	AGENDA ITEM NO.10
COUNCIL	
Date	**1 MARCH 2012**
Title	**GENERAL FUND BUDGET 2012/13 AND CAPITAL PROGRAMME 2012/15**

1. PURPOSE/SUMMARY

The purpose of this report is to consider the Cabinet recommendations in relation to the General Fund Revenue Budget 2012/13 and Capital Programme 2012/15.

2. KEY ISSUES

- Funding for the corporate priorities.
- Projected Outturn for 2011/12.
- Details of the Medium Term Financial Strategy and Capital Programme.
- Details of the Treasury Management and Investment Strategy 2012/13.
- This Council is amongst the top ten worst affected authorities in relation to reductions in Government Grant over the two year period 2011-13.
- 0% increase in Council Tax in 2012/13, the second year of no increase in Council Tax.

3. RECOMMENDATIONS

It is recommended by Cabinet that :-

(i) the General Fund revenue budget for 2012/13 as set out in paragraphs 7 and Appendix A be approved;
(ii) the Capital Programme and provisional funding statement as set out in Appendix C be approved;
(iii) the Medium Term Financial Strategy as outlined in this report be adopted;
(iv) the Treasury Management, Minimum Revenue Provision, Investment Strategy, Prudential and Treasury Indicators and the revised Treasury Management Policy Statement as set out in paragraph 11 and Appendix D be approved;
(v) the Band D Council Tax level for Fenland District Council Services for 2012/13 be set at £241.56, no increase on the current year;
(vi) the expenses detailed in paragraph 8 be treated as general expenses for 2012/13;
(vii) the Port Health levy for 2012/13 be set as shown in paragraph 9.

Wards Affected	All
Forward Plan Reference No. **(if applicable)**	
Portfolio Holder(s)	Cllr Alan Melton, Leader and Portfolio Holder, Policy and Resources Cllr John Clark, Portfolio Holder, Quality Organisation
Report Originator	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Local Government Grant Settlement – Department for Communities and Local Government (CLG) Medium Term Financial Forecasts working papers.

The structure of the report is as follows:-

Appendices

1. CORPORATE PLAN AND INTRODUCTION

1.1 This report is the culmination of the service and financial planning cycle for 2012/13. It brings together all general fund revenue estimates and all capital estimates, and recommends a level of Council Tax for 2012/13. The budget for 2012/13 and financial forecasts are based on the following 5 Corporate Priorities set out in the Corporate Plan, with an overarching focus on improving the Quality of Life for the residents of Fenland:-

- **Neighbourhood Planning**
- **Localism** – (Social objectives)
- **Streets Ahead –** (Environmental objectives)
- **Open for Business –** (Economic objectives)
- **Quality Organisation**

1.2 These objectives have informed the development of the Council's Corporate Plan and have led to the budget proposals set out in this report. Full details of the Council's plans to improve the Social, Economic and Environmental well-being of the District are set out in the Corporate Plan 2012-15 earlier in the agenda for this meeting.

2. IMPACT OF GOVERNMENT ANNOUNCEMENTS SINCE FEBRUARY 2011

2.1 The draft budget report presented to Cabinet on 15 December 2011 provided details of a number of announcements by the Coalition Government since the 2011/12 budget was set in February 2011.

2.2 These will have a significant impact on the Council's finances over the next four years, and included the following:

- Council Tax Freeze Grant for 2012/13,
- Localising Support for Council Tax, effective from April 2013,
- Business Rates Retention, also effective from April 2013,
- The Chancellor's Autumn Statement 2011.

2.3 These issues will have a significant impact on the medium term forecasts, particularly from 2013/14 onwards. The proposed Business Rates Retention scheme will fundamentally change the way local authorities are funded in the future. The forecasts detailed in this report will be updated over the coming months, as and when relevant information becomes available. Cabinet will be kept fully informed of the potential impact on the Council.

3. PROJECTED OUTTURN 2011/12

3.1 As part of the budget setting process for 2011/12, approved by Council in February 2011, £1.753m of savings were required in order to achieve a balanced budget. Council agreed the use of £200,000 from the General Fund Reserve which required savings of £1.553m to be implemented during 2011/12.

