	AGENDA ITEM NO. 12
COUNCIL	
Date	**27 FEBRUARY 2014**
Title	**GENERAL FUND BUDGET 2014/15 AND CAPITAL PROGRAMME 2014/17**

1. PURPOSE/SUMMARY

The purpose of this report is to consider the Cabinet recommendations in relation to the General Fund Revenue Budget 2014/15 and Capital Programme 2014/17.

2. KEY ISSUES

- Funding for the corporate priorities.
- Projected Outturn for 2013/14.
- Details of the Medium Term Financial Strategy and Capital Programme.
- Significant savings of around £1.2m are required over the next two years.
- Details of the Treasury Management and Investment Strategy 2014/15.
- 0% increase in Council Tax in 2014/15.

3. RECOMMENDATIONS

It is recommended by Cabinet that :-

(i) the General Fund revenue budget for 2014/15 as set out in paragraphs 5 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 2014/15;

(vi) the Port Health levy for 2014/15 be set as shown in paragraph 8;

(vii) the Band D Council Tax level for Fenland District Council Services for 2014/15 be set at £245.61, no increase on the current year.

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

The structure of the report is as follows:-

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1.	Corporate Plan and Introduction
2.	Projected Outturn 2013/14
3.	Consultation
4.	Local Government Finance Settlement
5.	Budget 2014/15 and Medium Term Financial Strategy
6.	Fees and Charges 2014/15
7.	Special and General Expenses
8.	Port Health
9.	Capital Programme
10.	Treasury Management and Investment Strategy 2014/15
11.	General Fund Balance
12.	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 2014/15. It brings together all general fund revenue estimates, all capital estimates, and recommends a level of Council Tax for 2014/15. The budget for 2014/15 and financial forecasts are based on the following Corporate Priorities as set out in the Corporate Plan, with an overarching focus on improving the Quality of Life for the residents of Fenland:-

Quality Organisation

- **Communities**
- **Environment**
- **Economy**

1.2 These priorities 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 2014-17 earlier in the agenda for this meeting.

2. PROJECTED OUTTURN 2013/14

2.1 As part of the budget setting process for 2013/14, approved by Council on 21 February 2013, £1.252m of savings were required over the two year period 2013-15, of which £231,000 was required for 2013/14 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, the required savings for 2013/14 have been identified and implemented. In addition, significant progress has been made towards identifying the required savings for 2014/15. Significant organisational efficiency changes have been implemented in Environmental Health, Policy & Governance, Community Support, ICT, Customer Services and Assets and Projects. These together with other efficiency changes, for example the Chatteris Community Hub, in partnership with Cambridgeshire County Council, have enabled the savings target to be met for this year with significant contributions towards the savings target for 2014/15. 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 2013/14 are set out at Appendix A for approval. The current estimate for net expenditure is £14.605m, the same as originally estimated and the same as reported to Cabinet on 19 December 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.

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2.5 Consequently the General Fund Balance is forecast to remain at £2.787m at the year end.

2.6 In line with the recommended budget strategy, the estimates for 2014/15 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 2014/15 estimates, and is a requirement of Section 28 of the Local Government Act 2003. The ongoing and regular monitoring of the 2013/14 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 2014-2017.

3. CONSULTATION

Overview and Scrutiny Panel

3.1 The draft budget proposals for 2014/15 were approved for consultation by Cabinet on 19 December 2013. These proposals were discussed and considered at the meeting of the Overview and Scrutiny Panel on 13 January 2014. The Panel confirmed their overall support for the budget strategy, including the proposed 1.9% increase in Council Tax, in the current uncertain economic climate.

4. LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 The Final Finance Settlement for 2014/15 and the Illustrative Settlement for 2015/16 was announced on 5 February 2014 and are detailed below:

Table 1 – Settlement Funding Assessment – February 2014

	Actual 2013/14 £000	Provisional 2014/15 £000	2014/15 % Reduction	Illustrative 2015/16 £000	2015/16 % Reduction
Revenue Support Grant	3,986	3,687		2,490	
Business Rates Baseline Funding	2,652	3,297		3,388	
Total Formula Funding	**6,638**	**6,984**		**5,878**	
Council Tax Freeze Grant	186				
Council Tax Support Grant	1,200				
Homelessness Prevention Grant	71				
Settlement Funding Assessment	**8,095**	**6,984**	**-13.72%**	**5,878**	**-15.84%**

4.2 From 2014/15, there will be no separate analysis available for figures relating to the Council Tax Freeze Grant, Council Tax Support Grant and Homelessness Prevention Grant. All of these grants are now included within the Revenue Support Grant and Business Rates Baseline Funding figures.

4.3 The CSR13 announcement reduced the overall local government finance settlement for 2014/15 by an additional 1% (equating to £74,000 for this Council) and by 10% for 2015/16. However, as a result of various top-slices of the national total for specific government priorities eg. Adult Social Care, the proposed reduction in this Council's settlement funding is 15.84%. The combined effect of these proposals is a reduction in settlement funding of 27.39% (£2.217m) over the next two years.

4.4 Within the Settlement Funding Assessment is an allocation for Rural Services Delivery Funding which aims to recognise the additional cost of providing services in the most rural areas. A total of £9.5 million in 2014/15 and 2015/16, has been allocated nationally of which £1.969 million has been allocated to District Councils. Unfortunately, based on the criteria chosen by government for the allocation calculation, this Council has not been allocated any of this funding. In 2013/14 the Council received £2,176.

4.5 These settlement figures confirm 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.

Revenue Spending Power

4.6 The figures detailed in the above tables will be 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 2014/15 no Council will see their Revenue Spending Power reduce by more than 6.9%.

4.7 Revenue Spending Power is defined by the government as the aggregate of Settlement Funding Assessment, New Homes Bonus, other Specific Government Grants and Council Tax Requirement. Table 2 below details the government's assessment of Revenue Spending Power for this Council:

Table 2 – Revenue Spending Power – Government assumptions

	Actual 2013/14 £000	**Provisional 2014/15 £000**	**2014/15 % Reduction**	**Adjusted 2014/15 £000**	**Illustrative 2015/16 £000**	**2015/16 % Reduction**
Settlement Funding Assessment (from Table 1)	**8,095**	**6,984**	**-13.72%**	**6,984**	**5,878**	**-15.84%**
Settlement Funding Assessment Adjustment		35		35	35	
Council Tax Freeze Grant – 14/15 & 15/16		76		76	153	
Council Tax Support to Parishes	-117	-117		-117	-117	
Other Grants	17	17		17		
New Homes Bonus	860	1,216		1,216	1,572	
NHB Adjustment Grant	27	11		11	28	
HB & CTS Admin Subsidy	762	669				
CTS – New Burdens Funding	66	81		81		
Total Government Funding	**9,710**	**8,972**	**-7.60%**	**8,303**	**7,549**	**-9.08%**

Council Tax Requirement (based on govt. assumption of 0% p.a. increase)	6,527	6,551		6,551	6,575	
Total Revenue ‘Spending Power’	**16,237**	**15,523**	**-4.40%**	**14,854**	**14,124**	**-4.91%**

4.8 On this basis, the reduction in ‘spending power’ is significantly less than the reductions in government settlement funding assessment grant detailed in Table 1 above. Figures relating to Council Tax Freeze Grant and Council Tax Requirement used in the above assessment are government estimates. Actual figures will be dependent upon decisions taken by individual authorities.

<u>New Homes Bonus</u>

4.9 Within the CSR13 announcement were proposals that from 2015/16, £400 million from the national total of New Homes Bonus would be pooled to contribute to the Local Growth Fund to be administered by Local Enterprise Partnerships. This would have had a significant impact on the amount of NHB received by authorities with potentially a reduction of up to 35.09%. Following responses to the consultation proposals, the government announced in the Autumn Statement on 5 December 2013 that there will be no pooling of NHB for councils outside London. The £2 billion Local Growth Fund will now be made up from other government decentralised budgets.

