

FENLAND DISTRICT COUNCIL

GENERAL FUND - Summary of Revenue Estimates

Service Summary	Approved Estimate 2011/12 £	Projected Outturn 2011/12 £	Estimate 2012/13 £
Growth & Infrastructure	2,068,330	1,928,320	1,736,860
HR & Training	569,480	569,480	532,050
Environment & Leisure	4,651,180	4,677,690	4,474,140
Finance & Customer Services	5,221,735	5,202,195	5,018,650
Housing, Community & Economic Development	2,126,620	2,198,060	1,817,620
Policy & Communications	908,320	889,240	881,040
Governance & Legal	1,202,129	1,182,129	1,097,850
Capital Charges	2,000,000	1,794,440	1,708,270
NET COST OF GENERAL FUND SERVICES	18,747,794	18,441,554	17,266,480
Corporate Items			
Contributions to/ (from) Earmarked Reserves	-396,388	-305,818	-151,290
RTB/VAT Sharing Income	-414,800	-454,600	-349,800
Capital Charges Reversal	-1,276,000	-1,070,530	-1,010,070
Investment Income	-335,000	-335,000	-270,000
Area Based Grant	-265,000	-265,000	0
New Homes Bonus	-290,150	-290,150	-613,460
Transition Grant	-150,901	-150,901	0
Council Tax Freeze Grant	-185,830	-185,830	-373,150
Corporate Adjustments	-3,314,069	-3,057,829	-2,767,770
Net Expenditure before Savings	15,433,725	15,383,725	14,498,710
Savings target 2012/13			-1,082,000
<i>Savings identified to date (included above)</i>			997,900
<i>Savings identified (not yet included above)</i>			-84,100
Net Expenditure after Savings	15,433,725	15,383,725	14,414,610
Approved Contribution to/(from) Balances	-100,000	-50,000	0
NET EXPENDITURE	15,333,725	15,333,725	14,414,610
General Government Grant (Formula Grant)	-7,964,161	-7,964,161	-6,959,944
Collection Fund Deficit	63,595	63,595	37,918
COUNCIL TAX REQUIREMENT	7,433,159	7,433,159	7,492,584
Forecast General Fund Balance - 31st March	2,609,000	2,659,000	2,659,000

APPENDIX A(ii)

GROWTH AND INFRASTRUCTURE			
Service	2011/12 Current Approved Estimate £	2011/12 Projected Outturn £	2012/13 Original Estimate £
Direct Services			
Marine Services	73,610	50,400	15,960
Drainage (District)	5,050	5,050	1,550
Highways	167,380	167,380	176,280
Car Parks	265,590	265,590	209,110
Sewage Treatment Works	27,980	27,180	14,080
Parish Council Concurrent Functions	62,520	62,520	62,520
Miscellaneous (Clocks, Monuments)	4,100	4,100	3,450
Economic Estates	-98,480	-100,570	-109,960
Planning Policy	302,250	291,550	294,220
Neighbourhood Planning	220,740	100,000	130,000
Conservation	48,160	48,160	51,440
Community Transport	137,600	137,600	137,000
Total Direct Services	1,216,500	1,058,960	985,650
Support Services			
Asset & Project Services	713,680	708,580	585,010
Fenland Hall	311,680	334,310	315,970
The Base	135,970	135,970	128,530
Total Support Services	1,161,330	1,178,860	1,029,510
Net Cost of Services	2,377,830	2,237,820	2,015,160
Less Support Services Recharges to Capital Schemes	-309,500	-309,500	-278,300
TOTAL GROWTH AND INFRASTRUCTURE	2,068,330	1,928,320	1,736,860

Note:

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes and Vehicles costs.
2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.

HR & TRAINING			
Service	2011/12 Current Approved Estimate £	2011/12 Projected Outturn £	2012/13 Original Estimate £
Direct Services			
Emergency Planning	67,470	67,470	60,620
Support Services			
Corporate Health & Safety	63,280	63,280	60,730
Human Resources	342,410	342,410	328,910
Training	96,320	96,320	81,790
Total Support Services	502,010	502,010	471,430
Net Cost of Services	569,480	569,480	532,050
Less Support Services Recharges	0	0	0
TOTAL HR & TRAINING	569,480	569,480	532,050

ENVIRONMENT & LEISURE			
Service	2011/12 Current Approved Estimate £	2011/12 Projected Outturn £	2012/13 Original Estimate £
Direct Services			
Pollution Reduction	199,730	197,030	221,240
Public Health	248,010	246,610	355,400
Food Safety	212,900	210,130	177,740
Health and Safety	135,420	134,890	101,960
Refuse Collection - Domestic	1,435,560	1,453,430	1,446,360
Refuse Collection - Trade Waste	-18,800	-22,060	-22,880
Street Cleansing	514,710	529,970	559,490
Streetscene	189,150	185,100	205,690
Public Conveniences	100,630	100,630	53,710
Leisure Centres	666,080	675,370	449,900
Sports Development	206,930	207,130	156,690
Parks and Open Spaces	630,400	625,340	628,180
Cemeteries	23,670	50,370	56,650
Markets and Fairs	37,300	14,260	38,650
Community Events	69,490	69,490	84,880
Total Direct Services	4,651,180	4,677,690	4,513,660
Support Services			
Vehicle Workshop and Transport	752,020	752,020	729,950
Total Support Services	752,020	752,020	729,950
Net Cost of Services	5,403,200	5,429,710	5,243,610
Less Vehicle Recharges	-752,020	-752,020	-769,470
TOTAL ENVIRONMENT & LEISURE	4,651,180	4,677,690	4,474,140

FINANCE AND CUSTOMER SERVICES			
Service	2011/12 Current Approved Estimate £	2011/12 Projected Outturn £	2012/13 Original Estimate £
Direct Services			
Miscellaneous Central Services	166,760	167,750	168,930
Drainage Board Levies	1,247,730	1,247,730	1,278,930
Unfunded Pension Costs	301,610	300,570	182,510
Corporate Management	753,880	751,580	650,190
Council Tax Cost of Collection	269,530	268,430	245,980
Business Rates Cost of Collection	18,730	15,100	19,750
Council Tax Benefits	-141,090	-140,780	-96,520
Housing Benefits	19,250	14,860	75,380
Total Direct Services	2,636,400	2,625,240	2,525,150
Support Services			
Accountancy	585,290	585,270	572,560
Information & Communication Technology	1,439,815	1,439,525	1,481,680
Debtors	33,520	33,590	34,330
Customer Access	1,387,280	1,379,140	1,265,080
Total Support Services	3,445,905	3,437,525	3,353,650
Net Cost of Services	6,082,305	6,062,765	5,878,800
Less Support Services Recharges	-860,570	-860,570	-860,150
TOTAL FINANCE AND CUSTOMER SERVICES	5,221,735	5,202,195	5,018,650