3.2 As a result of the significant organisational changes carried out during the first half of this year, combined with the efficiency changes implemented in Leisure Services, Customer Access and Refuse Collection, it is anticipated that these required savings will be met.

Given the size of savings required, this is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.

3.3 At the Cabinet meeting on 15 December 2011, the projected outturn for 2011/12 showed a shortfall of around £100,000, which was £100,000 lower than originally estimated.

3.4 The position since December has improved slightly as a result of further cost reduction measures and the projected shortfall is now £50,000. The latest projections for 2011/12 are set out at Appendix A for approval. The current estimate for net expenditure (before the use of balances) is £15.384m. This is £50,000 lower than reported to Cabinet in December 2011 (and £150,000 lower than originally estimated) as a result of further savings identified by Corporate Management Team and Senior Managers.

3.5 The Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to minimise the actual use of balances at the year end.

3.6 At this time, the projected shortfall will be funded from the General Fund Balance. However, the actual use of this balance will not be determined until the year end and the final position for 2011/12 is established. The General Fund Balance currently stands at £2.709m.

3.7 In line with the recommended budget strategy, the estimates for 2012/13 reflect the lower level of fees and charges and investment income being experienced this year. Consideration of service financial variations for the current year is very important when considering the 2012/13 estimates, and is a requirement of Section 28 of the Local Government Act 2003. The ongoing and regular monitoring of the 2011/12 estimates undertaken during the current year has led to the preparation of detailed revised estimates shown at Appendix A. These estimates are used as the basis for the budgeting exercise undertaken to prepare the rolling 4 year revenue financial forecasts for 2012-2015.

4. CONSULTATION

Overview and Scrutiny Panel

4.1 The draft budget proposals for 2012/13 were approved for consultation by Cabinet in December 2011. These proposals were discussed and considered at the meeting of the Overview and Scrutiny Panel on 16 January 2012. The Panel confirmed their overall support for the budget strategy in the current uncertain economic climate.

5. GOVERNMENT FUNDING

5.1 The Council receives general government grant in the form of revenue support grant and re-distributed business rates (collectively known as ‘Formula Grant’). The level of Formula Grant for 2012/13 has been notified to the Council as part of the local government finance settlement and is £6,959,944, a reduction of £1,004,217 or 12.6% on the comparable 2011/12 grant. However, taking into account the transitional grant received in 2011/12, total grant has reduced by £1,155,118 or 14.2%.

5.2 The Council's grant settlement is set out below in Table 1.

Table 1 – Grant Settlement 2010/11 - 2012/13

	Actual 2010/11 £000	Adjusted 2010/11 £000	Actual 2011/12 £000	2011/12 % Reduction	Actual 2012/13 £000	2012/13 % Reduction
Government Grant	9,622	9,622	7,964		6,960	**-12.6%**
Concessionary Fares & Other Adjustments		-340				
Transition Grant	0	0	151		0	
Total Formula Grant	**9,622**	**9,282**	**8,115**	**-12.6%**	**6,960**	**-14.2%**
Area Based Grant	642	606	0		0	
Total Government Grant	**10,264**	**9,888**	**8,115**	**-17.9%**	**6,960**	**-14.2%**

On 31 January 2012, the final Formula Grant figures for 2012/13 were announced by the government which confirmed those originally published on 8 December 2011. Figures for 2013/14 and 2014/15 will be subject to the outcome of the Local Government Resource Review.

5.3 The cumulative reduction in government grant over the two year period 2011-2013 of 29.6% is greater than was anticipated for the whole spending review period (2011/12 – 2014/15) and far exceeds the implied reductions in the CSR10 announcements. This implied a cumulative reduction of 16.4% over the two years 2011-2013 and 21.8% over the spending review period.

5.4 The impact on District Councils as a whole has been particularly severe. Formula Grant in 2011/12 was reduced by an average of 14.5% and in 2012/13 by an average of 11.5%. This gives an average cumulative reduction over the next two years of 24.9% compared to an average reduction across all local authorities of 16.9%. This Council has suffered a larger reduction than average due to Area Based Grant being abolished from 2011/12.

