

**AGENDA ITEM NO.10**

**COUNCIL**

**Date**            **21 FEBRUARY 2013**

**Title**            **GENERAL FUND BUDGET 2013/14 AND CAPITAL PROGRAMME 2013/16**

**1. PURPOSE/SUMMARY**

The purpose of this report is to consider the Cabinet recommendations in relation to the General Fund Revenue Budget 2013/14 and Capital Programme 2013/16.

**2. KEY ISSUES**

- Funding for the corporate priorities.
- Projected Outturn for 2012/13.
- Details of the Medium Term Financial Strategy and Capital Programme.
- Significant savings of around £1.25m are required over the next two years.
- Details of the Treasury Management and Investment Strategy 2013/14.
- 1.68% increase in Council Tax in 2013/14, the maximum allowable under the referendum principles.

**3. RECOMMENDATIONS**

**It is recommended by Cabinet that :-**

- (i) the General Fund revenue budget for 2013/14 as set out in paragraphs 6 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 10 and Appendix D be approved;
- (v) the expenses detailed in paragraph 7 be treated as general expenses for 2013/14;
- (vi) the Port Health levy for 2013/14 be set as shown in paragraph 8;
- (vii) the Band D Council Tax level for Fenland District Council Services for 2013/14 be set at £245.61, an increase of £4.05 (1.68%) on the current year.

<b>Wards Affected</b>	All
<b>Forward Plan Reference No.</b> (if applicable)	
<b>Portfolio Holder(s)</b>	Cllr Alan Melton, Leader and Portfolio Holder, Policy and Resources Cllr John Clark, Portfolio Holder, Quality Organisation
<b>Report Originator</b>	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
<b>Contact Officer(s)</b>	Paul Medd, Chief Executive Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
<b>Background Paper(s)</b>	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:-

<b>Section</b>	<b>Content</b>
1.	Corporate Plan and Introduction
2.	Projected Outturn 2012/13
3.	Consultation
4.	Local Government Finance Settlement
5.	Fees and Charges 2013/14
6.	General Fund Revenue Budget 2013/14
7.	Special and General Expenses
8.	Port Health
9.	Capital Programme
10.	Treasury Management and Investment Strategy 2013/14
11.	General Fund Balance
12.	Medium Term Financial Strategy
13.	Council Tax

#### **Appendices**

A.	(i) General Fund Revenue Estimates - Summary (ii) General Fund Revenue Estimates – Individual Services
B.	Medium Term Financial Forecasts
C.	Capital Programme
D.	Treasury Management Strategy, Minimum Revenue Provision Strategy, Investment Strategy and Prudential Indicators
E.	Parish Precepts
F.	Earmarked Reserves
G.	Robustness of Estimates and Adequacy of Reserves

## 1. CORPORATE PLAN AND INTRODUCTION

1.1 This report is the culmination of the service and financial planning cycle for 2013/14. It brings together all general fund revenue estimates and all capital estimates, and recommends a level of Council Tax for 2013/14. The budget for 2013/14 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 2013-16 earlier in the agenda for this meeting.

## 2. PROJECTED OUTTURN 2012/13

2.1 As part of the budget setting process for 2012/13, approved by Council on 1 March 2012, £1.082m of savings were required in order to achieve a balanced budget.

2.2 As reported during the course of this year through the monthly monitoring reports to all Members and at the Cabinet meeting on 14 January 2013, these savings have been identified and implemented. Significant organisational efficiency changes have been implemented in Leisure Services, Customer Access, Refuse Collection, Cleansing, Post and Printing, Housing and Community Support, ICT and Markets. These together with other efficiency changes, for example the rationalisation of Public Conveniences have enabled the savings target to be met for this year. 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.

2.3 The latest revised estimates for 2012/13 are set out at Appendix A for approval. The current estimate for net expenditure is £14.415m, the same as originally estimated and the same as reported to Cabinet on 14 January 2013. At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure this position is maintained at the year end.

2.4 Income levels overall are projected to achieve what was estimated, although there are variations between services, as detailed in the monthly monitoring reports. Expenditure also continues to be tightly controlled with Employee costs projected to be lower than estimated.

2.5 Consequently the General Fund Balance is forecast to remain at £2.762m at the year end.

2.6 In line with the recommended budget strategy, the estimates for 2013/14 reflect the projected level of fees and charges this year and lower forecast investment income next year. Consideration of service financial variations for the current year is very important when considering the 2013/14 estimates, and is a requirement of Section 28 of the Local Government Act 2003. The ongoing and regular monitoring of the 2012/13 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 2013-2016.

### 3. CONSULTATION

#### Overview and Scrutiny Panel

3.1 The draft budget proposals for 2013/14 were approved for consultation by Cabinet on 14 January 2013. These proposals were discussed and considered at the meeting of the Overview and Scrutiny Panel on 28 January 2013. The Panel confirmed their overall support for the budget strategy in the current uncertain economic climate.

### 4. LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 Members will be aware from previous reports to Cabinet, that the way Local Government is funded is fundamentally changing from April 2013. 2013/14 is the first local government finance settlement under the new arrangements for business rates retention.

4.2 Business rate income will now be split into a central and a local share: each being 50% of the Expected Business Rates Aggregate (EBRA) in 2013/14 (as predicted by the Office for Budget Responsibility) after deductions for expected appeals and reliefs. The National EBRA for 2013/14 is £21.797 billion which means the total size of the local share is £10.899 billion. This together with Revenue Support Grant gives the total Start Up Funding Assessment as detailed below:

**Table 1: Start Up Funding Assessment – National Totals**

	2012-13 Unadjusted	2012/13 Adjusted	2013/14	% change	2014/15	% change
	£bn	£bn	£bn		£bn	
Start Up Funding Allocation	23.596	<b>27.169</b>	<b>26.101</b>	<b>-3.9%</b>		
Funded through:						
Local Share of EBRA			10.899		11.233	3.1%
Revenue Support Grant			15.202		12.623	-17.0%
			<b>26.101</b>		<b>23.856</b>	<b>-8.6%</b>
How the local share is calculated:						
Business Rates – Local list income			26.297			
Less: deductions for appeals, losses, reliefs etc			-4.500			
Total EBRA			21.797			
Central Share (50%)			10.899			
Local Share (50%)			10.899			

- 4.3 In order for a like for like comparison to be made, the 2012/13 original totals are adjusted to include elements of funding which are new for 2013/14, for example the Council Tax Support Grant. Consequently, on this basis the start up funding allocation has decreased by 3.9% compared with 2012/13. For 2014/15 the decrease is substantially larger at 8.6%. However this takes into account growth in business rates (and consequently the local share) in line with the estimated RPI, so that Revenue Support Grant reduces by 17%.
- 4.4 This settlement announcement confirms that local government continues to bear the brunt of public spending reductions in this Spending Review period. The Autumn Statement expects that these reductions will continue until 2018.

### Business Rates

- 4.5 The Business Rates Retention system is being introduced in April 2013 and the key components of this are as follows:

#### Central and local shares

- The national expected business rates aggregate is divided between the central and local share, 50% each. The central share will be used to pay Revenue Support Grant and police funding.
- The total size of the local share is 50% of £21.8bn, ie. £10.9bn. This is the total pot for business rates retention and also determines the split in the Start Up Funding Assessment between baseline funding and Revenue Support Grant.
- A proportionate share of the baseline funding is calculated for each local authority on the basis of the average of business rates collected in 2010/11 and 2011/12. It is then split between tiers in a way that ensures counties and fire authorities are top-up rather than tariff authorities. 80% is allocated to districts, 18% to counties and 2% to fire authorities.

#### Top-ups and tariffs

- For each authority the result of this calculation is compared with its baseline funding. If the expected business rates are greater than the baseline funding it is a tariff authority; if it is the other way round it is a top-up authority. FDC will be a tariff authority.

#### Safety nets and levies

- Once the system is up and running, there will be a system of levies and safety nets to prevent what ministers see as excessive gain or excessive loss. The rates for these are as follows:
  - authorities will receive a safety net payment if their actual local share of business rates income is 7.5% or more below their funding baseline.
  - levy rates are set individually for authorities and will be determined by the ratio of their expected local share income to their baseline funding level. Levy rates will not exceed 50% and cannot be negative.

## Pooling

- Following the Provisional Finance Settlement announcement on 19 December 2012 and subsequent decisions by members of the 'Growing Cambridgeshire' pool, the decision was taken to dissolve the pool for 2013/14, with a commitment to review the situation in time for the 2014/15 financial year.

4.6 The key Business Rates figures for this Council for 2013/14 are as follows:

**Table 2 – Business Rates 2013/14**

		£
Local Share (50%) of EBRA		10,898,554,444
Proportionate Share (2 yr average)	0.00107044	11,666,293
FDC Business Rates Baseline	80%	9,333,035
FDC Baseline Funding (as per Start-Up Funding Assessment)		3,233,902
Tariff		-6,099,133
Safety Net Threshold	92.5% of Baseline Funding	2,991,359
Levy Rate before 50% limit		65%
Levy Rate after 50% limit		50%

- 4.7 For future years, the figures in Table 2 are increased by RPI to reflect the annual increase in the business rate multiplier and no other changes will be made until 2020, when the system will be re-set.
- 4.8 Based on the figures above, the Council will need to collect £23.333m of business rates in 2013/14 (net of reliefs, appeals, costs of collection and losses on collection) to achieve its' baseline target. If this figure is exceeded, then the Council will receive a proportion of this increase. Taking into account the proportions detailed in Table 2 above, the Council would receive 20% of any additional business rates income collected in excess of £23.333m. Conversely, should actual business rates collected be lower than this figure, the Council would lose funding up to a maximum of £242,543 before the safety net is triggered.