HOUSING, ECONOMIC & COMMUNITY DEVELOPMENT			
Service	2011/12 Current Approved Estimate £	2011/12 Projected Outturn £	2012/13 Original Estimate £
Direct Services			
Housing Strategy	112,580	112,580	111,770
Private Sector Renewals	83,920	83,920	83,170
Housing Standards	38,660	24,590	21,850
Care & Repair	63,980	63,980	65,050
CCTV	179,210	179,210	145,470
Safer Fenland	106,310	145,630	106,050
Licensing	4,090	-5,470	-9,340
Housing Options	137,820	137,820	156,340
Community Development	489,260	489,260	433,880
Community House	11,690	11,690	7,270
Travellers Services	-113,920	-113,920	-110,360
Development Management	148,800	176,050	43,750
Building Control	121,970	139,470	73,070
Planning Compliance	95,260	95,260	78,160
Technical Support	232,940	232,940	261,360
Arts Development	98,040	98,040	73,890
Economic Development	200,330	211,330	215,450
Tourism Development	66,880	66,880	60,790
Tourist Information Centre	48,800	48,800	0
TOTAL HOUSING, ECONOMIC & COMMUNITY DEVELOPMENT	2,126,620	2,198,060	1,817,620

POLICY AND COMMUNICATIONS			
Service	2011/12 Current Approved Estimate £	2011/12 Projected Outturn £	2012/13 Original Estimate £
Direct Services			
Policy	117,420	110,730	119,350
Business Efficiency	159,730	153,500	161,370
Total Direct Services	277,150	264,230	280,720
Support Services			
Communications, Marketing & Web	303,240	303,240	310,250
Post & Reprographics	200,260	194,100	182,920
Internal Audit	127,670	127,670	107,150
Total Support Services	631,170	625,010	600,320
Net Cost of Services	908,320	889,240	881,040
Less Support Services Recharges	0	0	0
TOTAL POLICY AND COMMUNICATIONS	908,320	889,240	881,040

GOVERNANCE AND LEGAL			
Service	2011/12 Current Approved Estimate £	2011/12 Projected Outturn £	2012/13 Original Estimate £
Direct Services			
Land Charges	-38,760	-58,760	-47,750
Elections & Electoral Registration	225,310	225,310	139,260
Democratic Services	682,899	682,899	687,800
Total Direct Services	869,449	849,449	779,310
Support Services			
Legal Services	332,680	332,680	318,540
Total Support Services	332,680	332,680	318,540
Net Cost of Services	1,202,129	1,182,129	1,097,850
Less Support Services Recharges	0	0	0
TOTAL GOVERNANCE AND LEGAL	1,202,129	1,182,129	1,097,850

GENERAL FUND MEDIUM TERM FINANCIAL FORECAST

RESOURCES STATEMENT	Approved Estimate 2011/12 £000	Projected Outturn 2011/12 £000	Forecast Estimate 2012/13 £000	Subject to Resource Review		
				Forecast Estimate 2013/14 £000	Forecast Estimate 2014/15 £000	Forecast Estimate 2015/16 £000
A Resources						
(i) Central Government						
Revenue Support grant	1,880	1,880	136			
Re-distributed Business Rates	6,084	6,084	6,824			
	7,964	7,964	6,960	6,901	6,514	6,514
(ii) Council Tax						
Council Tax Payers	7,433	7,433	7,493	7,756	8,069	8,395
Collection Fund Deficit(-)	-63	-63	-38	0	0	0
Use of Balances						
(iii) General Fund	100	50	0	0	0	0
Total Use of Resources	15,434	15,384	14,415	14,657	14,583	14,909
B Spending Levels						
(i) Budget	15,771	15,721	15,870	16,022	16,373	16,823
Transition Grant	-151	-151	0	0	0	0
Council Tax Freeze Grant (2011/12 - 2014/15)	-186	-186	-186	-186	-186	0
Council Tax Freeze Grant (2012/13 only)			-187	0	0	0
Savings Identified 2012/13			-1,082	-1,082	-1,082	-1,082
Budget after efficiency savings	15,434	15,384	14,415	14,754	15,105	15,741
Funding Gap - In Year			0	97	425	311
Total Cumulative Funding Gap				97	522	832
C Council Tax Increase			0.0%	2.5%	2.5%	2.5%
D Forecast Balances						
(i) General Fund	2,609	2,659	2,659	2,659	2,659	2,659

Assumptions

- 1 Council Tax base increase 2012/13 0.8%, 2012/13 onwards 1%
- 2 Government Grant - 2 Year Settlement figures 2011/12 - 2012/13
CSR Reductions 2013/14 onwards

CAPITAL PROGRAMME AND FUNDING 2012/2015

		Forecast			
		2011/12	2012/13	2013/14	2014/15
		£000	£000	£000	£000
TOTAL FORECAST EXPENDITURE		6,635	5,033	2,723	3,760
RESOURCES AVAILABLE					
General Fund Resources					
Revenue Contributions		20	0	0	0
Reserves used to fund Capital		9	50	0	0
Capital Grants		1,750	580	320	320
Section 106 Contributions		149	0	0	0
		1,928	630	320	320
General Resources					
Usable Capital Receipts		450	1,500	2,100	2,700
Total Resources		2,378	2,130	2,420	3,020
Balance B/fwd 1.4.2011	(9,763)	0	0	0	0
In Year Deficit / (Resources Available)	(0)	4,257	2,903	303	740
Uncommitted Resources	(0)	(5,506)	(2,603)	(2,300)	(1,560)