5.5 The 2012/13 grant settlement has, as in previous years incorporated a 'floor damping' mechanism which limits an authority's grant reduction. Authorities above the floor have their grant "scaled back" to pay for the "floor" in the grant settlement. The 'floor damping' methodology has for the first time divided District Councils into four bands according to the extent to which they rely on formula grant to finance their budget requirement in 2010/11. A different floor has been set for each band as follows:

Band 1 (Authorities most dependent on formula grant)	-11.2%
Band 2	-12.2%
Band 3	-13.2%
Band 4 (Authorities least dependent on formula grant)	-14.2%

This Council is in Band 2. 106 district councils have had their grant scaled back to pay for authorities on the "floor" for grant. There are 95 district councils at the "floor" including Fenland. For Fenland District Council this amounts to £446,100 added to our grant in 2011/12. For 2012/13 this amounts to £192,515.

5.6 The reductions and the amounts that the Government has “added back” to our grant are shown in Table 2.

Table 2 – Grant Settlement over 2 year Period

Revenue Government Grant Support	£000	% Reduction	Floor Increase £
2011/12	7,964	-14.2	446,100
2012/13	6,960	-12.6	192,515

5.7 The figures detailed in the above tables are different from the headline announcements by the government. For 2011/12 and 2012/13, the government has introduced the concept of ‘Revenue Spending Power’ in an attempt to soften the reality of the significant reductions in government grant to local authorities. According to the government, no Council will see their Revenue Spending Power reduce by more than 8.8% in both years.

5.8 Revenue Spending Power is defined by the government as the aggregate of Formula Grant, other Specific Government Grants (eg. Transitional Grant, Homelessness etc) and Council Tax Requirement (FDC’s and Parish Precepts). For 2012/13 this has been estimated by the government as £15.771m compared to £14.652m in 2011/12 (adjusted to allow a like-for-like comparison). Although this is a 7.1% reduction, the methodology does not show significant reductions in government grant as detailed above (para 5.2).

5.9 Other announcements which will impact on next year’s budget and over the medium term include the following:

- **Council Tax Freeze Grant for 2012/13**. The government will fund the equivalent of a 2.5% increase in council tax in 2012/13 (£187,000 for FDC). This is a one-off grant and will not be continued into future years. The Council has decided not to increase its council tax in 2012/13 and therefore, this revenue will be lost from its base council tax income. This has a cumulative effect of a loss of £607,000 of resources over the medium term period 2013/14 – 2015/16.

- **Localising Support for Council Tax**. Council Tax Benefit (CTB) is off-set against Council Tax liability, reducing the amount vulnerable groups have to pay. The Government is proposing that CTB be localised from April 2013. This means that Councils would devise their own CTB scheme and apply it locally. At the same time, the Government is suggesting that the amount spent on CTB nationally would be reduced by 10% (a net reduction of around £800,000 per annum for Fenland, which is shared between this authority, the County Council, Police and Fire authorities, in proportion to their precepts) whilst at the same time Pensioners would be protected from any reductions and continue to receive it at existing levels.

- **Business Rates Retention.** Currently, NNDR is collected by the Council and paid into a national rate pool, which is then redistributed by the Government using a formula based on service needs and deprivation.

The key elements of the proposals are:

- An end to the annual grant settlement, the last being for 2012/13;
- No power for authorities to vary any aspect of the present arrangements as far as they affect businesses; in particular local authorities will have no power to vary the business rate poundage;
- A business rates target for every authority from 2013/14;
- Authorities collecting more in rates than they presently receive in Formula Grant (2012/13 grant less the CSR reductions for 2013/14 will be the starting point) will be required to pay a tariff to the Government;
- Authorities collecting less in rates than they presently receive in Formula Grant will receive a top-up grant from the Government;
- Authorities exceeding the business rates target in any year will keep some of the excess, the rest being levied to provide a safety net and for other purposes;
- Authorities failing to meet the business rates target will see a reduction in overall resources, which might be partly off-set by funding from the levy;
- Voluntary pooling arrangements to allow neighbouring authorities to smooth out volatility;
- Continuation of the ‘central list’; exemptions from this scheme;
- Continuation of the existing set of reliefs and authority reimbursements for reliefs;
- A complete ‘reset’ every few years, possibly after ten years.