- 4.9 To illustrate how this would work in practice, Table 3 below shows the impact of business rates income increasing/decreasing by 1%:

**Table 3 – Business Rates Retention illustration**

	Finance Settlement	Scenario 1 Rates income increases by 1%	Scenario 2 Rates income decreases by 1%
	£	£	£
Total Business Rates income collected by FDC	23,332,586	23,565,912	23,099,260
Central Share (50%) paid to Government (to fund RSG & other grants)	11,666,293	11,782,956	11,549,630
<b>Local Share (50%)</b>	<b>11,666,293</b>	<b>11,782,956</b>	<b>11,549,630</b>
Apportioned:			
FDC – 80% of Local Share	9,333,035	9,426,365	9,239,705
CCC – 18%	2,099,933	2,120,932	2,078,932
Fire Authority – 2%	233,325	235,659	230,993
<b>FDC Local Share</b>	<b>9,333,035</b>	<b>9,426,365</b>	<b>9,239,705</b>
<b>FDC Baseline Funding (as determined by government)</b>	<b>3,233,902</b>		
<b>Tariff – paid to government (to fund top-up authorities)</b>	<b>6,099,133</b>	<b>-6,099,133</b>	<b>-6,099,133</b>
Retained Rates Income		3,327,232	3,140,572
Less Baseline Funding		-3,233,902	-3,233,902
<b>Income above/below baseline</b>		<b>93,330</b>	<b>-93,330</b>
Levy @ 50% - paid to government		46,665	
Safety Net Threshold @ 92.5% of Baseline			2,991,359
Retained Rates Income lower than Safety Net Threshold			No
<b>Income retained by FDC</b>		<b>46,665</b>	
<b>Income foregone by FDC</b>			<b>-93,330</b>

Consequently, for every 1% increase in total business rates income (£233,326), this Council would receive £46,665 (20% of increase). However, retained business rates income would need to reduce by £242,543 (which would require a 2.6% reduction in total business rates income) before the Council would receive any Safety Net payment. Therefore, any fall in business rates income up to 2.6% would incur an additional cost on this Council. The impact on the County Council and Fire Authority would depend upon the position of all billing authorities within the County.

- 4.10 Using the government's methodology to estimate retained business rates for 2013/14, as prescribed in the annual NNDR1 return submitted to DCLG and certified by the Chief Finance Officer, produces a figure of £3,241,808 which is only slightly higher than the assumed figure allowed for in the finance settlement (see Table 3 above). Consequently, and due to the potential volatility of this estimate, no allowance for additional income over the baseline has been assumed in 2013/14 and over the medium term.

## Local Council Tax Support

- 4.11 At the Council meeting on 20 December 2012, the Council Tax Support scheme for 2013/14 was approved. The way Council Tax support is funded will fundamentally change in 2013/14 with the government reducing the national funding available by 10%. As the new support scheme will effectively be a council tax discount, the Council's taxbase will reduce thereby reducing the amount of Council Tax collected. To off-set this, the government is allocating funding to all authorities as part of the overall start-up funding assessment for 2013/14, as detailed in Table 4 below.
- 4.12 Consequently, within the overall resources available to the Council as detailed in Appendix B, the total amount of Council Tax has reduced which is off-set by additional government grant.
- 4.13 This change to how Council Tax support is operated and funded imposes significant additional risks on this Council. Any additional growth in support and/or reduction in collection rates over and above what has been assumed within our approved scheme and within fixed government funding, will have a direct cost on this Council and all other precepting authorities. The Council will aim to mitigate these risks as detailed in paras 6.8 – 6.9.

## Council Taxbase Calculation

- 4.14 As a result of the changes to the Council Tax support scheme and other changes to Council Tax exemptions, the Council's Taxbase (Band D equivalents) will be significantly different with effect from April 2013 compared with previous years.
- 4.15 The overall impact will be that the taxbase will reduce as a result of the Council tax support scheme which will be partly off-set by an increase resulting from the changes to exemptions. The assumed taxbase figure for 2013/14 (including an allowance for housing growth and collection rates) compared with 2012/13 is as follows:
- |         |        |  |
|---------|--------|--|
| 2012/13 | 31,018 | (Council Tax Benefit fully funded by government)   |
| 2013/14 | 26,576 | (incorporating new support scheme and changes to exemptions. 10% reduction in Council Tax support funding. Grant is now included in formula funding) |
- 4.16 Consequently, future increases in Council Tax will generate less resources than previous assumptions, with the additional Council Tax support grant (£1.2m in 2013/14) now being included within overall government formula funding. A 1% increase in Council Tax will now generate around £65,000 additional income.



## Final Government Grant 2013/14 and Provisional 2014/15

4.17 The Council's final grant settlement, announced on 4 February 2013 is set out below in Table 4. There are no changes to the provisional figures announced on 19 December 2012.

**Table 4 - Grant Settlement**

	<b>Actual 2012/13 £000</b>	<b>Adjusted 2012/13 £000</b>	<b>Final 2013/14 £000</b>	<b>2013/14 % Reduction</b>	<b>Provisional 2014/15 £000</b>	<b>2014/15 % Reduction</b>
Revenue Support Grant	136	136	3,986		3,569	
Business Rates Funding	6,824	6,824	2,652		3,227	
<b>Formula Funding Element of Start-Up Funding Assessment</b>	<b>6,960</b>	<b>6,960</b>	<b>6,638</b>	<b>-4.63%</b>	<b>6,796</b>	
Council Tax Freeze Grant	186	186	186		186	
Council Tax Support Grant		1,219	1,200			
Homelessness Prevention Grant	71	71	71		71	
<b>Total Start-Up Funding Assessment</b>	<b>7,217</b>	<b>8,436</b>	<b>8,095</b>	<b>-4.04%</b>	<b>7,053</b>	<b>-12.87%</b>

To make a meaningful comparison, the figures for 2012/13 have been adjusted to include grants which will in future be included in the formula funding allocations. Consequently, allocations from 2013/14 onwards will now include the Council Tax freeze grant (2011/12-2014/15 only), the new Council Tax Support Grant and Homelessness Prevention Grant. On this basis, total start-up funding will reduce by 16.39% over the next two years.

4.18 The 2013/14 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 divides District Councils into four bands according to the extent to which they rely on formula grant to finance their budget requirement in 2012/13. A different floor has been set for each band as follows:

Band 1 (Authorities most dependent on grant)	-5.4%
Band 2	-7.4%
Band 3	-9.4%
Band 4 (Authorities least dependent on grant)	-11.4%

This Council is in Band 2. 104 district councils have had their grant scaled back in 2013/14, including Fenland, to pay for authorities on the "floor" for grant. There are 97 district councils at the "floor". This Council's grant has been scaled back by £601,706 in 2013/14. In 2012/13 £192,515 was added to our grant.

- 4.19 The reductions and the amounts that the Government has “added back” to and reduced our grant by, are shown in Table 5.

**Table 5 – Formula Funding over 2 year Period**

<b>Revenue Government Grant Support</b>	<b>£000</b>	<b>% Reduction</b>	<b>Floor Increase/ Reduction(-) £</b>
2012/13	6,960	-12.2	192,515
2013/14	6,638	-4.6	-601,706

- 4.20 The settlement figures for 2013/14 and 2014/15 are disappointing to say the least. Although within the settlement figures the government has recognised the additional cost of providing services in rural areas, this has almost been completely negated by the impact of the damping (floors and ceilings) arrangements, which is clearly demonstrated in Table 5 above. Indeed, predominately rural authorities have been the worst affected with an average funding reduction in 2013/14 of 3.81% compared with a 2.04% reduction for urban areas. District Councils as a whole have suffered a 6.78% reduction compared with a 1.52% reduction for London Boroughs.
- 4.21 However, the government has announced an additional £8.5m of funding in 2013/14 for ‘Efficiency Support for Services in Sparse Areas’, aimed specifically at the 95 authorities with the most sparse populations. This is a one-off grant ‘to help these authorities reduce costs, recognising that transforming services to secure efficiencies whilst delivering better services at lower costs can be a harder challenge in more rural areas’. This Council’s allocation is £2,176.
- 4.22 In addition, the unused amount of grant top-sliced from the national control totals to fund the New Homes Bonus, (£81.66m) has been allocated back to authorities pro-rata to their start-up funding assessments. This Council’s allocation is £27,411. Consequently, £29,587 of additional grant has been allocated to this Council for 2013/14.

