario	2013/14 Worst Case Scenario	2013/14 Best Case Scenario
		£000	£000	£000	£000	£000	£000	£000
1	<b>Net Budget B/Fwd</b>		6,673	6,673	5,930	5,930	5,560	5,661
2	<b><u>CHANGES TO BASE BUDGET REQUIREMENT</u></b>							
2.1	<b>Non Recurring Items within 2009/10 Budget</b>							
2.1.1	PFA Committee		19	19	0	0	0	0
2.1.2	CSA Committee		-17	-17	0	0	0	0
2.1.3	REEA Committee		-10	-10	0	0	0	0
2.2	<b>Inflation Allowances and Estimates</b>							
2.2.1	Pay and general prices		0	0	99	58	123	58
2.2.2	Inflation adjustments for known prices		132	111	40	0	40	0
2.3	<b>Time Limited Grants/Income</b>							
2.3.1	Housing and Planning Delivery Grant		58	58	0	0	0	0
2.3.2	Benefit Administration Grant		5	5	11	0	11	0
2.3.3	Partnership Projects		134	0	15	15	0	0
2.3.4	Area Based Grant		29	29	0	0	0	0
2.3.5	New Homes Bonus		-100	-168	0	-248	0	-183
2.4	<b>Changes in Operating Costs for Existing Service Levels</b>							
2.4.1	Changes in investment income		4	4	-11	-25	-5	-21
2.4.2	Changes in Operating Costs at Service Level		61	61	0	0	0	0
2.4.3	Elections/Electoral Registration		61	61	-61	-61	5	0
2.4.4	Changes to income streams		-18	-18	0	-100	0	0
2.4.5	New/Extended contracts		13	13	0	0	0	0
2.4.6	Concessionary Fares		-318	-318	0	0	0	0
2.4.7	LDF Programme		-65	-65	65	0	0	0
2.4.8	Changes to external debt costs		-80	-80	0	0	0	0
2.4.9	Superannuation Costs		39	39	39	39	39	39
<b>Sub Total</b>	<b><u>NET COST OF EXISTING SERVICE LEVELS</u></b>		<b>-53</b>	<b>-276</b>	<b>197</b>	<b>-322</b>	<b>213</b>	<b>-107</b>
3	<b><u>CHANGES TO EXISTING POLICIES/STRATEGIES</u></b>							
3.1	<b>Changes to Service Delivery</b>							
3.1.1	Revenue consequences of Capital Programme		24	0	0	0	0	0