4.10 The government will however be carrying out a review of the New Homes Bonus to evaluate the effectiveness of the incentive in increasing housing supply. Consequently, there may be changes to the allocation method in future years, potentially for 2015/16 onwards.

4.11 To maximise the amount this Council receives from the NHB, an extensive review of all long-term empty properties in the district was carried out over the summer months. This has resulted in 73 properties being reclassified as ‘occupied’ rather than ‘long-term empty’, resulting in an estimated additional £70,000 of NHB allocation for 2014/15.

4.12 Actual and forecast NHB allocations, included in the medium term forecasts are as follows:

Table 3: New Homes Bonus Illustration

		Financial Year of Payment						
		Actual	Actual	Actual	Actual	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)				356	356	356	356
	Yr 5 (Oct 2013-14)					320	320	320
	Yr 6 (Oct 2014-15)						350	350
	Yr 7 (Oct 2015-16)							350
	Total NHB allocation	**290**	**613**	**860**	**1,216**	**1,536**	**1,886**	**1,946**
	NHB Adjustment – re-allocation of unused top-sliced funding			**27**	**11**	**28**		

4.13 Confirmation of New Homes Bonus allocations for 2014/15 were announced on 3 February 2014 and were the same as provisionally announced in December 2013.

Business Rates

4.14 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.

4.15 Based on the finance settlement figures, 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 meet its' baseline funding assessment. If this figure is exceeded, then the Council will receive 20% of any additional business rates income. Conversely, should actual business rates collected be lower than this figure, the Council would lose funding up to a maximum of £242,540 before the safety net is triggered. Current projections indicate that the Council is on target to meet its' baseline funding assessment. However, there are considerable risks to meeting this target each year including the impact of outstanding appeals and the limited information available from the Valuation Office to establish a reasonable estimate of these.

4.16 For future years, the figures in Table 1 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.

4.17 However, the Autumn Statement on 5 December 2013, announced that for 2014/15 business rate increases would be capped at 2% which is lower than the expected RPI increase of 3.2%. This will have implications for the amount of business rate funding this Council will receive in 2014/15 and the finance settlement has allocated this Council £35,000 as net compensation for this reduction. In addition, the Government has announced a series of 'reliefs' for business rates which will reduce the amount of business rates income in 2014/15. The Government will, however, be compensating authorities through a separate grant payment for any loss of business rate income resulting from these new reliefs.

4.18 Using the government's methodology to estimate retained business rates for 2014/15, as prescribed in the annual NNDR1 return submitted to DCLG and certified by the Chief Finance Officer, produces a figure of £3,079,131 which is lower than the baseline funding figure allowed for in the finance settlement (see Table 1 above). This is mainly due to the effect of the new reliefs on the overall income. However, as detailed in 4.17 above, the government will be providing a separate grant to compensate the authority for this loss in business rates income and therefore this should not impact on the assumed baseline funding level within the estimates. Consequently, the overall business rates income to the authority will equal the amounts detailed in Table 1. In addition, and due to the potential volatility of growth estimates and appeals provision, no allowance for additional income over the baseline has been assumed in 2014/15 and over the medium term.

Local Council Tax Support

4.19 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 fundamentally changed in 2013/14 with the government reducing the national funding available by 10%. As the new support scheme is effectively a council tax discount, the Council's taxbase has reduced thereby reducing the amount of Council Tax collected. To off-set this, the government allocated funding to all authorities as part of the overall start-up funding assessment for 2013/14, as detailed in Table 1 above.