#### Revenue Spending Power

- 4.23 The figures detailed in the above tables are different from the headline announcements by the government. Since 2011/12, 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, in 2013/14 no Council will see their Revenue Spending Power reduce by more than 8.8%.
- 4.24 Revenue Spending Power is defined by the government as the aggregate of Formula Funding, New Homes Bonus, other Specific Government Grants and Council Tax Requirement. Table 6 below details the government’s assessment of Revenue Spending Power for this Council:

**Table 6 – Revenue Spending Power**

	<b>Adjusted 2012/13 £000</b>	<b>Final 2013/14 £000</b>	<b>2013/14 % Reduction</b>	<b>Provisional 2014/15 £000</b>	<b>2014/15 % Reduction</b>
<b>Total Funding (from Table 4)</b>	<b>8,436</b>	<b>8,095</b>	<b>-4.04%</b>	<b>7,053</b>	<b>-12.87%</b>
Council Tax Freeze Grant (2012/13 only)	187				
Council Tax Freeze Grant (2013/14-2014/15 only)		75		75	
Other Grants	14	17		17	
New Homes Bonus (NHB)	613	860		1,107	
NHB Adjustment Grant		27		49	
<b>Total Government Funding</b>	<b>9,250</b>	<b>9,074</b>	<b>-1.90%</b>	<b>8,301</b>	<b>-8.52%</b>
Council Tax Requirement (2012/13 – net of assumed Council Tax Support Grant)	6,274	6,293		6,293	
<b>Total Revenue ‘Spending Power’</b>	<b>15,524</b>	<b>15,367</b>	<b>-1.01%</b>	<b>14,594</b>	<b>-5.03%</b>

- 4.25 On this basis, the reduction in ‘spending power’ is significantly less than the reductions in government formula funding grant detailed in Table 4 above. The calculation also assumes no increase in Council Tax and therefore includes the Council Tax freeze grant offered by the government equivalent to a 1% increase in 2013/14, payable for two years.
- 4.26 Compared with other authorities within Cambridgeshire our ‘Spending Power’ shows a reduction whereas others are showing increases. This is predominately down to the impact of the New Homes Bonus on the calculation. For example, the increase in New Homes Bonus in 2013/14 for this Council has a 1.7% beneficial impact on the overall ‘Spending Power’ figure. The impact for the other Cambridgeshire districts range from 3% - 6%.

## **5. FEES AND CHARGES 2013/14**

- 5.1 The Overview and Scrutiny Panel reviewed fees and charges at their meeting on 28 January 2013, with the exception of the Port Statutory fees. The recommended changes to fees and charges were reported to Cabinet on 31 January 2013. All of these recommendations have been included in the financial forecasts. A report on the proposed Port Statutory fees is included at a separate agenda item.

## **6. GENERAL FUND REVENUE BUDGET 2013/14**

- 6.1 At the Cabinet meeting in January 2013, it was estimated that savings of £1.3 million were required to be identified over the next two years 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 required savings for 2013/14 (£231,000) have been identified.
- 6.2 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 the required savings and efficiencies for 2013/14, while continuing to provide excellent services. This process will continue in order to identify the required efficiency savings in future years. Table 7 below details the main areas of savings identified. There are no proposals to use balances for 2013/14.

**Table 7: Estimate 2013/14**

<b>Description</b>	<b>£000</b>
<b>Draft Budget 2013/14 – January 2013</b>	<b>14,865</b>
<b>Additional Grants – New Homes Bonus Adjustment and Efficiency Support for Sparse Areas</b>	<b>-29</b>
<b>Budget before savings and efficiencies</b>	<b>14,836</b>
<b>Savings and efficiencies</b>	<b>-231</b>
	<b>14,605</b>
<b>Use of General Fund Balance</b>	<b>0</b>
<b>Net Expenditure 2013/14</b>	<b>14,605</b>
<b>Resources (Govt. Formula Grant)</b>	<b>-8,095</b>
<b>Resources (Council Tax and Collection Fund Deficit) assuming maximum Council Tax increase of 1.7%</b>	<b>-6,510</b>
<b>Estimated funding gap</b>	<b>0</b>

- 6.3 As stated earlier, £231,000 of savings and efficiencies for 2013/14 have been successfully identified by the Corporate Management Team with guidance of Cabinet. These have been achieved through a combination of service expenditure reductions following a detailed review by CMT and the estimated savings generated from a number of organisational restructures currently subject to consultation. These will also contribute towards the savings target for 2014/15. However, further significant savings are required in future years as detailed in Section 12 below and the achievement of these will present considerable challenges for the Council.
- 6.4 The consequential 2013/14 General Fund net revenue expenditure totals £14,604,750. 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.
- 6.5 The Corporate Plan for 2013 – 2016 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.
- 6.6 As detailed above, 2013/14 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 2013/14 financial year, along with understanding the ongoing impact on Fenland of the new Council Tax

Support Scheme and Business Rates Retention system. 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

6.7 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 6.8. The main assumptions are as follows:

- 1.7% Council Tax increase for 2013/14 with a provisional 1.9% increase thereafter;
- 0.5% increase in Council Tax base in 2013/14 and 1% thereafter;
- 1% pay award per annum for 2013/14 and following years;
- 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. 2% increase in contributions per annum assumed for 2014/15 - 2016/17;
- Investment interest rates to continue at current rates until third quarter of 2014 when rates are forecast to begin rising slowly;
- Continuing impact of 2012/13 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 (above inflation) from 2013/14 onwards for retained business rates;
- Allowance has been made for higher non-collection rates for Council Tax due to the introduction of the local Council Tax Support Scheme in 2013/14;
- The New Homes Bonus of £247,000 for 2013/14 has been included, making a total of £860,000 (three years cumulative total from 2011/12) to be received in 2013/14. Future years NHB have been assumed to increase by a further £250,000 in 2014/15 rising to £350,000 in 2016/17 when the amounts will level off. Table 8 below illustrates the cumulative impact on FDC resources:

**Table 8: New Homes Bonus Illustration**

		Financial Year of Payment						
		Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		£000	£000	£000	£000	£000	£000	£000
Year of Delivery	Yr 1 (Oct 2009-10)	290	290	290	290	290	290	
	Yr 2 (Oct 2010-11)		323	323	323	323	323	323
	Yr 3 (Oct 2011-12)			247	247	247	247	247
	Yr 4 (Oct 2012-13)				250	250	250	250
	Yr 5 (Oct 2013-14)					300	300	300
	Yr 6 (Oct 2014-15)						350	350
	Yr 7 (Oct 2015-16)							350
	<b>Total NHB</b>	<b>290</b>	<b>613</b>	<b>860</b>	<b>1,110</b>	<b>1,410</b>	<b>1,760</b>	<b>1,820</b>
	NHB Adjustment – re-allocation of unused top-sliced funding			<b>27</b>	<b>49</b>			

## Risk Assessments

- 6.8 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 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,
- 6.9 2013/14 will see further risks imposed upon the Council with the new Business Rates Retention system and the Local Council Tax Support scheme. Both of these have significant risks associated with them particularly around growth forecasts and collection rates. The Council will seek to minimise these risks by adopting the methodology detailed in 6.8 above together with robust in-year monitoring systems.
- 6.10 Appendix G sets out the Chief Finance Officer’s statutory report on the robustness of the estimates and adequacy of reserves.

## Council Tax Referendum and Alternative Notional Amounts

- 6.11 As part of the 2013/14 Local Government Finance Settlement announcement on 4 February, the government confirmed their proposals that local authorities will be required to seek the approval of their local electorate in a referendum if their ‘relevant basic amount of council tax’ in 2013/14 increases by more than 2% compared to 2012/13. The exception to this is that for shire districts, police and fire authorities in the lower quartile of council taxes for their category of authority, it will be the higher of £5 or 2%. Parish and town councils will not be included for 2013/14.
- 6.12 The ‘relevant basic amount of council tax’ is calculated excluding levies (in this Council’s case, Internal Drainage Board Levies). Due to the introduction of the new Local Council Tax Support Scheme and associated government funding, it has been necessary for the government to calculate an ‘Alternative Notional Amount’ (ANA) for this Council’s council tax for 2012/13 in order for a comparison with 2013/14 to be made for referendum purposes.

6.13 The ANA calculation and comparison with the estimate for 2013/14 is shown in Table 9 below:

**Table 9 – Band D Council Tax for Referendum Purposes**

	ANA 2012/13	Estimate 2013/14
	£	£
Original Council Tax Requirement	7,492,584	
Less Council Tax Support Grant	<u>-1,219,032</u>	
Council Tax Requirement – 2012/13 adjusted	6,273,552	6,527,459
Less IDB Levies	<u>-1,278,930</u>	<u>-1,315,100</u>
Council Tax Requirement for referendum purposes	4,994,622	5,212,359
Taxbase (Band D equivalents) – 2012/13 adjusted	25,971	26,576
Band D CT for referendum purposes <i>(Relevant basic amount of council tax)</i>	<b>192.31</b>	<b>196.13</b>
<b>Increase in Relevant Basic Amount of Council Tax</b>		<b>1.99%</b>
Actual Band D Council Tax – Council Tax Requirement divided by Taxbase	<b>241.56</b>	<b>245.61</b>
<b>Maximum increase in overall Band D CT for referendum purposes</b>		<b>1.68%</b>

6.14 Consequently, even though the estimated IDB levies have increased by 2.8%, the maximum allowable increase in the overall Band D council tax, without triggering a referendum, is 1.7%. Notification of the ANAs from the DCLG were received on 24 January 2013. Representations were made to the DCLG regarding this bizarre situation, however the above figures were confirmed with the final settlement announcement on 4 February 2013. Many other authorities have been similarly affected.

6.15 The impact of levies on the relevant basic amount of council tax varies between authorities resulting in considerable inconsistencies in increases in overall Band D tax levels. Recent statements by the Secretary of State indicates that this situation will be addressed in future years (2014/15 onwards) by reverting back to the overall Band D council tax level for comparison purposes in determining excessive increases.