CAPITAL PROGRAMME SUMMARY 2012 - 2015

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000				
Leisure Centres								
1 Hudson Leisure Centre, Wisbech - disability access	8				8		8	Cambs County Council
2 Manor Leisure Centre, Whittlesey - improvements	407				407	407		
3 Manor Leisure Centre, Whittlesey - kitchen improvements	50				50	50		
4 Manor Leisure Centre, Whittlesey - disability access	15				15		15	Cambs County Council
5 Community Sports and Leisure Facilities - contingency			395	450	845	845		
6 Chatteris Leisure Facilities - Gym and Exercise Studio	300	300			600	600		
7 Chatteris Leisure Facilities - contingency				900	900	900		
Leisure Miscellaneous								
8 Gorefield Sports and Amenity Centre		50			50	50		
Regeneration Programmes								
9 Fenland Renaissance and Place Shaping	80	30	30	30	170	170		
Car Parks								
10 Car Parks		105	30	30	165	165		
Cemeteries								
11 Eastwood Cemetery, March - Extension	21	130			151	151		
12 Garden of Rest March - Interment of ashes	20				20	20		
13 Cemeteries Improvements	110	25	25	25	185	185		
Parks and Open Spaces								
14 Wisbech Park Phase 1		136			136	136		
15 Tyllerie Park, Wisbech - Footway Reconstruction, Fencing	13				13	13		
16 West End Park Improvements	90				90	90		
17 Eastrea Play Area Enhancements	41				41	41		
18 Coates Play Area Enhancements	48				48	48		
19 Daglass Way, March Enhancements	30				30		30	Section 106
20 Station Road, Whittlesey Enhancements	40				40	1	39	Section 106
21 Southwell Close, March Enhancements	37				37		37	Section 106
22 Willey Terrace, Chatteris	10				10		10	Section 106
23 Leverington Play Area, Enhancements	33				33		33	Section 106
24 Wisbech Park, Enhancements	15				15	15		
25 Land Adjacent to Octavia Hill Museum, Wisbech		55			55	55		
26 Parks and Open Spaces Improvements	56	25	25	25	131	131		
Sub -Total	1,424	856	505	1,460				

CAPITAL PROGRAMME SUMMARY 2012 - 2015

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000				
B/FWD	1,424	856	505	1,460				
Street Furniture								
27 Street Light Improvements	35	85			120	120		
28 Safety Lighting		47			47	47		
29 Street Name Plates/District Facilities Signage	10	44			54	54		
30 Bus Shelter Improvements	14				14	7	7	
Job Stimulation								
31 Land Assembly/Business & Workforce Stimulation		435	500	500	1,435	1,435		
32 South Fens Business Centre - Phases 2 & 3	1,275	30			1,305	762	543	EEDA £13k / CCC £450k/HGF £80k
33 Boleness Road, Wisbech - Phase 6 Remedials		27			27	27		
Wisbech Port								
34 Nene Waterfront - Phase 2	100	40			140	71	69	CCC £69k
35 Nene Waterfront - Land		105			105	105		
36 Yacht Harbour - Replace & Upgrade Walkway	15				15	15		
37 Yacht Harbour - Replace buoyancy floats to pontoon		42			42	42		
38 Yacht Harbour - Dredging	39				39	39		
39 Fenland Tug Modifications	17				17	17		
40 Pilot Boat Wisbech Port - Improvements	40	30			70	70		
41 Replacement of Navigation Buoys		22			22	22		
Town Management								
42 Horsefair Taxi Relocation		71			71	71		
43 Wisbech Market Place	25				25	25		
Vehicles and Plant								
44 Vehicles	100	200	198	270	768	768		
Office Refurbishment								
45 Fenland Hall - External Works	15				15	15		
46 Fenland Hall - Internal works	48				48	48		
ICT System Replacement Programme & Infrastructure Upgrades								
47 Replacement & Upgrade Programme	348	400	200	200	1,148	1,148		
Sub -Total	3,505	2,434	1,403	2,430				

CAPITAL PROGRAMME SUMMARY 2012 - 2015

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000				
B/FWD	3,505	2,434	1,403	2,430				
Improvement of Assets								
48 Improvement of Assets - contingency			30	100	130	130		
49 Sewage Treatment Works Refurbishment		400	100	100	600	600		
50 Water Course Birch Fen Chatteris - Drainage Improvement	30				30	30		
51 Mini-Factories Refurbishment	78	104	60		242	242		
Homelessness								
52 Hostel Improvements		15			15	15		
Public Conveniences								
53 Modernisation of 4 facilities	50	450			500	500		
Community Fund								
54 March Athletics Club	10				10	10		
55 March Town Bowls Club	10				10	10		
56 Community Fund		40			40	40		
57 Rural Community Fund	150	250	200	200	800	800		
Community Safety								
58 Wenny Road, CCTV	25				25	25		
59 Wisbech Park, CCTV Upgrade	11				11	11		
Private Sector Housing Support								
60 Private Sector Renewal Grants	50	60	40	40	190	190		
61 Disabled Facilities Grants	600	650	640	640	2,530	1,130	1,400	Govt Grant £1,400k
62 External Solid Wall Insulation	500	255			755		755	Govt Grant £755k
63 Public/Private Sector Regeneration Programme	130				130		130	Govt Grant £130k
Social Housing - Support for New Affordable Housing								
64 Contingency		175	250	250	675	675		
Community Development								
65 Thomas Clarkson Community	100	200			300	300		
66 King Edward Centre, Chatteris	15				15	15		
67 College of West Anglia	1,341				1,341	1,341		
68 Lattersey Nature Reserve, Whittlesey - Recap landfill	30				30	30		
GRAND TOTAL	6,635	5,033	2,723	3,760	18,151	15,075	3,076	

TREASURY MANAGEMENT STRATEGY, MINIMUM REVENUE PROVISION STRATEGY, ANNUAL INVESTMENT STRATEGY AND PRUDENTIAL INDICATORS

1. INTRODUCTION

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:
- "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Cabinet before being recommended to the Council.
- 1.5 **Prudential and Treasury Indicators and Treasury Strategy** (this report), the first and most important report covers:
- the capital plans (including prudential indicators);
 - a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to the revenue over time);
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an Investment Strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report this report reviews the financial and operational performance for the first six months of the year and recommends adjustments to prudential & treasury indicators or policies which may require revision.