Part of the proposals relates to the future funding of the New Homes Bonus (NHB). This is partly funded by an increasing top-slicing of the Formula Grant settlement from 2012/13. Rather than make a fresh adjustment each year, the Government plans to top-slice enough from the business rates to cover the NHB immediately and return any spare funds to local government.

The end of Formula Grant from 2013/14 will mean that once the baseline figure for the Council has been set, there will be no mechanism in the future for regular reviews of the deprivation factors which are part of the current grant system.

- **The Autumn Statement 2011.** On 29 November 2011, the government updated its spending forecasts over the original SR2010 period (to 2014/15) and announced indicative figures to 2016/17. Government finances have continued to deteriorate since the SR2010 announcement in October 2010 and they are now anticipating further significant reductions in spending in 2015/16 and 2016/17 in line with the reductions over the SR2010 period. Although it is unclear how these proposals interact with the Business Rates Retention scheme detailed above, there is a significant risk that government grant to local authorities could continue to reduce after the SR2010 period.

6. FEES AND CHARGES 2012/13

6.1 Meetings of the Overview and Scrutiny Panel to review fees and charges were held in November 2011 (to consider Leisure charges) and January 2012 (for all other services) respectively. The Leisure Charges were subsequently reported to Cabinet on 15 December 2011 and following a call-in of their decision, was subsequently ratified by Overview and Scrutiny Panel on 16 January 2012. The recommended changes to Leisure charges and all other charges were reported to Cabinet on 26 January 2012. All of these recommendations have been included in the financial forecasts.

7. GENERAL FUND REVENUE BUDGET 2012/13

7.1 At the Cabinet meeting in December 2011, it was estimated that savings of £1.082 million were required to be identified for 2012/13 to meet the challenging requirements of the finance settlement and ensure the Council achieves a sustainable financial position over the medium term. To date, all of the £1.082m savings required for 2012/13 have been identified.

7.2 Under the guidance of Cabinet, Corporate Management Team have continued a thorough and detailed efficiency review of all service area budgets, which has led to the identification of an estimated £1.082m of financial savings and efficiencies for 2012/13, while continuing to provide excellent services. This process will continue in order to identify the required efficiency savings in future years. Table 3 below details the main areas of savings identified. There are no proposals to use balances for 2012/13.

Table 3: Estimate 2012/13

Description	£000
Draft Budget 2012/13	15,870
Savings and Efficiences identified	-1,082
Budget after savings and efficiencies	14,788
Council Tax Freeze Grant (2011/12 – 2014/15)	-186
Council Tax Freeze Grant (2012/13 only)	-187
	14,415
Use of General Fund Balance	0
Net Expenditure	14,415
Resources (Govt. Formula Grant)	-6,960
Resources (Council Tax and Collection Fund Deficit)	-7,455
Estimated funding gap	0

7.3 As stated earlier, £1.082m of savings and efficiencies for 2012/13 have been successfully identified by the Corporate Management Team with guidance of Cabinet. However, further significant savings are required in future years as detailed in Section 13 below and the achievement of these will present considerable challenges for the Council.

7.4 The consequential 2012/13 General Fund net revenue expenditure totals £14,414,610 (net of Council Tax Freeze Grant). Appendix A provides detailed estimates for all general fund services. These estimates include all known and expected increases for inflation and other factors, such as the current economic climate, outside the direct and primary control of the Council.

7.5 The Corporate Plan for 2012 – 2015 maintains the current excellent services the Council has improved over recent years. The funding for the majority of the priorities is included by rolling forward costs in this year's budget without the requirement for any specific "growth" to be identified.

7.6 As detailed above, 2012/13 will be another challenging year. However, the proposals set out in this report and the appendices will enable the Council to continue to deliver excellent services and deliver the corporate priorities. Having said this, the remainder of the savings target over the medium term needs to be identified and Cabinet and the Corporate Management Team will be discussing the strategy for this early in the 2012/13 financial year, along with understanding the impact on Fenland of Council Tax Benefit and Business Rates changes. The financial position will be continually monitored and reviewed by Corporate Management Team, with regular reports to all members to ensure the Council is able to react to any changes in the forecasts.