4.20 In addition, the government provided transitional grant funding, for 2013/14 only, to those authorities who reduced the support to working-age claimants by a maximum of 8.5%. This Council received the transitional funding for 2013/14 but for 2014/15, with the withdrawal of this funding, Council on the 19 December 2013, approved changes to the current Council Tax Support scheme which will result in support reducing by 14% for working-age claimants. This will ensure that this Council and all other precepting authorities recover the shortfall in funding resulting from the withdrawal of the transitional grant funding.

4.21 As with the Business Rates Retention Scheme, 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 5.17 – 5.18. Current projections indicate that the current scheme is operating within the assumptions built into the estimates for 2013/14.

4.22 In order to mitigate the potential volatility arising from the Business Rates Retention Scheme and the Local Council Tax Support Scheme the Council established the Local Government Resource Review Reserve, as detailed in Appendix F. This can be used to mitigate the impact of any in-year variations in income received from the Business Rates Retention Scheme or any additional costs associated with the Council Tax Support Scheme.

<u>Council Taxbase Calculation</u>

4.23 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) was significantly different from April 2013 compared with previous years.

4.24 The overall impact in the first year of the scheme (2013/14) is that the taxbase reduced as a result of the Council tax support scheme which has been partly off-set by an increase resulting from the changes to exemptions. Changes to the scheme in 2014/15 will increase the taxbase.The assumed taxbase figure for 2014/15 (including an allowance for housing growth) compared with the previous two years is as follows:

2012/13	31,018	(Council Tax Benefit fully funded by government)
2013/14	26,576	(incorporating new support scheme in 2013/14 and changes to exemptions. Council Tax support grant now included in settlement funding assessment)
2014/15	27,011	(incorporating changes to support scheme in 2014/15)

4.25 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 settlement funding assessments. A 1% increase in Council Tax will now generate around £66,000 additional income.

5. BUDGET 2014/15 AND MEDIUM TERM FINANCIAL STRATEGY

5.1 The Council's Medium Term Financial Strategy (MTFS) 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 (2014/15) but for forecast years as well, within a reasonable level of tolerance.

5.2 The Draft Budget for 2014/15 presented to Cabinet on 19 December 2013, proposed a Council Tax increase of 1.9% (£4.68 on a Band D property). However, following the consultation exercise and mindful of the impact of an increase on the residents of the District, it is now proposed that there be no increase in the level of Council Tax for 2014/15.

5.3 By not increasing the Council Tax in 2014/15 by 1.9%, the Council's Council Tax income will reduce by around £126,000, compared with previous forecasts. However, this will be partly off-set by receipt of the government's Council Tax Freeze Grant of around £76,000. This grant is payable to authorities who freeze or reduce their Council Tax and is the equivalent of a 1% increase in Council Tax. Therefore, the overall reduction in resources in 2014/15 as a result of not increasing Council Tax is £50,000. This loss of resources will be sustained annually and increases the level of savings required in future years.

5.4 For 2014/15, it is proposed that the £50,000 reduction in resources be funded by a contribution from the General Fund Balance, thereby reducing this balance to an estimated £2.737 million at 31 March 2015.

5.5 The Council's Medium Term Forecasts (MTF), taking into account the above, are shown at Appendix B and summarised in Table 4 below.

Table 4 – Medium Term Forecast – 0% CT increase in 2014/15 and 1.9% thereafter

			Subject to Future Spending Review	
	Estimate 2014/15 £000	**Forecast 2015/16 £000**	**Forecast 2016/17 £000**	**Forecast 2017/18 £000**
Assumed Council Tax increase	**0.0%**	**1.9%**	**1.9%**	**1.9%**
Resources (Income)				
Revenue Support Grant	3,687	2,490	2,111	1,746
Retained Business Rates	3,297	3,388	3,473	3,560
	6,984	**5,878**	**5,584**	**5,306**
Council Tax	**6,634**	**6,811**	**6,992**	**7,179**
Council Tax Freeze Grant – *2014/15*	**76**	**76**	**76**	**76**
Total Resources	**13,694**	**12,765**	**12,652**	**12,561**
Forecast Net Expenditure	13,966	14,037	14,116	14,431
Original Savings Target	*1,135*			
Savings achieved to date (included above)	*-913*			
Savings identified but not yet implemented:				
Savings identified 2014/15	-222	-222	-222	-222
Savings identified 2015/16		-75	-75	-75
Forecast Expenditure after identified savings	**13,744**	**13,740**	**13,819**	**14,134**
Use of General Fund Balance	**-50**			
Funding Gap – In Year	**0**	**975**	**192**	**406**
Cumulative Funding Gap		975	1,167	1,573
Forecast General Fund Balance	2,737	2,737	2,737	2,737