An Annual Treasury Report provides details of the actual financial and operational performance compared with the approved strategy.

2. TREASURY MANAGEMENT STRATEGY FOR 2012/13

- 2.1 The strategy for 2012/13 covers two main areas, capital issues and treasury management issues.

The strategy covers:

Capital Issues

- the capital plans and the prudential indicators;
- the MRP strategy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling / repayment;
- the investment strategy;
- creditworthiness policy and
- policy on use of external service providers.

2.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

3. THE CAPITAL PRUDENTIAL INDICATORS 2012/13 TO 2014/15

3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.

3.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

Capital Programme	2010/11 Actual £000	2011/12 Revised Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Forecast Capital Expenditure	7,489	6,635	5,033	2,723	3,760
Financed by:					
Revenue Contributions	0	20	0	0	0
Capital Receipts	237	450	1,500	2,100	2,700
Capital Grants	4,013	1,750	580	320	320
Capital Reserves	3,239	4,266	2,953	303	740
Section 106 Contributions	0	149	0	0	0
Total Financing	7,489	6,635	5,033	2,723	3,760

- 3.3 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue and/or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure shown above, which has not been immediately paid for will increase the CFR.
- 3.4 Following accounting changes the CFR includes any other long term liabilities (finance leases) brought onto the balance sheet. Whilst this increases the CFR and therefore the Council's borrowing requirement, these types of leases include a borrowing facility and so the Council is not required to separately borrow to fund these leases.

Capital Financing Requirement	2010/11 Actual	2011/12 Revised Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£000	£000	£000	£000	£000
CFR	1,044	859	525	364	217
Movement in CFR	(185)	(334)	(161)	(147)	(128)
Net financing need for the year	0	0	0	0	0
Less MRP/VRP	(185)	(334)	(161)	(147)	(128)
Movement in CFR	(185)	(334)	(161)	(147)	(89)

4. MINIMUM REVENUE PROVISION POLICY STATEMENT

- 4.1 The Council is required to pay off an element of the accumulated capital spend each year (the CFR) through a revenue charge (the minimum revenue provision), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).
- 4.2 CLG regulations have been issued which require the full Council to approve an MRP Statement in advance each year. A variety of options are provided to Councils, so long as there is a prudent provision. For all unsupported borrowing (including finance leases) the MRP policy will be the Asset Life Method – MRP which will be based on the estimated useful life applicable to the nature of expenditure, using the annuity method. This option provides for a reduction in the borrowing need over approximately the asset's life.

5. THE USE OF COUNCIL'S RESOURCES AND THE INVESTMENT POSITION

- 5.1 The application of resources (capital receipts, reserves etc) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of the year end balances for each resource.

Year End Resources	2010/11 Actual £000	2011/12 Revised Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Fund balances / reserves	(4,271)	(3,785)	(3,724)	(3,724)	(3,724)
Capital receipts	(9,763)	(5,506)	(2,603)	(2,300)	(1,560)
Provisions	(212)	0	0	0	0
Other	(1,029)	(280)	(0)	(0)	(0)
Total core funds	(15,275)	(9,571)	(6,327)	(6,024)	(5,284)
Expected investments	(19,600)	(16,000)	(12,000)	(12,000)	(11,000)

6. AFFORDABILITY PRUDENTIAL INDICATORS

6.1 The previous sections cover the overall capital and control of borrowing prudential indicators; also within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

6.2 Actual and estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligations costs net of investment income) against the net revenue stream.

Financing Costs to Net Revenue Stream	2010/11 Actual %	2011/12 Revised Estimate %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
General Fund	1.58	1.35	1.79	1.65	1.22

The estimates of financing costs include current commitments and the proposals in the budget.

6.3 Estimates of the incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Council tax band D	0.00	0.00	0.00

7. TREASURY MANAGEMENT STRATEGY

7.1 The capital expenditure plans set out in paragraph 3 provides a summary of future service priorities. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this activity. This will involve both the organisation of the cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

7.2 The Council's treasury portfolio position at 31 March 2011, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR).

	2010/11 Actual £000	2011/12 Revised Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Debt at 1 April	10,763	8,300	8,300	7,800	7,800
Expected change in debt	(2,463)	(0)	(500)	(0)	(0)
Other long term liabilities (OLTL)	886	701	525	364	217
Expected change in OLTL	(185)	(176)	(161)	(147)	(128)
Actual debt at 31 March	9,001	8,825	8,164	8,017	7,889
Capital financing requirement	(859)	(525)	(364)	(217)	(89)
<i>Borrowing less CFR</i>	<i>8,142</i>	<i>8,300</i>	<i>7,800</i>	<i>7,800</i>	<i>7,800</i>
Total investments at 31 March	(24,800)	(19,600)	(16,000)	(12,000)	(12,000)
Expected change in investments	5,200	3,600	4,000	0	1,000
Actual investments at 31 March	(19,600)	(16,000)	(12,000)	(12,000)	(11,000)
Net debt / (investments)	(10,599)	(7,175)	(3,836)	(3,983)	(3,111)

7.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years. This allows some flexibility for limited early borrowing for future years and also ensures that long term borrowing is not undertaken for revenue purposes.

7.4 The Corporate Director and Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments and the proposals in the budget report.

- 7.5 Interest repayments associated with the external debt above is shown below, there is a Public Works Loan Board (PWLB) loan (£500,000), which naturally matures in March 2013.

YEARS	INTEREST DUE £
2011/12	543,015
2012/13	531,229
2013/14	502,197
2014/15	493,496

- 7.6 The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

Operational Boundary	2011/12 Revised Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Debt	10,000	10,000	10,000	10,000
Other long term liabilities	2,000	2,000	2,000	2,000
Total	12,000	12,000	12,000	12,000

- 7.7 The authorised limit is a key prudential indicator, which represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.
- 7.8 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit.

Authorised limit	2011/12 Revised Estimate £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000
Debt	15,000	15,000	15,000	15,000
Other long term liabilities	2,000	2,000	2,000	2,000
Total	17,000	17,000	17,000	17,000

8. PROSPECTS FOR INTEREST RATES

8.1 The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view.

Annual Average	Bank Rate %	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

8.2 Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.50%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

8.3 Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

8.4 This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2012/13.
- Borrowing interest rates are currently attractive but may remain low for sometime. The timing of any borrowing will need to be monitored carefully.