Assumptions built into Budget and Medium Term Forecasts

7.7 Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although we aim to mitigate these risks as detailed in para 7.8. The main assumptions are as follows:

- 0% Council Tax increase for 2012/13 with a provisional 2.5% increase thereafter;
- 0.8% increase in Council Tax base in 2012/13 and 1% thereafter;
- 0% pay award for 2012/13 and 1% per annum thereafter, in line with the proposals detailed in the Autumn Statement 2011;
- 0% general inflation for the period of the Medium Term Forecasts;
- Specific allowance for inflation for business rates, external contracts, energy and water, drainage board levies etc;
- Allowance for pay increments;
- No increase in Employer's Pension Contributions until the next triennial valuation of the Cambridgeshire Pension Fund in 2013. 1.8% increase in contributions per annum assumed for 2014/15 and 2015/16;
- Investment interest rates to continue at current rates until third quarter of 2013 when rates are forecast to begin rising slowly;
- Continuing impact of 2011/12 in year income pressures;
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of activity levels;
- No allowance for additional income due to growth from 2013/14 onwards for retained business rates (which replaces formula grant), as the scheme has not yet been determined and rates of set-aside, levy etc. have not yet been quantified;
- No allowance has been made for the potential impact of the Local Council Tax Discount scheme from 2013/14 onwards, as the scheme has not yet been determined.
- The New Homes Bonus of £290,000 for 2011/12 will be received by the Council for six years. The NHB for 2012/13 of £323,000 has been included, making a total of £613,000 for 2012/13. Future years NHB have been included at this level as it is anticipated that any additional NHB above this level would result in a corresponding reduction in Formula Grant. This is a result of the government limiting the amount of additional funding being made available for NHB. Any shortfall in funding will be taken from Formula Grant/Business Rates. Consequently, a total estimated NHB of £613,000 has been included in 2012/13 and future years. Table 4 below illustrates the potential net impact on FDC resources:

Table 4: New Homes Bonus/Grant Top-Slicing Illustration

		Financial Year						
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		£000	£000	£000	£000	£000	£000	£000
Year of Grant	2011/12	290	290	290	290	290	290	
	2012/13		323	323	323	323	323	323
	2013/14			350	350	350	350	350
	2014/15				350	350	350	350
	2015/16					350	350	350
	2016/17						350	350
	2017/18							350
	Total NHB	290	613	963	1,313	1,663	2,013	2,073
	Potential Top-Slice from Business Rates (Govt. Grant)			-350	-700	-1,050	-1,400	-1,400
	Net impact on FDC resources	**290**	**613**	**613**	**613**	**613**	**613**	**673**

<u>Risk Assessments</u>

7.8 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the draft estimates:-

- Service managers and the Accountancy team working together to define likely service income/expenditure patterns matched with service delivery plans

- Maintaining “earmarked” reserves for potentially unbudgeted expenditure

- Adopting clear guidelines and control systems (revenue monitoring procedures, Financial Regulations etc.) to alert service managers, and members should variances become significant

- Using professional and expert advice and economic forecasts where these are available, e.g. treasury management

- Maintain a rolling review of forecast estimates beyond the current year

7.9 There are a number of factors which limit the “risk” and potential difference between the Council’s proposed budget and the 2012/13 outturn. These include the relatively limited areas of volatile expenditure and income and robust and effective in-year budget monitoring systems. However, the current volatility in some of the income areas means that action may need to be taken quickly to avoid any further difficulties during next year.

7.10 Appendix G sets out the Chief Finance Officer’s statutory report on the robustness of the estimates and adequacy of reserves.

<u>Parish precepts</u>

7.11 The level of parish precepts set throughout Fenland are provided for information at Appendix E. These will be reported to Council as part of the Council Tax setting process.

8. SPECIAL AND GENERAL EXPENSES

8.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.

8.2 If expenses are treated as special expenses then they must be charged against the parts of the Council's area to which they relate.

8.3 Parish precepts are special expenses and cannot be treated as general expenses.

8.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2012/13.