5.6 Government grant figures for 2016/17 and 2017/18 will be subject to the outcome of the next spending review. For the purposes of the Medium Term Forecasts, the figures are assumed to continue to reduce year on year in line with the Autumn Statement announcement. Within the government grant figures for these years, the Business Rates Baseline Funding element is assumed to increase annually by RPI (2.5%) whereas the Revenue Support Grant element is assumed to reduce by 15.2% in 2016/17 and a further 17.3% in 2017/18. This combines to produce an assumed overall reduction of 5% in both years.

5.7 However, it is clear from the Autumn Statement that the squeeze on public expenditure will continue for these two years and beyond. Consequently, the reductions in the forecasts above could be subject to significant change.

5.8 The level of net expenditure for 2014/15 is currently estimated to be £13.966 million before any additional savings are included. This includes the assumptions detailed at para. 5.16 below.

5.9 Clearly the forecasts show a substantial gap and the need for significant savings to be identified to achieve a balanced budget, including a robust strategy on the use of balances. Of the original savings target for 2014/15 of £1.135 million, £913,000 has been achieved to date. In addition, the remaining £222,000 of savings required for 2014/15 have been identified and progress is being made towards the 2015/16 savings target. These include the proposals on service transformation presented to Council on 19 December 2013. This leaves £1.573m of savings to be identified over the medium term without any further use of balances from 2015/16 onwards. However, due to the uncertainty over the financial position from 2016/17 onwards, the focus is on the next two years and achieving the required savings for this period.

5.10 The current strategy is not to use the general fund balance to fund the projected deficits in future years from 2015/16. 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, the level of reserves and the minimum level of the general fund balance will be reviewed as we progress through future budget setting process.

5.11 Taking into account the proposals in the above tables, the estimated level of expenditure in 2014/15 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.

5.12 The forecasts for the years 2016/17 – 2017/18 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.

5.13 At this stage, CMT and Cabinet are progressing with several initiatives which will generate savings in future years. However, the achievement of further efficiencies in future years whilst maintaining excellent services will present considerable challenges for the authority.

5.14 The Corporate Plan for 2014 – 17 continues the Council's successful improvement programme for all services. 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.

5.15 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.

Assumptions built into Budget and Medium Term Forecasts

5.16 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 paras 5.17 – 5.18. The main assumptions are as follows:

- 0% Council Tax increase for 2014/15 and 1.9% p.a. thereafter;
- 1.64% increase in Council Tax base in 2014/15 and 0.75% thereafter;
- 1% pay award per annum for 2014/15 and thereafter;
- Allowance for pay increments;
- Employer's Pension Contributions from 2014/15 as determined by the latest triennial valuation of the Cambridgeshire Pension Fund in 2013. This will be 17% of pensionable pay plus a lump sum payment which together is within the previous forecasts included in the draft budget report in December 2013;
- 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;
- Investment interest rates to stay at current rates until fourth quarter of 2015 when market rates are forecast to begin rising slowly;
- Continuing impact of 2013/14 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) for retained business rates;
- Allowance has been made for higher non-collection rates for Council Tax due to the impact of the local Council Tax Support Scheme;
- The New Homes Bonus for 2014/15 onwards has been included as detailed in Table 3 above.

Risk Assessment

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

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

- Maintaining "earmarked" reserves for potentially unbudgeted expenditure,

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

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

- Maintaining a rolling review of forecast estimates beyond the current year.