#### Parish precepts

6.16 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.

6.17 As part of the new Council Tax Support Scheme and associated government funding, this Council will receive grant for the Parish Council element of the scheme, which will be passed on to individual Parish Council's in accordance with the calculated impact of the scheme. In total, grant of £120,425 (including an element of the one-off transitional grant available for 2013/14) will be paid to Parish Councils in 2013/14. The individual grant amounts have been notified to all Parish Councils and has been taken into account by them when setting their individual precepts.

## 7. SPECIAL AND GENERAL EXPENSES

- 7.1 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.
- 7.2 If expenses are treated as special expenses then they must be charged against the parts of the Council's area to which they relate.
- 7.3 Parish precepts are special expenses and cannot be treated as general expenses.
- 7.4 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 2013/14.
- 7.5 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 2013/14.

## 8. PORT HEALTH

- 8.1 The Port Health levy for 2013/14, based on expected expenditure, is recommended as shown in Table 10 below.

**Table 10: Port Health Levy 2013/14**

<b>Description</b>	<b>£</b>
a) Port Health anticipated expenditure	12,059
b) <u>Port Levy</u>	
Fenland District Council	10,672
South Holland District Council	844
King's Lynn and West Norfolk Borough Council	543
<b>Total</b>	<b>12,059</b>

## 9. CAPITAL PROGRAMME

- 9.1 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.
- 9.2 A fully updated Capital Programme for 2013-16 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.
- 9.3 Although the forecasts show sufficient resources to fund the programme to the end of 2014/15, subsequent years show a funding deficit. At the end of 2015/16, it is forecast that there will be a shortfall in funding of £1.462m. This is also dependent on the realisation of £4.21m of receipts from asset disposals which has associated risks. These receipts may not be realised until 2016/17 and beyond and future updates may require them to be re-profiled.



- 9.4 Consequently, no new schemes will be contractually committed unless funding is available. 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.
- 9.5 The programme detailed at Appendix C includes some changes from that reported to Cabinet in January 2013, mainly as result of re-profiling of some schemes. In addition, a number of new schemes are proposed for inclusion in the programme. These schemes have been assessed by the Council's Corporate Asset Team and CMT and are shown in Table 11 below. It is also proposed that £300,000 of the Leisure Contingency be brought forward to 2013/14 to fund improvements at George Campbell Leisure Centre.

**Table 11 – New Capital Schemes for inclusion in programme**

Scheme	2013/14	2014/15	2015/16
	£	£	£
CCTV Video Wall Replacement	52,000		
Alarm Monitoring by CCTV Control	15,000		
Sewage Treatment Works Replacements			200,000
Port – Navigation Aids Replacement	26,000		
Port – Nene Pilot Cutter Engine Replacement	33,000		
Parks & Open Spaces Improvement			25,000
Air Quality Monitoring Equipment	35,000		
Energy Plan – Invest to Save projects	44,000	66,000	
Whittlesey Play Areas		20,000	
<b>Total New Schemes</b>	<b>205,000</b>	<b>86,000</b>	<b>225,000</b>
George Campbell Leisure Centre Improvements (funded from Leisure Contingency – no addition to overall programme)	300,000		
Leisure Contingency- reprofiled		-300,000	

- 9.6 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.
- 9.7 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.
- 9.8 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 2013/14 are included in the Treasury Management Strategy detailed below and in Appendix D.

## **10. TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2013/14**

10.1 Full details of the proposed Treasury Management and Annual Investment Strategy for 2013/14 are contained in Appendix D.

10.2 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 the Capital Financing Requirement (a measure of the underlying need to borrow) increases over the medium term forecast;
- Total external interest now includes finance lease interest payments; revised estimate for 2012/13 is £531,229. The estimate for 2013/14 is £503,295;
- Levels of investments are set to decrease over the medium term forecast, from £13m (31.03.13) to £8m (31.03.16);
- Base rates are expected to hold at 0.50% until Quarter 4 2014 before increasing gradually each quarter by 0.25% to 1.75% by Quarter 1 2016;
- The borrowing strategy is to monitor capital plans and interest rates (on new borrowing) to maintain sufficient cash resources;
- 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 minimising 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 £330,000 for 2012/13 and £210,000 for 2013/14;
- This proposed strategy was presented to and endorsed by Corporate Governance Committee on 5 February 2013.

## **11. GENERAL FUND BALANCE**

11.1 The forecast General Fund Balance at 31 March 2013 is £2.762m. 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 12 below.

11.2 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

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

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

## 12. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

12.1 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 (2013/14) but for the forecast years as well, within a reasonable level of tolerance.

12.2 The Council's Medium Term Forecasts (MTF) are shown at Appendix B and summarised in Table 12 below:

**Table 12 – Medium Term Forecast**

			Subject to Spending Review	
	Estimate 2013/14 £000	Forecast 2014/15 £000	Forecast 2015/16 £000	Forecast 2016/17 £000
<b>Assumed Council Tax increase</b>	1.7%	1.9%	1.9%	1.9%
<u>Resources (Income)</u>				
Revenue Support Grant	4,861	3,720	3,093	2,706
Retained Business Rates	3,234	3,333	3,416	3,501
	<b>8,095</b>	<b>7,053</b>	<b>6,509</b>	<b>6,207</b>
Council Tax	<b>6,510</b>	<b>6,718</b>	<b>6,914</b>	<b>7,116</b>
<b>Total Resources</b>	<b>14,605</b>	<b>13,771</b>	<b>13,423</b>	<b>13,323</b>
<b>Forecast Net Expenditure</b>	<b>14,836</b>	<b>15,023</b>	<b>15,211</b>	<b>15,318</b>
Savings identified 2013/14	-231	-231	-231	-231
<b>Funding Gap – In Year</b>	<b>0</b>	<b>1,021</b>	<b>536</b>	<b>207</b>
Cumulative Funding Gap		1,021	1,557	1,764
<b>2 Year Savings Target</b>		<b>1,252</b>		
Forecast General Fund Balance	2,762	2,762	2,762	2,762

12.3 Clearly the forecasts show a substantial gap and identify the need for significant savings to be identified to achieve a balanced budget, including a robust strategy on the use of balances. Over the next four years it is forecast that £1.995m of savings are required for a balanced budget without any further use of balances. To date, all of the £231,000 savings required for 2013/14 have been identified and progress is being made towards the 2014/15 savings target. This leaves £1.764m of savings to be identified over the medium term. However, due to the uncertainty over the financial position from 2015/16 onwards, the focus is on the next two years and achieving the required savings for this period.

12.4 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 future budget setting processes.

12.5 Taking into account the proposals in Table 7, 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.

- 12.6 The forecasts for the years 2015/16 – 2016/17 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 next spending review will determine government funding for these years. For the purposes of the medium term forecasts, it has been assumed that Revenue Support Grant reduces by 12.5% per annum over these two years, with Retained Business Rates increasing by inflation (an assumed 2.5% per annum). This leads to a reduction in overall government funding of 7.7% in 2015/16 and a further reduction of 4.6% in 2016/17.
- 12.7 The achievement of further efficiencies in future years whilst maintaining excellent services will present considerable challenges for the authority.
- 12.8 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 (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.
- 12.9 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 2015/16 and 2016/17 being in line with assumptions arising from the Chancellor's 2012 Autumn Statement ;
  - any service cost increases (growth rather than inflationary pressures) will be matched by efficiency savings;
  - the estimated impact of the New Home Bonus;
  - the outlook for interest rates and returns on investments;
  - no allowance for the impact of achieving higher/lower Business Rates income than the baseline set by government.
- 12.10 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.

### **13. COUNCIL TAX**

- 13.1 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 2013/14 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.
- 13.2 When deciding the level of council tax to set for 2013/14 it is prudent to be mindful of the forecast resources available to the Council over the period of the medium term – 2013 to

2016. 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
• 2013/14	1.7%
• 2014/15	1.9%
• 2015/16	1.9%
• 2016/17	1.9%

13.3 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 2013/14. Over the period of the MTFs 'cashable' efficiency savings as detailed in Appendix B will be identified during the 2014/15 budget process.

13.4 Table 13 shows the Band D Council Tax for spending at the level proposed, together with provisional Council Tax levels from the major preceptors.