8.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position it is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2012/13.

9. PORT HEALTH

9.1 The Port Health levy for 2012/13, based on expected expenditure, is recommended as shown in Table 5 below.

Table 5: Port Health Levy 2012/13

	Description	£
a)	Port Health anticipated expenditure	12,007
b)	Port Levy	
	Fenland District Council	10,627
	South Holland District Council	840
	King's Lynn and West Norfolk Borough Council	540
	Total	**12,007**

10. CAPITAL PROGRAMME

10.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.

10.2 A fully updated Capital Programme for 2012-15 is presented at Appendix C for approval. All known and expected levels of capital receipts have been taken into account in the resources statement. These include the net usable receipt from the stock transfer and income from land sales. This includes significant amounts from the future disposal of land at Nene Waterfront. The level of these items can be subject to some potential variability.

10.3 The forecast uncommitted capital resources at the end of 2014/15 are £1.560m. However, this is dependent on the realisation of £6.75m of receipts from asset disposals which has associated risks. These receipts may not be realised until 2015/16 and beyond and future updates may require them to be re-profiled.

10.4 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure. Monitoring and reviews of the programme and resources available are carried out regularly during the year and Cabinet will be informed of developments.

10.5 The programme detailed at Appendix C includes some changes from that reported to Cabinet in December 2011, mainly as result of re-profiling of some schemes. No additional schemes have been included since the programme was approved in December 2011.

10.6 The programme detailed at Appendix C shows the current position relating to external funding secured. Officers are continually seeking external funding opportunities to maximise the Council's own resources in order to deliver the Council's priorities.

10.7 Members are also reminded of the impact on the revenue account of using uncommitted capital resources. Whilst they remain uncommitted, the resources are invested and generate revenue income to the general fund. Consequently, for every £1m spent the revenue account loses around £15,000 per annum at current interest rates. This figure increases by an additional £10,000 per annum for every 1% increase in interest rates. Based on the average interest rate projected over the Medium Term Financial Strategy (2 - 2.5%), this equates to a reduction in investment interest of between £20,000 - £25,000 per annum for every £1m of capital resources spent.

10.8 The Local Government Act 2003 introduced a new Prudential Borrowing regime. This requires all Councils to set and monitor indicators relating to capital expenditure, external debt and impact on council tax. The recommended indicators for Fenland District Council from 2012/13 are included in the Treasury Management Strategy detailed below and in Appendix D.

11. TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2012/13

11.1 Full details of the proposed Treasury Management and Annual Investment Strategy for 2012/13 are contained in Appendix D.

11.2 The key issues relating to this strategy and its impact on the Medium Term Financial Strategy are as follows:-

- Continuing compliance with CIPFA's Treasury Management Code of Practice and the CLG's Investment Guidance;
- The Prudential and Treasury indicators detailed in paragraphs 3 – 11 of Appendix D, show that the Council's capital investment plans are affordable, prudent and sustainable;
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast;
- The treasury management strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows;
- Estimates of external debt and Capital Financing Requirement (a measure of the underlying need to borrow) gradually decreases over the medium term forecast;
- Total external interest now includes finance lease interest payments; revised estimate for 2011/12 is £543,015. The estimate for 2012/13 is £531,229;
- Levels of investments are set to decrease over the medium term forecast, from £16m (31.03.12) to £11m (31.03.15);
- Base rates are expected to hold at 0.50% until Quarter 3 2013 before increasing to 1.50% by Quarter 2 2014;

- No new borrowing is forecast over the medium term forecast;
- Limited opportunities exist to repay or reschedule debt due to the premiums that would become payable on redeeming external debt early;
- The aim of the Council's annual investment strategy is to provide security of investment whilst minimizing risk; investment returns are commensurate with the Council's low risk appetite. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy;
- Total investment income is estimated at £335,000 for 2011/12 and £270,000 for 2012/13;
- This proposed strategy was presented to and endorsed by Corporate Governance Committee on 14 February 2012.

12. GENERAL FUND BALANCE

12.1 The forecast General Fund Balance at 31 March 2012 is £2.659m. The level of this reserve and the expected use over the period of the financial forecast is considered as part of the Medium Term Financial Strategy and outlined in section 13 below.