Ref		2010/11 Budget	2011/12 Worst Case Scenario	2011/12 Best Case Scenario	2012/13 Worst Case Scenario	2012/13 Best Case Scenario	2013/14 Worst Case Scenario	2013/14 Best Case Scenario
3.2	<b>Potential Growth Items</b>							
3.2.1	Growth Bids		449	0	-10	0	0	0
3.3	<b>Disinvestment projects</b>		0	-393	0	0	0	0
<b>Sub Total</b>	<b><u>NET COST OF CHANGES TO EXISTING POLICIES/STRATEGIES</u></b>		<b>473</b>	<b>-393</b>	<b>-10</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>4</b>	<b><u>EFFICIENCY PROGRAMME</u></b>							
4.1	<b>New Ways of Working</b>							
4.1.1	Property		-72	-72	-177	-177	0	0
4.1.2	Efficiency Programme		-344	-344	0	0	0	0
4.1.3	Electronic Working		59	59	0	0	0	0
4.1.4	Departmental Restructuring		0	-219	0	-44	0	0
4.2	<b>Changes to Service Delivery/Method of funding</b>							
4.2.1	Shared Services		-16	-16	0	0	0	0
4.3	<b>Changes to Service Levels</b>							
<b>Sub Total</b>	<b><u>NET SAVINGS OF EFFICIENCY PROGRAMME</u></b>		<b>-373</b>	<b>-592</b>	<b>-177</b>	<b>-221</b>	<b>0</b>	<b>0</b>
	Surplus(-)/Deficit		<b>790</b>	<b>-518</b>	<b>380</b>	<b>-275</b>	<b>523</b>	<b>-39</b>
<b>Total</b>	<b>TOTAL FORECAST NET EXPENDITURE</b>	<b>6,673</b>	<b>5,930</b>	<b>5,930</b>	<b>5,560</b>	<b>5,661</b>	<b>5,250</b>	<b>5,593</b>
<b>5</b>	<b><u>FINANCING OF NET FORECAST EXPENDITURE</u></b>							
5.1	Formula Grant (NNDR and RSG)	-3,932	-3,021	-3,021	-2,627	-2,627	-2,299	-2,443
5.2	Council Tax Freeze Grant	0	-71	-71	-71	-71	-71	-71
5.3	Council Tax Income	-2,790	-2,844	-2,844	-2,862	-2,963	-2,880	-3,079
5.4	Collection Fund Surplus (-)/ Deficit	-8	6	6	0	0	0	0
5.5	Corporate Priorities Reserve	-28	0	0	0	0	0	0
<b>Total</b>	<b>Total financing</b>	<b>-6,758</b>	<b>-5,930</b>	<b>-5,930</b>	<b>-5,560</b>	<b>-5,661</b>	<b>-5,250</b>	<b>-5,593</b>
	Council Tax Base	18,493	18,850	18,850	18,970	19,163	19,089	19,424
	Council Tax per Band D	£150.87	£150.87	£150.87	£150.87	£154.64	£150.87	£158.52
	<b>Year on Year Increase in Council Tax</b>							
	(i) Amount	<b>£3.75</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£3.77</b>	<b>£0.00</b>	<b>£3.87</b>
	(ii) Percentage	<b>2.55%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>2.50%</b>	<b>0.00%</b>	<b>2.50%</b>

## Appendix F

### HRA BUDGET FORECAST 2009/10-2014/15

The following table shows the actual for 2009/10, the estimated year end position as per the budget book for 2010/11 and the current estimate for 2011/12 based on the 2011/12 draft subsidy determination. The remaining years are based with reference to the Business Plan assuming the HRA Reform criteria of the consultation ended 6 July 2010 with a start date of 1 April 2012 and rising costs.

	2009/10 Actual £'000	2010/11 Estimate £'000	2011/12 Forecast £'000	2012/13 Forecast £'000	2013/14 Forecast £'000	2014/15 Forecast £'000
Management	1,436	1,371	1,382	1,497	1,535	1,573
Repairs	1,748	1,561	1,697	1,706	1,741	1,775
Major Repairs	1,185	1,196	1,207	0	0	0
Cash Backed Depreciation	0	0	0	1,647	1,676	1,705
HRA Subsidy payable to Government	1,474	1,634	1,925	0	0	0
Revenue Contribution to Capital	0	0	0	248	351	506
Interest Charges	135	149	157	1671	1,703	1,715
Other	52	91	204	84	85	86
<b>Total Expenditure</b>	<b>6,030</b>	<b>6,002</b>	<b>6,572</b>	<b>6,853</b>	<b>7,091</b>	<b>7,360</b>
Rents/Other Income	6,083	6,163	6,575	6,853	7,091	7,360
<b>Surplus(-)/Deficit</b>	<b>-53</b>	<b>-161</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>0</b>

Weighted Average Rent Increase	3.07%	1.47%	6.30%	3.80%	3.80%	3.80%
Average Rent	£58.54	£59.95	£63.90	£66.32	£68.82	£71.44

#### Notes:

1. Repairs figures are based on the old stock condition survey and it is believed at this time that the newly completed survey will not affect revenue expenditure significantly.

2. The Repairs Contract Task Group has not yet reported on the achievable savings to the Repairs Contract and so figures are based on the current Jeakins Weir Contract excluding an amount for inflation.

3. No account of the Comprehensive Spending Review has been taken as the full details and implications are not yet available for analysis.
4. The date of implementation of the HRA Reform is uncertain.
5. The assumptions use the HRA Reform criteria of the consultation ended 6 July 2010 with a new consultation exercise expected to commence in January 2011; the criteria of which is unknown.
6. The Revenue Contribution to capital amount will be required under self-financing arrangements in order to maintain and invest in our Council Housing Stock.