**Table 13: Council Tax**

COUNCIL TAX BASE	2013/14 26,576		2012/13 31,018	
	£	Band D £	£	Band D £
Fenland District Council Budget Requirement	14,604,750	549.55	14,414,610	464.72
Less Government Grants	-8,094,919	-304.60	-6,959,944	-224.38
Net cost of Fenland Services	6,509,831	244.95	7,454,666	240.34
Plus Council Tax Collection Fund deficit	17,628	0.66	37,918	1.22
Precept on Collection Fund	<u>6,527,459</u>		<u>7,492,584</u>	
<b>Fenland District Council Tax</b>		<b>245.61</b>		<b>241.56</b>
<i>FDC Increase over 2012/13</i>		<b>1.68%</b>		<b>0.0%</b>
MAJOR PRECEPTORS				
County Council	<b>(1.99%)</b>	1,100.07		1,078.65
Police Authority	<b>(1.96%)</b>	177.93		174.51
Fire Authority	<b>(8.35%)</b>	64.26		59.31
Sub Total BAND D TAX		1,587.87		1,554.03
Increase over 2012/13 (excluding Parishes)		<b>£33.84</b> <b>(2.18%)</b>		<b>£37.26</b> <b>(2.46%)</b>
Parish Councils-average (Appendix E)	<b>(11.66%)</b>	29.21		26.16
Total average Band D Tax		1,617.08		1,580.19
<b>Total average increase over 2012/13</b>		<b>£36.89 ( 2.33% )</b>		



## FENLAND DISTRICT COUNCIL

## Summary of Revenue Estimates

	Approved Estimate 2012/13 £	Projected Outturn 2012/13 £	Estimate 2013/14 £
<b>Service Summary</b>			
Growth & Infrastructure	1,576,890	1,482,930	1,540,680
Environment & Leisure	4,265,790	4,239,470	4,308,670
Resources & Customer Services	6,019,515	6,004,585	6,020,670
Housing, Community & Economic Development	1,685,550	1,735,550	1,761,670
Policy & Governance	1,892,575	1,877,345	1,856,910
Capital Charges	2,466,270	2,466,270	2,466,270
<b>NET COST OF GENERAL FUND SERVICES</b>	<b>17,906,590</b>	<b>17,806,150</b>	<b>17,954,870</b>
<b>Corporate Items</b>			
Contributions to/ (from) Earmarked Reserves	-107,500	-7,060	-185,890
RTB/VAT Sharing Income	-349,800	-349,800	-290,000
Capital Charges Reversal	-1,718,070	-1,718,070	-1,778,545
Investment Income	-330,000	-330,000	-210,000
New Homes Bonus	-613,460	-613,460	-860,390
New Homes Bonus Adjustment	0	0	-27,410
Efficiency Support for Sparse Areas <i>(2013/14 only)</i>	0	0	-2,180
Council Tax Support - Transitional Grant <i>(2013/14 only)</i>	0	0	-32,280
Council Tax Support Grant - <i>Payments to Parish Councils</i>	0	0	120,425
Council Tax Freeze Grant <i>(2011/12-2014/15) (Note 1)</i>	-185,830	-185,830	0
Council Tax Freeze Grant <i>(2012/13 only)</i>	-187,320	-187,320	0
Corporate Adjustments	<b>-3,491,980</b>	<b>-3,391,540</b>	<b>-3,266,270</b>
<b>Net Expenditure before Savings</b>	<b>14,414,610</b>	<b>14,414,610</b>	<b>14,688,600</b>
Savings target 2013/14			-231,000
<i>Savings identified to date (included above)</i>			147,150
<i>Savings identified (not yet included above)</i>			<b>-83,850</b>
<b>Net Expenditure after Savings</b>	<b>14,414,610</b>	<b>14,414,610</b>	<b>14,604,750</b>
Approved Contribution to/(from) Balances	0	0	0
<b>NET EXPENDITURE</b>	<b>14,414,610</b>	<b>14,414,610</b>	<b>14,604,750</b>
<b>General Government Support</b>	<b>-6,959,944</b>	<b>-6,959,944</b>	<b>-8,094,919</b>
<b>Collection Fund Deficit</b>	<b>37,918</b>	<b>37,918</b>	<b>17,628</b>
<b>COUNCIL TAX REQUIREMENT</b>	<b>7,492,584</b>	<b>7,492,584</b>	<b>6,527,459</b>
Forecast General Fund Balance - 31st March	2,762,000	2,762,000	2,762,000

## Note:

1. Council Tax Freeze Grant (2011/12-2014/15) payable for 2013/14 is now included within overall government grant figures detailed above and in Appendix B.

<b>GROWTH AND INFRASTRUCTURE</b>			
<b>Service</b>	<b>2012/13 Current Approved Estimate £</b>	<b>2012/13 Projected Outturn £</b>	<b>2013/14 Original Estimate £</b>
<b>Direct Services</b>			
Marine Services	-720	-2,970	61,360
Drainage (District)	1,550	1,550	1,550
Highways	153,500	153,500	148,640
Car Parks	155,590	155,590	162,730
Sewage Treatment Works	29,380	29,380	25,460
Parish Council Concurrent Functions	62,520	62,520	62,520
Miscellaneous (Clocks, Monuments)	3,450	3,450	3,450
Economic Estates	-78,760	-78,760	-130,420
Planning Policy	280,820	267,230	268,130
Neighbourhood Planning	55,000	55,000	145,000
Conservation	44,520	41,830	37,160
Community Transport	119,500	64,100	50,000
<b>Total Direct Services</b>	<b>826,350</b>	<b>752,420</b>	<b>835,580</b>
<b>Support Services</b>			
Asset & Project Services	539,680	515,150	554,840
Fenland Hall	282,530	281,530	295,790
The Base	128,330	128,330	132,470
<b>Total Support Services</b>	<b>950,540</b>	<b>925,010</b>	<b>983,100</b>
<b>Net Cost of Services</b>	<b>1,776,890</b>	<b>1,677,430</b>	<b>1,818,680</b>
<b>Less Support Services Recharges to Capital Schemes</b>	<b>-200,000</b>	<b>-194,500</b>	<b>-278,000</b>
<b>TOTAL GROWTH AND INFRASTRUCTURE</b>	<b>1,576,890</b>	<b>1,482,930</b>	<b>1,540,680</b>

## Notes:

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.
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.
3. Estimates for 2013/14 include the assumptions on pay, expenditure and income detailed at paragraph 6.7 of the main report.



<b>ENVIRONMENT &amp; LEISURE</b>			
<b>Service</b>	<b>2012/13 Current Approved Estimate £</b>	<b>2012/13 Projected Outturn £</b>	<b>2013/14 Original Estimate £</b>
<b>Direct Services</b>			
Pollution Reduction	188,590	188,590	190,740
Public Health	312,570	307,570	340,880
Food Safety	144,050	144,050	163,990
Health and Safety	85,680	85,680	98,770
Refuse Collection - Domestic	1,433,060	1,441,110	1,402,280
Refuse Collection - Trade Waste	-66,520	-66,520	-67,020
Street Cleansing	732,080	734,080	764,540
Streetscene	185,770	185,770	189,660
Public Conveniences	39,110	39,110	32,710
Leisure Centres	471,540	468,760	368,140
Sports Development	150,860	122,270	125,750
Parks and Open Spaces	466,690	466,690	557,180
Cemeteries	-340	-340	24,840
Markets and Fairs	9,280	9,280	10,570
Community Events	66,530	66,530	67,460
Vehicle Workshop	46,840	46,840	38,180
<b>TOTAL ENVIRONMENT &amp; LEISURE</b>	<b>4,265,790</b>	<b>4,239,470</b>	<b>4,308,670</b>

<b>RESOURCES AND CUSTOMER SERVICES</b>			
<b>Service</b>	<b>2012/13 Current Approved Estimate £</b>	<b>2012/13 Projected Outturn £</b>	<b>2013/14 Original Estimate £</b>
<b>Direct Services</b>			
Miscellaneous Central Services	167,300	167,300	167,140
Drainage Board Levies	1,264,390	1,264,390	1,315,100
Unfunded Pension Costs	240,940	240,940	180,030
Corporate Management	697,260	697,260	685,210
Council Tax Cost of Collection	175,780	175,780	155,860
Business Rates Cost of Collection	-5,550	-5,550	4,700
Council Tax Benefits	-131,200	-147,650	-126,360
Housing Benefits	67,770	67,770	9,960
ICT Direct Service Costs	845,845	845,845	844,100
Emergency Planning	57,890	57,890	63,210
<b>Total Direct Services</b>	<b>3,380,425</b>	<b>3,363,975</b>	<b>3,298,950</b>
<b>Support Services</b>			
Accountancy	522,350	522,350	515,700
Information & Communication Technology	526,690	526,690	511,150
Debtors	28,410	28,410	28,400
Customer Access	1,150,150	1,150,150	1,227,370
Corporate Health & Safety	58,370	58,370	50,310
Human Resources	353,120	354,640	388,790
<b>Total Support Services</b>	<b>2,639,090</b>	<b>2,640,610</b>	<b>2,721,720</b>
<b>TOTAL RESOURCES AND CUSTOMER SERVICES</b>	<b>6,019,515</b>	<b>6,004,585</b>	<b>6,020,670</b>

<b>HOUSING, ECONOMIC &amp; COMMUNITY DEVELOPMENT</b>			
<b>Service</b>	<b>2012/13 Current Approved Estimate £</b>	<b>2012/13 Projected Outturn £</b>	<b>2013/14 Original Estimate £</b>
<b>Direct Services</b>			
Housing Strategy	110,590	110,590	135,400
Private Sector Renewals	76,860	76,860	84,440
Housing Standards	19,270	19,270	19,920
Care & Repair	63,270	63,270	63,430
CCTV	144,310	144,310	148,720
Safer Fenland	91,830	91,830	78,550
Licensing	-26,790	-23,790	-37,390
Housing Options (Note 1)	151,670	151,670	213,820
Community Development	369,590	369,590	370,600
Community House	0	0	38,470
Travellers Services	-109,190	-109,190	-88,180
Development Management	49,730	79,730	21,360
Building Control	65,530	82,530	71,030
Planning Compliance	81,780	81,780	84,900
Technical Support	259,610	259,610	269,910
Arts Development	83,050	83,050	62,500
Economic Development	205,750	205,750	178,990
Tourism Development	48,690	48,690	45,200
<b>TOTAL HOUSING, ECONOMIC &amp; COMMUNITY DEVELOPMENT</b>	<b>1,685,550</b>	<b>1,735,550</b>	<b>1,761,670</b>