12.2 Sufficient levels of reserves are necessary to provide for various and unplanned for contingencies that may include:-

- significant increased costs of providing statutory services
- significant increased contractual costs
- an unexpected and/or significant event or disaster, e.g. civil emergency
- the need to make significant payments in relation to prior year adjustments under the direction of the external auditor

12.3 A full analysis of earmarked reserves is shown at Appendix F.

12.4 Appendix G of this report sets out the Chief Finance Officer's statutory report on the adequacy of reserves.

13. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

13.1 The Council's Medium Term Financial Strategy ensures that the commitments made in the Corporate Plan are funded not only in the year for which the formal approval of the budget is required (2012/13) but for the forecast years as well, within a reasonable level of tolerance.

13.2 The Council's Medium Term Forecasts (MTF) are shown at Appendix B and summarised in Table 6 below:

Table 6 – Medium Term Forecast

		Subject to Resource Review		
Item	**Estimate 2012/13 £000**	**Forecast 2013/14 £000**	**Forecast 2014/15 £000**	**Forecast 2015/16 £000**
Resources (Income)				
Government Grant	6,960	6,901	6,514	6,514
Council Tax (0% rise 2012/13; 2.5% thereafter)	7,455	7,756	8,069	8,395
Council Tax freeze Grant (2011/12 – 2014/15)	186	186	186	0
Council Tax freeze Grant (2012/13 only)	187	0	0	0
Total Resources	**14,788**	**14,843**	**14,769**	**14,909**
Forecast Net Expenditure	**15,870**	**16,022**	**16,373**	**16,823**
Savings identified 2012/13	-1,082	-1,082	-1,082	-1,082
Funding Gap – In Year	**0**	**97**	**425**	**311**
Cumulative Funding Gap		97	522	832
Forecast General Fund Balance	2,659	2,659	2,659	2,659

13.3 Clearly the forecasts show a substantial gap and identify the need for significant savings to be indentified to achieve a balanced budget, including a robust strategy on the use of balances. Over the next four years it is forecast that £1.914m of savings are required for a balanced budget without any further use of balances. To date, all of the £1.082m savings required for 2012/13 has been identified. It is proposed that the remaining savings required in each year be identified prior to the start of the relevant financial year.

13.4 The current strategy is not to use the general fund balance to fund the projected deficits in future years. This will ensure the balance is kept above the target minimum level of £2m. However, due to the uncertainties relating to future resource and expenditure forecasts, this strategy will be reviewed as we progress through the budget setting process.

13.5 The Council Tax Freeze Grant, introduced in 2011/12 of £186k per annum is only guaranteed for the four years to 2014/15 when it ceases to be paid. The additional grant for 2012/13 is payable for that year only. If there are no other compensating increases in Formula Grant or other initiatives following the Resource Review, the Council's overall Government Grant funding will reduce by £187k in 2013/14 onwards and by a further £186k in 2015/16.

13.6 Taking into account the proposals in Table 3, the estimated level of expenditure in 2012/13 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B.

13.7 The forecasts for the years 2013/14 – 2015/16 are particularly volatile and should be treated with extreme caution. No provisional announcements regarding government grant for these years have been made and therefore, the figures could be better or worse than forecast. The outcome of the Local Government Resource Review will determine government funding for these years, together with the implications of the Autumn Statement 2011. Cabinet and Council will receive regular updates on the impact of the Council Tax Benefit and Business Rates changes over the coming months in readiness for next years budget process.

13.8 The achievement of further efficiencies in future years whilst maintaining excellent services will present considerable challenges for the authority.

13.9 These efficiency targets are based on council tax increases of 0% for 2012/13 and provisional 2.5% per annum thereafter. Increases of lower/higher than this will increase/decrease the savings target respectively. Each 1% of Council Tax increase raises approximately £75,000 in revenue income. Over a three year period this would compound into an additional £225,000 of revenue income.