5.18 2014/15 will continue to see risks imposed upon the Council with the 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 5.17 above together with robust in-year monitoring systems.

5.19 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 MTFS 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.

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

Council Tax Referendum Principles

5.21 As part of the 2014/15 Local Government Finance Settlement announcement on 5 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 2014/15 increases by 2% or more compared to 2013/14. Parish and town councils will not be included for 2014/15.

5.22 The 'relevant basic amount of council tax' for 2014/15 is now calculated including levies (in this Council's case, Internal Drainage Board Levies). Consequently, this calculation is now simply a comparison of the Council's headline Band D Council Tax between 2014/15 and 2013/14. The proposed 0% increase means that forecast increases in IDB levies (£35,000) now have to be contained within the Council's overall budget proposals.

Parish precepts

5.23 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.

5.24 As part of the Council Tax Support Scheme and associated government funding (albeit included within the overall settlement spending assessment) , this Council receives 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) has been paid to Parish Councils in 2013/14. As a result of changes to the scheme in 2014/15, the total amount to be paid to Parish Councils will be £102,361. The reduction in grant paid is compensated for by an increase in the Council Taxbase arising from the changes to the scheme. The individual grant amounts have been notified to all Parish Councils and has been taken into account by them when setting their individual precepts.

6. FEES AND CHARGES 2014/15

6.1 The Overview and Scrutiny Panel reviewed fees and charges at their meeting on 13 January 2014. The recommended changes to fees and charges were reported to Cabinet on 23 January 2014. All of these recommendations have been included in the financial forecasts.

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 2014/15.

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 2014/15.

8. PORT HEALTH

8.1 The Port Health levy for 2014/15, based on expected expenditure, is recommended as shown in Table 5 below.

Table 5: Port Health Levy 2014/15

	Description	**£**
a)	Port Health anticipated expenditure	12,340
b)	Port Levy	
	Fenland District Council	10,921
	South Holland District Council	864
	King's Lynn and West Norfolk Borough Council	555
	Total	**12,340**

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 2014-17 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 The programme detailed at Appendix C includes current schemes which are due for completion over the period 2014-17 together with future potential schemes which will be dependent upon funding being available.

9.4 The forecasts show sufficient resources are available to fund the current programme to the end of 2016/17. The future potential capital projects are dependent on the realisation of £2.443m of receipts from asset disposals which has associated risks. These receipts may not be realised until 2017/18 and beyond and future updates may require them to be re-profiled.

9.5 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.

9.6 The programme detailed at Appendix C includes some changes from that reported to Cabinet in December 2013, mainly as result of re-profiling of some schemes and also to reflect the decision of Cabinet not to proceed with the acquisition of the Courthouse in Wisbech. In addition, a number of new schemes are proposed for inclusion in the current programme as follows:

- Heritage Lottery Fund – Match Funding Bid : £150,000
- Street Light Improvements - £120,000
- Premises Safety Improvements - £100,000

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.

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 2014/15 are included in the Treasury Management Strategy detailed below and in Appendix D.

10. TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2014/15

10.1 Full details of the proposed Treasury Management and Annual Investment Strategy for 2014/15 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;
- Total external interest which includes finance lease interest payments; revised estimate for 2013/14 is £504,079. The estimate for 2014/15 is £497,149;
- Levels of investments are set to decrease over the medium term forecast, from £13.5m (31.03.14) to £11m (31.03.17);
- Base rates are expected to hold at 0.50% until Quarter 4 2015 before increasing gradually to 1.75% by Quarter 1 2017;
- 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 £210,000 for 2013/14 and £150,000 for 2014/15;
- This proposed strategy was presented to and endorsed by Corporate Governance Committee on 4 February 2014.

11. GENERAL FUND BALANCE

11.1 The forecast General Fund Balance at 31 March 2014 is £2.787m. If the proposals in this report are approved, this balance is forecast to reduce by £50,000 to £2.737m at 31 March 2015. The future 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 5 above.