Note:

1. The figures for 2012/13 include £71,000 of Homelessness Prevention Grant from the government. In 2013/14, this grant is now shown within the overall government funding figure as detailed in Appendix B

<b>POLICY AND GOVERNANCE</b>			
<b>Service</b>	<b>2012/13 Current Approved Estimate £</b>	<b>2012/13 Projected Outturn £</b>	<b>2013/14 Original Estimate £</b>
<b>Direct Services</b>			
Policy	196,230	194,780	181,200
Land Charges	-82,410	-82,410	-89,440
Elections & Electoral Registration	122,140	121,780	129,670
Democratic Services	607,245	602,345	637,430
<b>Total Direct Services</b>	<b>843,205</b>	<b>836,495</b>	<b>858,860</b>
<b>Support Services</b>			
Communications, Marketing & Web	276,490	253,140	233,330
Post & Reprographics	334,770	353,080	338,450
Internal Audit	97,460	93,980	102,950
Legal Services	340,650	340,650	323,320
<b>Total Support Services</b>	<b>1,049,370</b>	<b>1,040,850</b>	<b>998,050</b>
<b>TOTAL POLICY AND GOVERNANCE</b>	<b>1,892,575</b>	<b>1,877,345</b>	<b>1,856,910</b>

## GENERAL FUND MEDIUM TERM FINANCIAL FORECAST

RESOURCES STATEMENT	Approved Estimate 2012/13 £000	Projected Outturn 2012/13 £000	Forecast Estimate 2013/14 £000	Forecast Estimate 2014/15 £000	Subject to CSR	
					Forecast Estimate 2015/16 £000	Forecast Estimate 2016/17 £000
<b>A Resources</b>						
(i) <b>Central Government</b>						
Revenue Support grant	136	136	4,861	3,720	3,093	2,706
Retained Business Rates	6,824	6,824	3,234	3,333	3,416	3,501
	6,960	6,960	8,095	7,053	6,509	6,207
(ii) <b>Council Tax</b>						
Council Tax Payers	7,493	7,493	6,527	6,718	6,914	7,116
Collection Fund Deficit(-)	-38	-38	-17	0	0	0
<b>Use of Balances</b>						
(iii) General Fund	0	0	0	0	0	0
<b>Total Use of Resources</b>	<b>14,415</b>	<b>14,415</b>	<b>14,605</b>	<b>13,771</b>	<b>13,423</b>	<b>13,323</b>
<b>B Spending Levels</b>						
(i) Budget	15,401	15,401	15,696	16,133	16,621	17,078
New Homes Bonus	-613	-613	-860	-1,110	-1,410	-1,760
Council Tax Freeze Grant (2011/12 - 2014/15)	-186	-186				
Council Tax Freeze Grant (2012/13 only)	-187	-187	0	0	0	0
Savings Identified 2013/14			-231	-231	-231	-231
<b>Budget after efficiency savings</b>	<b>14,415</b>	<b>14,415</b>	<b>14,605</b>	<b>14,792</b>	<b>14,980</b>	<b>15,087</b>
<b>Funding Gap - In Year</b>			<b>0</b>	<b>1,021</b>	<b>536</b>	<b>207</b>
<b>Total Cumulative Funding Gap</b>			<b>0</b>	<b>1,021</b>	<b>1,557</b>	<b>1,764</b>
<b>2 Year Savings Target</b>				<b>1,252</b>		
<b>C Council Tax Increase</b>			<b>1.68%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>1.9%</b>
<b>D Forecast Balances</b>						
(i) General Fund	2,762	2,762	2,762	2,762	2,762	2,762

**Assumptions**

- 1 Council Tax base increase 2013/14 0.5%, 2014/15 onwards 1%
- 2 Government Grant - 2013/14 - 2014/15 as per Finance Settlement  
Further anticipated CSR Reductions 2015/16 onwards



## APPENDIX C

## CAPITAL PROGRAMME AND FUNDING 2013/2016

		2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
<b>CURRENT FORECAST EXPENDITURE</b>		<b>3,918</b>	<b>3,586</b>	<b>2,346</b>	<b>3,650</b>
<b>RESOURCES AVAILABLE</b>					
<b>General Fund Resources</b>					
Reserves used to fund Capital		50	0	0	0
Capital Grants		950	390	390	390
Section 106 Contributions		102	0	0	0
Finance Lease Liability		165	0	0	0
		<b>1,267</b>	<b>390</b>	<b>390</b>	<b>390</b>
<b>General Resources</b>					
Usable Capital Receipts		<b>470</b>	<b>850</b>	<b>1,390</b>	<b>1,500</b>
<b>Total Resources</b>		<b>1,737</b>	<b>1,240</b>	<b>1,780</b>	<b>1,890</b>
Balance B/fwd 1.4.2012	(5,391)	0	0	0	0
In Year Deficit	(0)	2,181	2,346	566	1,760
Uncommitted Resources/ Funding Deficit	(0)	(3,210)	(864)	(298)	1,462

**CAPITAL PROGRAMME SUMMARY 2013 - 2016**

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000				
<b>Leisure Centres</b>								
1 Community Sports and Leisure Facilities - contingency	23			545	568	568		
2 Chatteris Leisure Facilities - Gym and Exercise Studio	455				455	455		
3 Chatteris Leisure Facilities - contingency				900	900	900		
4 George Campbell Improvements		300			300	300		
<b>Regeneration Programmes</b>								
5 Fenland Renaissance and Place Shaping	20	66	30		116	116		
<b>Car Parks</b>								
6 Car Parks	20	115	30		165	165		
<b>Cemeteries</b>								
7 Eastwood Cemetery, March - Extension	130				130	130		
8 Garden of Rest March - Interment of ashes		20			20	20		
9 Cemeteries Improvements	82	49	25		156	156		
<b>Parks and Open Spaces</b>								
10 Land Adjacent to Octavia Hill Museum, Wisbech	55				55	55		
11 St Peters and St Paul, Gardens Chatteris	25				25	25		
12 Parks and Open Spaces Improvements	62	25	25	25	137	137		
13 Manor Open Space, Whittlesey	15				15	15		
14 Furrowfields, Chatteris	60				60		60	Section 106
15 Wenny Road, Chatteris	42				42		42	Section 106
16 Whittlesey Play Areas			20		20	20		
<b>Street Furniture</b>								
17 Street Light Improvements		85			85	85		
18 Safety Lighting		47			47	47		
19 Street Name Plates/District Facilities Signage	14	30			44	44		
<b>Job Stimulation</b>								
20 Land Assembly/Business & Workforce Stimulation			500	500	1,000	1,000		
21 South Fens Business Centre - Phases 2 & 3	32				32	32		
22 Boleness Road, Wisbech - Phase 6 Remedials	27				27	27		
<b>Sub -Total</b>	<b>1,062</b>	<b>737</b>	<b>630</b>	<b>1,970</b>				



**CAPITAL PROGRAMME SUMMARY 2013 - 2016**

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000				
<b>B/FWD</b>	<b>1,062</b>	<b>737</b>	<b>630</b>	<b>1,970</b>				
<b>Port</b>								
23 Mooring & Fuelling Facilities, Sutton Bridge	15	220			<b>235</b>	235		
24 Yacht Harbour - Replace buoyancy floats to pontoon		42			<b>42</b>	42		
25 Fenland Tug Modifications	17				<b>17</b>	17		
26 Pilot Boat Wisbech Port - Improvements	33				<b>33</b>	33		
27 Replacement of Navigation Buoys/Aids	22	26			<b>48</b>	48		
28 Fenland/Nene Pilot Engines - Replacement	25	33			<b>58</b>	58		
<b>Town Management</b>								
29 Horsefair Taxi Relocation	140				<b>140</b>	115	25	Cambs. CC £25k
<b>Vehicles and Plant</b>								
30 Vehicles	200	198	270	250	<b>918</b>	918		
<b>Fenland Hall Office Refurbishments</b>								
31 ICT Server Room - Cooling System	25				<b>25</b>	25		
<b>ICT System Replacement Programme &amp; Infrastructure Upgrades</b>								
32 Replacement & Upgrade Programme	230	325	250	200	<b>1,005</b>	1,005		
33 Tourism Initiatives		75			<b>75</b>	75		
<b>Pollution Reduction</b>								
34 Air Quality Monitoring Equipment		35			<b>35</b>	35		
<b>Improvement of Assets</b>								
35 Essential Buildings Safety Improvements		104			<b>104</b>	104		
36 Sewage Treatment Works Refurbishment	100	390	100	200	<b>790</b>	790		
37 March Sanitation Point Replacement	27				<b>27</b>	27		
38 Mini-Factories Refurbishment	176	60			<b>236</b>	236		
39 Re-Route Alarm Monitoring To CCTV Control		15			<b>15</b>	15		
40 Energy Plan - Invest to Save Projects		44	66		<b>110</b>	110		
<b>Homelessness</b>								
41 Hostel Improvements	15				<b>15</b>	15		
<b>Sub -Total</b>	<b>2,087</b>	<b>2,304</b>	<b>1,316</b>	<b>2,620</b>				