13.10 These financial forecasts are based on the following strategic objectives and guidelines:-

- that the Council's expenditure plans will follow the medium term priorities set by the Council (and as shown at paragraph 1.1.) and contained in the corporate plan

- that the level of the general fund reserve will be reduced if necessary, over the period of the MTF to provide the resources necessary to deliver priority services

- that the level of the general fund reserve will be kept above a target minimum level of £2 million during the current uncertain economic conditions. This minimum level will be kept under review over the next few years.

13.11 The Medium Term Forecasts include a number of assumptions, including:-

- the ongoing impact of the current economic climate;
- the level of the nationally agreed local government pay award;
- the estimated increase in the numbers of council tax properties in the district (tax base);
- the level of grant reductions from the Government in 2013/14 and 2014/15 being in line with the CSR10 announcements;
- any service cost increases (growth rather than inflationary pressures) will be matched by efficiency savings;
- the estimated net impact of the New Home Bonus;
- the outlook for interest rates and returns on investments;
- no allowance for the impact of CTB and NNDR changes effective from 2013/14.

13.12 These assumptions are made with all available information, but are necessarily calculated based on some broad criteria. In the current economic climate, some of these assumptions are particularly volatile. The MTF will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and consideration can be given to any action or changes in direction that may be required.

14. COUNCIL TAX

14.1 After the estimates of expenditure and income have been prepared, and the external sources of grant have been notified from the Government, the next step is to set the level of council tax for 2012/13 for Fenland District Council's share of services. This is the final piece of the "jigsaw" that provides the balance of the resources required to fund the Council's services.

14.2 When deciding the level of council tax to set for 2012/13 it is prudent to be mindful of the forecast resources available to the Council over the period of the medium term – 2012 to 2015. In order to meet the objectives and guidelines set out in the MTFS and based on the assumptions shown at Appendix B, the following council tax levels are anticipated :-

YEAR	INCREASE FOR PLANNING PURPOSES
• 2012/13	0.0%
• 2013/14	2.5%
• 2014/15	2.5%
• 2015/16	2.5%

14.3 It is expected that these increases together with the proposed use of balances and achievement of the identified efficiency savings, would provide the resources required to fund the current level of service provision in 2012/13. Over the period of the MTFS 'cashable' efficiency savings as detailed in Appendix B will be identified during the 2013/14 budget process.

14.4 Table 7 shows the Band D Council Tax for spending at the level proposed, together with provisional Council Tax levels from the major preceptors.

Table 7: Council Tax

COUNCIL TAX BASE	**2012/13** *31,018*		**2011/12** *30,772*	
	£	**Band D £**	**£**	**Band D £**
Fenland District Council Budget Requirement	14,414,610	464.72	15,333,725	498.30
Less Government Grants	-6,959,944	-224.38	-7,964,161	-258.81
Net cost of Fenland Services	7,454,666	240.34	7,369,564	239.49
Plus(+)/Less(-) Council Tax Collection Fund	37,918	1.22	63,595	2.07
Precept on Collection Fund	7,492,584		7,433,159	
Fenland District Council Tax		**241.56**		**241.56**
FDC Increase over 2011/12		***0.0%***		***0.0%***
MAJOR PRECEPTORS				
County Council	***(2.95%)***	1,078.65		1,047.78
Police Authority	***(2.92%)***	174.51		169.56
Fire Authority	***(2.50%)***	59.31		57.87
Sub Total BAND D TAX		1,554.03		1,516.77
Increase over 2011/12 (excluding Parishes)		**£37.26 (2.46%)**		**£0.00 (0.0%)**
Parish Councils-average (Appendix E)	***(9.82%)***	26.16		23.82
Total average Band D Tax		1,580.19		1,540.59
Total average increase over 2011/12	**£39.60 (2.57%)**			

COUNCIL TAX REFERENDUM

14.5 In previous years, the government had the power to ‘cap’ council tax rises. If Ministers thought that local authorities were increasing taxes excessively they could stop them doing so.

14.6 The Localism Act now gives local communities the power to decide. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise taxes above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or to veto the rise. The government’s rationale is that local authorities will need to convince local voters, rather than central government of the case for excessive rises in council taxes.

14.7 As part of the 2012/13 Local Government Finance Settlement announcement, the government are proposing that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases that exceed 3.5% compared to 2011/12.