9. BORROWING STRATEGY

9.1 The Council will not borrow more than or in advance of its needs purely in order to profit from investment of the extra sums borrowed. The Council is forecasting that no new borrowing will be required over the medium term.

9.2 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

Interest rate exposures	2012/13 Upper £000	2013/14 Upper £000	2014/15 Upper £000
Limits on fixed interest rates based on net debt	(1,836)	(983)	(111)
Limits on variable interest rates based on net debt	(4,700)	(4,700)	(3,700)
Limits on fixed interest rates:			
• Debt only	8,164	8,017	7,889
• Investments only	(10,000)	(9,000)	(8,000)
Limits on variable interest rates:			
• Debt only	3,300	3,300	3,300
• Investments only	(8,000)	(8,000)	(7,000)

Maturity structure of fixed interest rate borrowing 2012/13	Lower %	Upper %
Under 12 months	0	20
12 months to 2 years	0	50
2 years to 5 years	0	75
5 years to 10 years	0	75
10 years and above	0	100

Maturity structure of variable interest rate borrowing 2012/13	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100

10. DEBT RESCHEDULING / REPAYMENT

- 10.1 The Council has sufficient cash balances set aside to pay off its external debt.
- 10.2 The following factors would need to be considered when determining the financial benefits of redeeming or rescheduling external debt early.
- The penalty position which arises from the early redemption or rescheduling of the external debt. Timing of debt redemption is important to minimise penalties, currently little opportunity exists to repay debt prematurely due to the size of the premium payable.
 - Safety of investments and the reliance that can be placed on credit worthiness, especially for longer periods of time. Members should note action already taken on reducing substantially the level of credit risk on holding investments.
 - Generation of cash savings as investment rates are expected to be below current borrowing rates.
 - Opportunity to enhance the balance of the portfolio by flattening its maturity profile.
- 10.3 The Council's position will be monitored throughout 2012/13; any debt rescheduling undertaken will be reported to Cabinet at the earliest meeting following its action.

11. ANNUAL INVESTMENT STRATEGY

- 11.1 The Council's investment policy has regard to Communities and Local Government Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities are:
- the security of capital;
 - the liquidity of its investments;
 - return on its investments.
- 11.2 The intention of the strategy is to provide security of investment and minimise risk.
- 11.3 Legislation and guidance requires the Council to differentiate its investments between specified and non specified types (these are categorised below). Counterparty limits will be set through the Treasury Management Practices schedules.
- 11.4 **Specified Investments** – These investments are sterling investments of not more than one year maturity or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows;
- Term Deposits with UK Government, Nationalised banks, UK supported bailed out banks or English Local Authorities.
 - Term Deposits with high credit criteria deposit takers (banks and building societies).
 - Money Market Funds.
 - Debt Management Agency Deposit facility (DMADF).
 - UK Government Gilts, custodial arrangement required prior to purchase.
 - Forward Deals with high credit criteria banks and building societies.

11.5 **Non Specified Investments** – Are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both “specified” and “non specified” categories are differentiated by maturity date and classed as non specified when the investment period and right to be repaid exceeds 12 months. Investment instruments identified for use in the financial year are as follows;

- Term Deposits with high credit criteria deposit takers (banks and building societies).
- Term Deposits with UK Government or with English Local Authorities.
- Callable Deposits with high credit criteria deposit takers (banks and building societies).
- UK Government Gilts, custodial arrangement required prior to purchase.
- Sovereign issues ex UK Government Gilts.
- Forward Deals with high credit criteria banks and building societies.
- Deposits with unrated deposit takers (banks and building societies) but with an unconditional financial guarantee from UK Government or high credit criteria rated parent institution.

11.6 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months). Bank Rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

- 2011/2012 0.50%
- 2012/2013 0.50%
- 2013/2014 1.25%
- 2014/2015 2.50%

11.7 There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly in Bank of England inflation forecasts for two years ahead exceed the Bank of England’s 2% target rate. Forecast average investment interest rates for the next three years are as follows:

- 2012/2013 1.25%
- 2013/2014 1.55%
- 2014/2015 2.15%

11.8 Estimated investment income is shown below.

YEARS	INTEREST RECEIVED £
2011/12	335,000
2012/13	270,000
2013/14	260,000
2014/15	315,000

11.9 Investment treasury indicator and limit total - principal funds invested for greater than 364 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of investment and are based on the availability of funds after each year end.

	2012/13 £000	2013/14 £000	2014/15 £000
Maximum principal sums invested > 364 days	8,000	8,000	5,000

11.10 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to three months) in order to benefit from the compounding interest.

11.11 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

12. CREDITWORTHINESS POLICY

12.1 The Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from three main credit rating agencies – Fitch, Moodys and Standard & Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

12.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- yellow 5 years
- purple 2 years
- blue 1 year (only applies to nationalised or part nationalised UK banks)
- orange 1 year
- red 6 months
- green 3 months
- no colour not to be used

12.3 The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system which does not give undue preponderance to just one agency's ratings.

12.4 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, individual / viability ratings of (BB-) and a support rating of 3. There may be occasions when the counterparty ratings from one agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available or other topical market information, to support their use.

- 12.5 All credit ratings are monitored weekly and prior to any new investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.
- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.
 - In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 12.6 Sole reliance will not be placed on the use of this external service. In addition this Council will use any other relevant market data, information on Government support for banks and the credit ratings of that Government support.
- 12.7 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules
- 12.8 The Council currently only invests in UK banks as it lacks detailed knowledge about investments in other sovereign rated countries. It should be noted that in some cases these banks are subsidiaries of foreign banks but these are of the highest credit quality.