**CAPITAL PROGRAMME SUMMARY 2013 - 2016**

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000				
<b>B/FWD</b>	<b>2,087</b>	<b>2,304</b>	<b>1,316</b>	<b>2,620</b>				
<b>Public Conveniences</b>								
42 Modernisation of 4 facilities	437	40			<b>477</b>	477		
<b>Community Fund</b>								
43 March Athletics Club		8			<b>8</b>	8		
<b>Rural Community Fund</b>								
44 Eastrea Village Hall Trust - Community Centre	50				<b>50</b>	50		
45 Benwick Village Hall Trustees - Community Hall	55				<b>55</b>	55		
46 Christchurch Parish Council - Sports Pavilion		100			<b>100</b>	100		
47 Parson Drove Pre-School - Safer Routes Project	7				<b>7</b>	7		
48 Gorefield Sports and Amenity Centre	60	40			<b>100</b>	100		
49 Fenland Association of Community Transport	18				<b>18</b>	18		
50 Doddington Parish Council - Skate Park		35			<b>35</b>	35		
51 Contingency		152	100	100	<b>352</b>	352		
<b>Community Safety</b>								
52 Hostmoor Avenue, CCTV	13				<b>13</b>		13	
53 CCTV Video Wall Replacement		52			<b>52</b>	52		
<b>Private Sector Housing Support</b>								
54 Private Sector Renewal Grants	60	40	40	40	<b>180</b>	180		
55 Disabled Facilities Grants	532	640	640	640	<b>2,452</b>	892	1,560	Govt Grant £1,560k
56 External Solid Wall Insulation	399				<b>399</b>		399	Govt Grant £399k
<b>Social Housing - Support for New Affordable Housing</b>								
57 Contingency		175	250	250	<b>675</b>	675		
<b>Community Development</b>								
58 Thomas Clarkson Community College	200				<b>200</b>	200		
<b>GRAND TOTAL</b>	<b>3,918</b>	<b>3,586</b>	<b>2,346</b>	<b>3,650</b>	<b>13,500</b>	11,401	2,099	

## TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2013/14

### 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 will update members with the progress of the capital position, amending prudential indicators as necessary and whether the treasury strategy is meeting its' objectives or whether any policies require revision.

**An Annual Treasury Report**, this provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

## **2. TREASURY MANAGEMENT STRATEGY FOR 2013/14**

2.1 The strategy for 2013/14 covers two main areas, capital issues and treasury management issues.

The strategy covers:

### **Capital Issues (Sections 3-6)**

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

### **Treasury Management Issues (Sections 7-13)**

- 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 2013/14 TO 2015/16**

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. The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Capital Programme</b>	<b>2011/12 Actual</b>	<b>2012/13 Revised Estimate</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Forecast Capital Expenditure</b>	<b>6,154</b>	<b>3,918</b>	<b>3,586</b>	<b>2,346</b>	<b>3,650</b>
Financed by:					
Revenue Contributions	15	0	0	0	0
Capital Receipts	77	470	850	1,390	1,500
Capital Grants	1,666	950	390	390	390
Capital Reserves	4,228	2,231	2,346	566	298
Section 106 Contributions	168	102	0	0	0
<b>Total Financing</b>	<b>6,154</b>	<b>3,753</b>	<b>3,586</b>	<b>2,346</b>	<b>2,188</b>
<b>Net Financing Need For The Year</b>	<b>0</b>	<b>165</b>	<b>0</b>	<b>0</b>	<b>1,462</b>

- 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 The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.
- 3.5 The CFR includes any other long term liabilities (finance leases). 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.

<b>Capital Financing Requirement</b>	<b>2011/12 Actual</b>	<b>2012/13 Revised Estimate</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>CFR at 1 April</b>	<b>859</b>	<b>531</b>	<b>534</b>	<b>355</b>	<b>198</b>
<b>Movement in CFR</b>	<b>(328)</b>	<b>3</b>	<b>(179)</b>	<b>(157)</b>	<b>1,386</b>
Net financing need for the year	0	165	0	0	1,462
Less MRP/VRP	(328)	(162)	(179)	(157)	(76)
<b>Movement in CFR</b>	<b>(328)</b>	<b>3</b>	<b>(179)</b>	<b>(157)</b>	<b>1,386</b>

#### **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 will be based on the estimated useful life of the assets, in accordance with regulations. 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.

<b>Year End Resources</b>	<b>2011/12 Actual £000</b>	<b>2012/13 Revised Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>
<b>Fund balances / reserves</b>	<b>(4,619)</b>	<b>(4,596)</b>	<b>(4,410)</b>	<b>(4,296)</b>	<b>(4,178)</b>
<b>Capital receipts</b>	<b>(5,391)</b>	<b>(3,210)</b>	<b>(864)</b>	<b>(298)</b>	<b>0</b>
<b>Other</b>	<b>(460)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total core funds</b>	<b>(10,470)</b>	<b>(7,806)</b>	<b>(5,274)</b>	<b>(4,594)</b>	<b>(4,178)</b>
<b>Expected investments</b>	<b>(17,600)</b>	<b>(13,000)</b>	<b>(10,500)</b>	<b>(9,500)</b>	<b>(8,000)</b>

## 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 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.

<b>Financing Costs to Net Revenue Stream</b>	<b>2011/12 Actual %</b>	<b>2012/13 Revised Estimate %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>	<b>2015/16 Estimate %</b>
<b>General Fund</b>	<b>1.29</b>	<b>1.40</b>	<b>2.01</b>	<b>2.08</b>	<b>1.96</b>

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.

<b>Incremental impact of capital investment decisions on the band D council tax</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>
	£	£	£
<b>Council tax band D</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

## 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 2012, 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).

	<b>2011/12 Actual</b>	<b>2012/13 Revised Estimate</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>
	£000	£000	£000	£000	£000
<b>Debt at 1 April</b>	<b>8,300</b>	<b>8,300</b>	<b>7,800</b>	<b>7,800</b>	<b>7,800</b>
<b>Expected change in debt</b>	<b>0</b>	<b>(500)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other long term liabilities (OLTL)</b>	<b>701</b>	<b>525</b>	<b>496</b>	<b>321</b>	<b>163</b>
<b>Expected change in OLTL</b>	<b>(176)</b>	<b>(29)</b>	<b>(176)</b>	<b>(158)</b>	<b>(77)</b>
<b>Actual debt at 31 March</b>	<b>8,825</b>	<b>8,296</b>	<b>8,120</b>	<b>7,963</b>	<b>7,886</b>
<b>Capital financing requirement (CFR)</b>	<b>531</b>	<b>534</b>	<b>355</b>	<b>198</b>	<b>1,584</b>
<b>Borrowing less CFR</b>	<b>8,294</b>	<b>7,762</b>	<b>7,765</b>	<b>7,765</b>	<b>6,302</b>

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 gross debt, 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 2013/14 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 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/13) currently attracting excessive premiums (£2.85m at the time of writing this report) if it were prematurely repaid, it is not financially advantageous for the Council to fully comply with this prudential indicator.

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

<b>YEARS</b>	<b>INTEREST DUE £</b>
2012/13	531,229
2013/14	503,295
2014/15	497,825
2015/16	489,125

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.

<b>Operational Boundary</b>	<b>2012/13 Revised Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>
<b>Debt</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>
<b>Other long term liabilities</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>
<b>Total</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>

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.

<b>Authorised limit</b>	<b>2012/13 Revised Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>	<b>2015/16 Estimate £000</b>
<b>Debt</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>
<b>Other long term liabilities</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>
<b>Total</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>

## **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 %	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00
Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

- 8.2 The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.
- 8.3 The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US fiscal tightening and continuing Eurozone problems will depress UK growth and the UK deficit reduction plan has been further extended.
- 8.4 This challenging and uncertain economic outlook has several key treasury management implications:
- The Eurozone sovereign debt difficulties provide a clear indication of high 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 2013/14 and beyond.
  - Borrowing interest rates continue to be attractive and may remain relatively 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. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 9.2 The Council's current capital expenditure plans are funded until 2014/15, providing all resource assumptions materialise as planned. In the event that the Council's planned capital expenditure exceeds resources the Council has the option of, running down cash balances supporting Council reserves or borrowing externally.

- 9.3 The Chief Finance Officer will monitor capital plans and interest rates in financial markets and adopt a pragmatic approach to funding the capital programme. Any borrowing decisions and budget consequences would be reported to Cabinet at the earliest opportunity.
- 9.4 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.

<b>Interest rate exposures</b>	<b>2013/14 Upper £000</b>	<b>2014/15 Upper £000</b>	<b>2015/16 Upper £000</b>
<b>Limits on fixed interest rates based on net debt</b>	<b>120</b>	<b>963</b>	<b>3,500</b>
<b>Limits on variable interest rates based on net debt</b>	<b>(2,700)</b>	<b>(2,700)</b>	<b>(1,700)</b>
<b>Limits on fixed interest rates:</b>			
• <b>Debt only</b>	<b>8,120</b>	<b>7,963</b>	<b>9,500</b>
• <b>Investments only</b>	<b>(8,000)</b>	<b>(7,000)</b>	<b>(6,000)</b>
<b>Limits on variable interest rates:</b>			
• <b>Debt only</b>	<b>3,300</b>	<b>3,300</b>	<b>3,300</b>
• <b>Investments only</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(5,000)</b>

<b>Maturity structure of fixed interest rate borrowing 2013/14</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>20</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>50</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>75</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>75</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

<b>Maturity structure of variable interest rate borrowing 2013/14</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>100</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>100</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>100</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>100</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

## 10. DEBT RESCHEDULING / REPAYMENT

- 10.1 The Council has sufficient cash balances set aside to pay off its external debt.
- 10.2 The reasons for any rescheduling to take place will include:
- the generation of cash savings;
  - helping to fulfill the treasury strategy;
  - enhancing the balance of the portfolio by flattening the maturity profile.
- 10.3 Limited opportunities exist to repay debt early because of the penalty position which would arise from early redemption of the external debt.
- 10.4 The Council's debt rescheduling position will be monitored throughout 2013/14.