11.2 The current strategy is not to use the general fund balance to fund the projected deficits in future years from 2015/16 onwards. 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.

11.3 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

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

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

12. COUNCIL TAX

12.1 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 2014/15 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.

12.2 When deciding the level of council tax to set for 2014/15 it is prudent to be mindful of the forecast resources available to the Council over the period of the medium term – 2014 to 2018. 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
• 2014/15	0.0%
• 2015/16	1.9%
• 2016/17	1.9%
• 2017/18	1.9%

12.3 It is expected that these increases together with the achievement of the identified efficiency savings, would provide the resources required to fund the current level of service provision in 2014/15. Over the period of the MTFS 'cashable' efficiency savings as detailed in Appendix B will be identified during the 2015/16 budget process.

12.4 Table 6 shows the Band D Council Tax for spending at the level proposed, together with provisional Council Tax levels from the major preceptors.

Table 6: Council Tax

COUNCIL TAX BASE	**2014/15** ***27,011***		**2013/14** ***26,576***	
	£	**Band D £**	**£**	**Band D £**
Fenland District Council Budget Requirement	13,617,860	504.16	14,604,750	549.55
Less Government Grants	-6,983,686	-258.55	-8,094,919	-304.60
Net cost of Fenland Services	6,634,174	245.61	6,509,831	244.95
Plus Council Tax Collection Fund deficit	0	0.00	17,628	0.66
Precept on Collection Fund	6,634,174		6,527,459	
Fenland District Council Tax		**245.61**		**245.61**
FDC Increase		***0.00%***		***1.68%***
MAJOR PRECEPTORS				
County Council - *TBC*	***(1.99%)***	1,121.94		1,100.07
Police & Crime Commissioner	***(1.92%)***	181.35		177.93
Fire Authority	***(0.00%)***	64.26		64.26
Sub Total BAND D TAX		1,613.16		1,587.87
Increase over 2013/14 (excluding Parishes)		**£25.29 (1.59%)**		**£33.84 (2.18%)**
Parish Councils-average (Appendix E)	***(10.58%)***	32.30		29.21
Total average Band D Tax		1,645.46		1,617.08
Total average increase over 2013/14	**£28.38 (1.76%)**			

APPENDIX A(i)

FENLAND DISTRICT COUNCIL

Summary of Revenue Estimates

Service Summary	**Approved Estimate 2013/14 £**	**Projected Outturn 2013/14 £**	**Estimate 2014/15 £**
Growth & Infrastructure	1,557,110	1,607,100	1,404,810
Environment & Leisure	4,406,850	4,355,110	4,365,890
Resources & Customer Services	5,914,450	5,986,340	5,775,245
Housing, Community & Economic Development	1,780,470	1,782,040	1,688,710
Policy & Governance	1,713,450	1,693,320	1,686,660
Capital Charges	2,466,270	2,466,270	2,466,270
NET COST OF GENERAL FUND SERVICES	**17,838,600**	**17,890,180**	**17,387,585**
Corporate Items			
Contributions to/ (from) Earmarked Reserves	-258,294	-317,780	-90,730
RTB/VAT Sharing Income	-159,700	-159,700	-189,700
Capital Charges Reversal	-1,804,021	-1,796,115	-1,831,115
Investment Income	-210,000	-210,000	-150,000
New Homes Bonus	-860,390	-860,390	-1,216,480
New Homes Bonus Adjustment - *returned funding*	-27,410	-27,410	-11,270
Efficiency Support for Sparse Areas *(2013/14 only)*	-2,180	-2,180	0
Council Tax Support - Transitional Grant *(2013/14 only)*	-32,280	-32,280	0
Council Tax Support Grant - *Payments to Parish Councils*	120,425	120,425	102,360
Settlement Funding Assessment Adjustment	0	0	-34,540
Council Tax Freeze Grant - *2014/15*			-76,250
Corporate Adjustments	**-3,233,850**	**-3,285,430**	**-3,497,725**
Net Expenditure before Savings	**14,604,750**	**14,604,750**	**13,889,860**
Savings target 2014/15			*-1,135,000*
Savings identified to date (included above)			*913,000*
Savings identified (not yet included above)			***-222,000***
Net Expenditure after Savings	**14,604,750**	**14,604,750**	**13,667,860**
Contribution to/(from) Balances	**0**	**0**	**-50,000**
NET EXPENDITURE	**14,604,750**	**14,604,750**	**13,617,860**
General Government Support	**-8,094,919**	**-8,094,919**	**-6,983,686**
Collection Fund Deficit	**17,628**	**17,628**	**0**
COUNCIL TAX REQUIREMENT	**6,527,459**	**6,527,459**	**6,634,174**
Forecast General Fund Balance - 31st March	2,786,648	2,786,648	2,736,648