13. EXTERNAL SERVICE PROVIDERS

- 13.1 The Council uses Sector as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
- 13.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

PARISH PRECEPTS 2012/13

PRECEPT 2011/12 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2012/13 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2011/12 %
10,300	28.22	BENWICK	371	10,609	28.60	1.3
107,000	31.11	CHATTERIS	3,494	117,000	33.49	7.6
7,100	26.10	CHRISTCHURCH	276	7,100	25.72	-1.5
20,000	26.14	DODDINGTON	770	20,000	25.97	-0.7
27,500	21.89	ELM	1,249	27,500	22.02	0.6
7,500	18.94	GOREFIELD	408	9,000	22.06	16.5
20,000	16.65	LEVERINGTON	1,213	22,000	18.14	8.9
19,000	27.58	MANEA	702	19,000	27.07	-1.9
140,000	19.86	MARCH	7,056	140,000	19.84	-0.1
4,500	18.83	NEWTON	242	4,500	18.60	-1.2
13,300	29.75	PARSON DROVE	458	15,310	33.43	12.4
7,500	19.08	TYDD ST GILES	393	7,500	19.08	0.0
102,500	19.06	WHITTLESEY	5,405	105,000	19.43	1.9
14,000	17.63	WIMBLINGTON	800	14,000	17.50	-0.8
189,100	27.41	WISBECH	6,970	249,200	35.75	30.4
43,732	36.72	WISBECH ST MARY	1,211	43,732	36.11	-1.7
733,032	23.82	GRAND TOTAL	31,018	811,451	26.16	9.8

EARMARKED RESERVES 2011/2012

Reserve Name	Balance 01.04.11 £	Applied Revenue £	Applied Capital £	Revenue Contributions £	Balance 31.03.12 £	RECOMMENDATIONS <i>Comments / Conditions of Use</i>
Travellers Sites	161,834			42,150	203,984	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey	14,659			2,300	16,959	Required for future road maintenance.
CCTV - Plant & Equipment	61,000	(22,219)		10,000	48,781	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	82,646		(9,000)		73,646	To provide resources for schemes which will deliver future efficiencies. £50k committed to energy efficiency schemes match funded by Salix Finance, as part of the Council's 'Keen to be Green' strategy.
Conservation	54,124				54,124	Available for the purchase, renovation and subsequent re-selling of difficult properties of local importance where intervention by this Council is seen as the only solution.
Village Halls Fund	48,790				48,790	Committed to Gorefield scheme.
Management of Change	621,922	(213,548)			408,374	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Community Projects Reserve	11,720				11,720	Available to assist Town/Parish Councils to fund Diamond Jubilee Celebrations. £1,000 allocated to each Council.
Neighbourhood Planning Reserve	266,759	(100,000)			166,759	Available to assist the Council with delivering the 'Neighbourhood Planning' objective and delivery of the Core Strategy.
Specific Government Grants (received in previous years)	238,158	(24,500)			213,658	Available to fund specific spending commitments in future years.
TOTAL	1,561,612	(360,267)	(9,000)	54,450	1,246,795	

NB: In accordance with the Council's Financial Rules and Scheme of Financial Delegation (Part 4, Rule 6 of the Constitution), paragraphs B57 - B60 delegates authority to the Chief Finance Officer to approve expenditure from these reserves in accordance with their approved use as detailed above.

ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF THE RESERVES

1. Introduction

Section 25 of the Local Government Act 2003 requires that the Chief Finance Officer is required to report to Members on the following matters:

- a) the robustness of the estimates made for the purposes of the budget calculations, and
- b) the adequacy of the proposed financial reserves.

The majority of the material required to meet the requirements of the Act has been built into the key reports prepared throughout the corporate budget cycle, in particular:

- a) The Medium Term Financial Strategy (MTFS),
- b) The Revised Budgets,
- c) The final Corporate Plan and budget report to Cabinet.

This reflects the fact that the new requirements incorporate issues which the Council has, for many years, adopted as key principles in its financial strategy and planning, and which have therefore been incorporated in the key elements of the corporate decision-making cycle.

This also reflects the work in terms of risk assessment and management which is built into all the key aspects of the Council's work.

2. Robustness of Estimates

Through regular reporting mechanisms to members and at Corporate Management Team, the on-going impact of the current economic climate and the implementation of the identified savings have been incorporated into the projected outturn for 2011/12. A savings target of £1.553m had originally been set as part of the budget setting process for 2011/12 together with the use of £200k from the General Fund Balance. Through tight and effective financial management, the impact on the Council's finances has been mitigated to the extent that the required savings have been achieved and the use of balances projected to reduce to £50k. This is a considerable achievement.

The revised budget process has been informed by:

1. The revised Service and Financial Planning process, the development of a new Corporate Plan incorporating extensive public consultation.
2. The budget monitoring process which has highlighted areas of risk, and, on a monthly basis, has subjected them to a greater degree of scrutiny. Budget monitoring has been used to

highlight under-spending, budgets where demand has exceeded the current resources available and areas where revenue streams have been under pressure.

3. The outcomes of the Comprehensive Spending Review 2010 and the subsequent Local Government Finance Settlements for 2011/12 and 2012/13.

These present the Council with considerable challenges. The assumptions and risks taken into account in developing the budget are shown in the Table below.

Budget assumption	Financial standing and management
<p>1</p> <p>The treatment of the current economic climate</p>	<p>The ongoing difficult economic climate has resulted in the Council budgeting for a lower level of income, particularly those services which have been under most pressure during 2011/12.</p> <p>The Council's much admired 'one team' culture is playing an important part in keeping tight control of expenditure commitments and achieving the necessary efficiency savings. This will ensure the continuation of excellent services and delivery of the key priorities within the Corporate Plan.</p> <p>In addition, the prudent use of balances/reserves to smooth out the more significant effects of the recession (eg. lower income levels) will help ensure (together with the actions above) that council tax increases are kept to a reasonable level (0% in 2011/12; 0% in 2012/13; indicative 2.5% thereafter in the MTF, below the Government's anticipated referendum levels).</p> <p>The actions above will also ensure that the Council is well placed to bounce back quickly when the economy improves.</p>
<p>2</p> <p>The treatment of inflation and interest rates</p>	<p>No allowance for general inflation has been provided for in the 2012/13 budget and over the Medium Term forecasts, although allowances for contractual pay increases, contracts, business rates, energy costs, fuel etc have been included. Specific increases are included for certain elements if known.</p> <p>Corporate Management Team has re-assessed the vacancy factor [VF] to be built into the medium term forecasts, in the light of current experience. Consequently, the VF built into the 2012/13 budget and over the Medium Term is 0%. This reflects the small amount of staff turnover currently happening.</p> <p>Average interest rates for 2012/13 have been assumed at 1.25% for investments and 4.50% for new borrowing. The effect of each 1% change in interest rates is approximately ± £175,000 on our budget.</p>