## 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 4 of 2014. Bank Rate forecasts for financial year ends (March) are:

- 2012/2013 0.50%
- 2013/2014 0.50%
- 2014/2015 0.75%
- 2015/2016 1.75%

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 if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target. Forecast average investment interest rates for the next three years are as follows:

- 2013/14 1.40%
- 2014/15 1.75%
- 2015/16 2.25%

11.8 Estimated investment income is shown below.

YEARS	INTEREST RECEIVED £
2012/13	330,000
2013/14	210,000
2014/15	210,000
2015/16	225,000

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.

	2013/14 £000	2014/15 £000	2015/16 £000
<b>Maximum principal sums invested &gt; 364 days</b>	<b>7,000</b>	<b>7,000</b>	<b>5,000</b>

- 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, Moody's and Standard & Poor's. 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-, viability ratings of (A-) and a support rating of 1. 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 2013/14

TAX BASE (Equated Band D Properties)	PRECEPT 2012/13 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2013/14 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2012/13 %
371	10,609	28.60	BENWICK	323	10,609	32.85	14.9
3,494	117,000	33.49	CHATTERIS	3,064	109,630	35.78	6.8
276	7,100	25.72	CHRISTCHURCH	243	6,118	25.18	-2.1
770	20,000	25.97	DODDINGTON	750	20,000	26.67	2.7
1,249	27,500	22.02	ELM	1,045	25,545	24.44	11.0
408	9,000	22.06	GOREFIELD	363	8,000	22.04	-0.1
1,213	22,000	18.14	LEVERINGTON	1,039	27,800	26.76	47.5
702	19,000	27.07	MANEA	640	23,121	36.13	33.5
7,056	140,000	19.84	MARCH	6,008	154,000	25.63	29.2
242	4,500	18.60	NEWTON	205	4,799	23.41	25.9
458	15,310	33.43	PARSON DROVE	388	14,181	36.55	9.3
393	7,500	19.08	TYDD ST GILES	351	7,860	22.39	17.4
5,405	105,000	19.43	WHITTLESEY	4,728	110,000	23.27	19.8
800	14,000	17.50	WIMBLINGTON	729	15,310	21.00	20.0
6,970	249,200	35.75	WISBECH	5,703	203,133	35.62	-0.4
1,211	43,732	36.11	WISBECH ST MARY	997	36,222	36.33	0.6
<b>31,018</b>	<b>811,451</b>	<b>26.16</b>	<b>GRAND TOTAL</b>	<b>26,576</b>	<b>776,328</b>	<b>29.21</b>	<b>11.7</b>

## Note:

The Precept figures for 2013/14 take into account the Council Tax Support Grant as detailed in paragraph 6.17. This grant helps off-set the impact of the reduced Council Taxbase.





**EARMARKED RESERVES - Projected 2012/2013 and Estimated 2013/14**

Reserve Name	Balance 01.04.12 £	Contributions to/(from) 2012/13 £	Projected Balance 31.03.13 £	Contributions to/(from) 2013/14 £	Estimated Balance 31.03.14 £	RECOMMENDATIONS  <i>Comments / Conditions of Use</i>
Travellers Sites	95,226	32,440	127,666	47,640	175,306	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey	17,188	2,620	19,808	2,620	22,428	Required for future road maintenance.
CCTV - Plant & Equipment	48,780	10,000	58,780	10,000	68,780	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	73,646		73,646		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		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	50,790		50,790		50,790	Committed to Gorefield scheme.
Management of Change	721,922	80,380	802,302	(95,150)	707,152	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Community Projects Reserve	8,719		8,719		8,719	Available for small-scale community projects. Previously used to assist Parish/Town Councils to fund Diamond Jubilee Celebrations.
Neighbourhood Planning Reserve	273,733	(55,000)	218,733	(145,000)	73,733	Available to assist the Council with delivering the 'Neighbourhood Planning' objective and delivery of the Core Strategy.
Local Government Resources Review Reserve	200,000		200,000		200,000	Available to assist the Council in delivering the local council tax support scheme and business rates retention system from 2013/14.
Specific Government Grants (received in previous years, adjusted for New Homes Bonus received in advance in 2011/12 )	263,340	(77,500)	185,840	(6,000)	179,840	Available to fund specific spending commitments in future years.
<b>TOTAL</b>	<b>1,807,468</b>	<b>(7,060)</b>	<b>1,800,408</b>	<b>(185,890)</b>	<b>1,614,518</b>	

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 2012/13. A savings target of £1.082m had originally been set as part of the budget setting process for 2012/13. Through tight and effective financial management, the required savings have been achieved without any use of balances. 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 Local Government Finance Settlements for 2013/14 and 2014/15.

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

<b>Budget assumption</b>	<b>Financial standing and management</b>
<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 2012/13.</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 2012/13; 1.7% in 2013/14; indicative 1.9% 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 2013/14 budget and over the Medium Term forecasts, although allowances for contractual pay increases, external 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 2013/14 budget and over the Medium Term is 0%. This reflects the small amount of staff turnover currently happening.</p> <p>Average interest rates for 2013/14 have been assumed at 1.4% for investments and 4.50% for new borrowing. The effect of each 1% change in interest rates is approximately ± £150,000 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 Support reducing by £341k in 2013/14 (-4.04%) and a further £1.042m in 2014/15 (-12.87%). This is a cumulative reduction of £1.383m (-16.39%) over the next two years.</p> <p>The impact on the Council's Net Revenue Expenditure (excluding use of balances) is a reduction from £14.415m in 2012/13 to £13.771m in 2014/15, a cumulative reduction of £644k (4.5%) over two years, at the same time as the Council faces considerable cost and income pressures.</p> <p>The Corporate Management Team with guidance and direction from Cabinet, have produced an action plan to achieve the required savings in 2013/14 (£231k) 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 2012/13 (£1.082m) 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 2013/14 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, particularly the impact of the Local Council Tax Support Scheme and the Business Rates Retention system, to ensure that any volatility in these areas are identified in a timely manner and plans put in place to ensure the Council's Medium Term Forecasts are robust and sustainable.</p>

Budget assumption	Financial standing and management
<p>4</p> <p>Estimates of the level and timing of capital receipts.</p>	<p>The capital programme for 2013/14 is reliant on £850k 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>
<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 2013/14 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>

Budget assumption	Financial standing and management																														
<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 2013/14.</p> <p>The assumed Council Tax collection rate for 2013/14 onwards is high, at 98%. This 1% lower than previous forecasts and reflects the anticipated collection rates as a consequence of the new Local Council Tax Support Scheme.</p> <p>There is forecast to be a deficit on the collection fund at the end of 2012/13 of £104,047, of which this Council's share is £17,628, which is taken into account when setting the budget for 2013/14.</p>																														
<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 -1.2% of the net budget :</p> <table data-bbox="475 1126 1353 1547"> <thead> <tr> <th></th> <th style="text-align: right;">Amount £000</th> <th style="text-align: right;">% of budget</th> </tr> </thead> <tbody> <tr> <td>• 2003/04 - under spent by</td> <td style="text-align: right;">-£10</td> <td style="text-align: right;">-0.1</td> </tr> <tr> <td>• 2004/05 - under spent by</td> <td style="text-align: right;">-£148</td> <td style="text-align: right;">-1.2</td> </tr> <tr> <td>• 2005/06 - under spent by</td> <td style="text-align: right;">-£174</td> <td style="text-align: right;">-1.4</td> </tr> <tr> <td>• 2006/07 - under spent by</td> <td style="text-align: right;">-£62</td> <td style="text-align: right;">-0.4</td> </tr> <tr> <td>• 2007/08 - under spent by</td> <td style="text-align: right;">-£149</td> <td style="text-align: right;">-0.9</td> </tr> <tr> <td>• 2008/09 - under spent by</td> <td style="text-align: right;">-£47</td> <td style="text-align: right;">-0.3</td> </tr> <tr> <td>• 2009/10 - under spent by</td> <td style="text-align: right;">-£60</td> <td style="text-align: right;">-0.3</td> </tr> <tr> <td>• 2010/11 - under spent by</td> <td style="text-align: right;">-£101</td> <td style="text-align: right;">-0.6</td> </tr> <tr> <td>• 2011/12 – under spent by</td> <td style="text-align: right;">-£102</td> <td style="text-align: right;">-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	• 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	• 2011/12 – under spent by	-£102	-0.6
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Budget assumption	Financial standing and management
<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 2012/13, 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 £1.082m of financial savings in 2012/13 together with the identification of the required £231k of savings for 2013/14.</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>
<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 11<sup>th</sup> 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 2012/13

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 15% 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 2014/15.
- 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 £2.762 million at 31 March 2013 and at 31 March 2014. 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 2013/14 are robust and the proposed level of reserves is adequate.