Budget assumption	Financial standing and management
<p>3</p> <p>The impact of Government Grants and achievement of savings target</p>	<p>The Local Government Finance Settlement has had a significant impact on the Council's resources over the Medium Term. This has resulted in General Government Grant reducing by £1.773m in 2011/12 (-17.9%) and a further £1.155m in 2012/13 (-14.2%). This is a cumulative reduction of £2.928m (-29.6%) over the next two years.</p> <p>The impact on the Council's Net Revenue Expenditure (excluding use of balances) is a reduction from £17.324m in 2010/11 to £15.434m (-£1.89m, -10.9%) in 2011/12. In 2012/13 this will reduce to £14.415m (-£1.019m, -6.6%), a cumulative reduction of £2.909m (16.8%) over two years.</p> <p>The Corporate Management Team with guidance and direction from Cabinet, have produced an action plan to achieve the required savings in 2012/13 and are continuing this process for the following years.</p> <p>These proposals involve changes to current structures, systems and processes which needs managing effectively in order to minimise the possibility of slippage and disruption in the transition from old to new arrangements.</p> <p>However, the achievement of significant savings during 2011/12 (£1.553m) without significant impact on front-line services has been a considerable achievement by the Corporate Management Team and Senior Managers.</p> <p>Robust and timely monitoring of savings delivery plans with ongoing contingency planning will be critically important throughout the year, as it has successfully been in the last 12 months. Corporate Management Team and Senior Managers are aware of the budgetary implications around deliverability of the savings plan.</p> <p>Taking all these issues into account, the proposed savings plan for 2012/13 is considered realistic and deliverable.</p> <p>CMT and Cabinet will, over the coming months, carefully monitor the changes in Local Government funding arrangements effective from 2013/14, to ensure that the Council's Medium Term Forecasts are robust and sustainable.</p>
<p>4</p> <p>Estimates of the level and timing of capital receipts.</p>	<p>The capital programme for 2012/13 is reliant on £1.5m of receipts. The future capital programme is reliant on substantial amounts of capital receipts. As land values have decreased during the current climate, disposals of surplus land will be delayed if necessary to ensure the Council maximises its return on these assets.</p> <p>The capital investment plan will therefore need to be reviewed and re-phased should the level or timing of capital receipts vary from that anticipated, to ensure funding is sufficient to meet proposed expenditure.</p>

Budget assumption	Financial standing and management
<p>5</p> <p>The treatment of demand led pressures</p>	<p>All members of Corporate Management Team have reviewed their base budgets to reflect the Council's revised priorities set out in the Corporate Plan 2012/13 including demand led pressures. Service Teams are expected to put forward management and policy actions to manage the additional demand within the relevant legislation either within the relevant budget or reprioritising within their budgets. If this is not possible, and underspendings, management action or policy actions in other Service Teams are not sufficient to cover the additional demand, then further savings and service reductions would have to be made.</p>
<p>6</p> <p>The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments</p>	<p>Approval of new capital spending is dependent on the identification of the appropriate levels of revenue and capital funding, demonstrating their affordability.</p> <p>The existing test of affordability for capital spending has been reinforced by the introduction of the Prudential Code, with effect from 1 April 2004. The indicators identified as part of the Code have been included with the final budget reports, and have been taken into account in arriving at the final recommendations on the Capital Programme.</p>
<p>7</p> <p>The availability of other funds to deal with major contingencies</p>	<p>The minimum level of reserves assumes that management and policy actions will be taken to address major contingencies. Should these be insufficient, the minimum level of reserves may have to be used temporarily and restored to at least their minimum prudent level or the optimal level through future budgets.</p>
<p>8</p> <p>The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc)</p>	<p>The Council budgets prudently for its level of borrowing, avoiding external borrowing where cash resources allow. No new borrowing is anticipated in the MTF as detailed in the Treasury Management Strategy 2012/13.</p> <p>The assumed Council Tax collection rate for 2012/13 onwards is high, at 99%. This is in line with previous forecasts.</p> <p>There is forecast to be a deficit on the collection fund at the end of 2011/12 of £220,123, of which this Council's share is £37,918, which is taken into account when setting the budget for 2012/13.</p>

Budget assumption	Financial standing and management																														
<p>9</p> <p>The authority's track record in budget and financial management.</p>	<p>The Council's recent track record in budget and financial management shows under-spends of -0.1% to -2.0% of the net budget :</p> <table border="1" data-bbox="475 353 1353 779"> <thead> <tr> <th></th> <th>Amount £000</th> <th>% of budget</th> </tr> </thead> <tbody> <tr> <td>• 2002/03 - under spent by</td> <td>-£197</td> <td>-2.0</td> </tr> <tr> <td>• 2003/04 - under spent by</td> <td>-£10</td> <td>-0.1</td> </tr> <tr> <td>• 2004/05 - under spent by</td> <td>-£148</td> <td>-1.2</td> </tr> <tr> <td>• 2005/06 - under spent by</td> <td>-£174</td> <td>-1.4</td> </tr> <tr> <td>• 2006/07 - under spent by</td> <td>-£62</td> <td>-0.4</td> </tr> <tr> <td>• 2007/08 - under spent by</td> <td>-£149</td> <td>-0.9</td> </tr> <tr> <td>• 2008/09 - under spent by</td> <td>-£47</td> <td>-0.3</td> </tr> <tr> <td>• 2009/10 - under spent by</td> <td>-£60</td> <td>-0.3</td> </tr> <tr> <td>• 2010/11 - under spent by</td> <td>-£101</td> <td>-0.6</td> </tr> </tbody> </table> <p>However this has been achieved by considerable management and policy actions to ensure spending is in line with the budget each year.</p> <p>Base budget under provision, the full year effect of previous decisions, demographic growth, legislative change and the impact of the current recession have been identified and will continue to be identified during the budget and the revised Medium Term Planning process.</p>		Amount £000	% of budget	• 2002/03 - under spent by	-£197	-2.0	• 2003/04 - under spent by	-£10	-0.1	• 2004/05 - under spent by	-£148	-1.2	• 2005/06 - under spent by	-£174	-1.4	• 2006/07 - under spent by	-£62	-0.4	• 2007/08 - under spent by	-£149	-0.9	• 2008/09 - under spent by	-£47	-0.3	• 2009/10 - under spent by	-£60	-0.3	• 2010/11 - under spent by	-£101	-0.6
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<p>10</p> <p>The authority's capacity to manage in-year budget pressures</p>	<p>The ongoing improvements to the performance management framework during 2011/12, consisting of monthly financial management reports to CMT, monthly briefing of portfolio holder's and budget monitoring reports to Cabinet and Overview and Scrutiny, ensures that current performance is challenged, and the need for any remedial measures identified at the earliest opportunity.</p> <p>The impact of the current economic climate and government grant announcements following CSR 2010 was anticipated early in 2010/11 with regular reports to members. Under the guidance of Cabinet, Corporate Management Team have continued a thorough and detailed efficiency review of all service area budgets, which led to the identification and implementation of £1.553m of financial savings in 2011/12 together with the identification of the required £1.082m of savings for 2012/13.</p>																														
<p>11</p> <p>The authority's virement and end of year procedures in relation to budget under/overspends at authority and Service level.</p>	<p>The Council's virement and carry forward rules are clearly set out in the Financial Regulations. The Council is operating management disciplines to ensure management and policy actions are considered in relation to overspending budgets. Generally virement is considered at a corporate level against corporate priorities, including the contribution towards the optimal level of general fund reserves.</p>																														

Budget assumption	Financial standing and management
<p>12</p> <p>The adequacy of the authority's insurance arrangements to cover major unforeseen risks.</p>	<p>The Council's insurance arrangements are a balance between external insurance premiums and internal risk in some areas. Premiums and internal risks are reactive to external perceptions of the risks faced by the Council which includes both risks that are generic to all organisations eg Sept 11th and those specific to the Council / Local Government eg "no win - no fee" companies.</p> <p>Both those issues produced large increases in risk and thus premiums / costs in recent years have risen. Trend analysis indicates that these have now settled and provide confidence that no substantial increases in risks and costs should be seen in the near future. But of course, by its very nature, insurance is a service to manage unforeseen risks and reserve levels must be kept under constant review in this area.</p>

3. Adequacy of the reserves

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net for the unforeseen or other circumstances and must last the lifetime of the Council unless contributions are made from future years revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can and will change over time.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

Audit Commission's measure of reserves

Either, the aggregate of the following items is expected to be in surplus at 31 March,

- General fund balance;
- Other earmarked GF revenue reserves and,
- Liabilities not recognised in financial statements (excluding IAS19 unfunded pension liabilities)

and the GF balance is expected to be at least equal to 5%*, [but not exceeding 100%] of forecast net operating expenditure. There are plans agreed by members on how to use these reserves, which link to the Council's strategic aims.

OR

There is a formal financial risk management process operating which the authority uses to:

- Justify a lower level of reserves;
- Determine its minimum level of reserves; and
- To adhere to this level.

* Equivalent to £1m in 2011/12

Reserves are established and maintained in line with the Code of Practice on Local Authority Accounting, and are reviewed annually by the Council's external auditors taking into account their knowledge of the Council's performance over a period of time.

There are two main categories of reserves to be considered:

- a) Earmarked reserves
- b) Unallocated general reserves (the general fund balance)

3.1 Earmarked Reserves

Earmarked reserves are those which the Council builds up over a period of time to fund known or predicted liabilities. These are included in Appendix F of this report. The Council reviews the levels, contributions and appropriateness of these reserves annually as part of the budget process.

3.2 Unallocated general reserves

As part of its financial strategy during the current uncertain economic climate the Council has determined a minimum level of £2m for the general fund balance over the medium term (approximately 13% of future net expenditure levels) to deal with timing issues and uneven cash-flows and avoid unnecessary borrowing. This minimum level will be kept under review during the course of the medium term strategy.

The recommendation on the minimum prudent level and optimal level of reserves has been based on the robustness of estimate information. In addition, the other strategic, operational and financial risks taken into account when recommending the minimum level of unallocated General Fund reserves include:

- The Council will need to budget for provision for the cost of any redundancies necessary to achieve any budget savings and restructuring to the extent they are not contained in budget proposals.
- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service reductions will be achieved. CMT have been prudent in their assumptions and that those assumptions, particularly about demand led budgets, will need to hold true in changing circumstances.
- The uncertainty over the extent of the impact of the current recession and when the economy is likely to improve. Although the assumptions built into the budgets are prudent, further action will need to be taken if circumstances change for the worse,
- The Bellwin Scheme Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The local authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government. The assistance is usually 85% of any eligible costs over the threshold.
- The risk of major litigation, both currently and in the future.
- Changes in the methodology for central government grant allocations from 2013/14.
- Risks of grants being introduced mid year requiring authority contributions.
- Risks of government funding changes during year – e.g. Emergency Budget.
- Unplanned volume increases in major demand led budgets, e.g. homelessness and benefits.
- The need to retain a general contingency to provide for any unforeseen circumstances, which may arise.
- The need to retain reserves for general day to day cash flow needs

The level of the General Fund Balance is forecast to be £2.659 million at 31 March 2012 and at 31 March 2013. No additional use of this balance is currently forecast over the Medium Term. This level may be increased by the utilisation of any earmarked underspending. The main emphasis in future years is on achieving 'cash' efficiency savings to balance the MTFs rather than continued use of balances.

The Council has a commitment to risk management, as a key element of effective internal control. This will form a significant part of the assurance framework to meet the requirements of the Annual Governance Statement in the Council's Statement of Accounts.

The Council's financial strategy also supports the provision of funding for known commitments, which commence beyond the specific budget year, as part of the prudence and sustainability concept. An example of this is the provision for increased employer's contributions to the Pension Fund, based on the latest actuarial advice, which has an ongoing impact in future years.

Part of the Council's established financial strategy is to ensure that funding for future spending is not dependent on the use of reserves (below the £2m minimum level), so as to demonstrate long-term sustainability.

4. Chief Finance Officer's Statement

Taking into account the above, together with all the proposals within the budget report, it is the Chief Finance Officer's view that the estimates for 2012/13 are robust and the proposed level of reserves is adequate.