APPENDIX A(ii)

GROWTH AND INFRASTRUCTURE			
Service	**2013/14 Current Approved Estimate £**	**2013/14 Projected Outturn £**	**2014/15 Original Estimate £**
Direct Services			
Marine Services	35,450	39,220	69,600
Drainage (District)	1,550	1,550	1,550
Highways	149,470	151,670	155,920
Car Parks	164,280	166,990	170,450
Sewage Treatment Works	28,990	29,080	28,860
Parish Council Concurrent Functions	62,520	62,520	41,700
Miscellaneous (Clocks, Monuments)	3,450	3,450	3,450
Economic Estates	-93,790	-90,170	-173,870
Planning Policy	230,360	230,360	226,190
Neighbourhood Planning	145,000	145,000	0
Transport Development	110,020	110,020	112,690
Total Direct Services	837,300	849,690	636,540
Support Services			
Asset & Project Services	491,430	496,270	496,010
Fenland Hall	290,020	289,930	300,660
The Base	131,360	131,210	129,600
Total Support Services	912,810	917,410	926,270
Net Cost of Services	**1,750,110**	**1,767,100**	**1,562,810**
Less Support Services Recharges to Capital Schemes	-193,000	-160,000	-158,000
TOTAL GROWTH AND INFRASTRUCTURE	**1,557,110**	**1,607,100**	**1,404,810**

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 2014/15 include the assumptions on pay, expenditure and income detailed at paragraph 5.16 of the main report.

ENVIRONMENT & LEISURE			
Service	2013/14 Current Approved Estimate £	2013/14 Projected Outturn £	2014/15 Original Estimate £
Direct Services			
Pollution Reduction	170,080	148,380	164,870
Public Health	318,120	309,140	352,080
Food Safety	165,740	170,250	156,970
Health and Safety	76,570	76,940	86,880
Refuse Collection - Domestic	1,525,930	1,459,680	1,457,740
Refuse Collection - Trade Waste	-80,580	-80,940	-57,530
Street Cleansing	761,130	764,830	793,170
Streetscene	186,270	182,350	199,020
Public Conveniences	33,230	30,470	34,680
Leisure Centres	440,500	507,730	406,900
Sports Development	123,340	92,600	93,000
Parks and Open Spaces	541,710	549,080	561,540
Cemeteries	25,740	24,360	-4,240
Markets and Fairs	15,570	17,290	10,680
Community Events	65,310	66,880	70,110
Vehicle Workshop	38,190	36,070	40,020
TOTAL ENVIRONMENT & LEISURE	**4,406,850**	**4,355,110**	**4,365,890**

RESOURCES AND CUSTOMER SERVICES			
Service	**2013/14 Current Approved Estimate £**	**2013/14 Projected Outturn £**	**2014/15 Original Estimate £**
Direct Services			
Miscellaneous Central Services	167,140	167,140	168,110
Drainage Board Levies	1,320,490	1,320,490	1,355,380
Unfunded Pension Costs	197,410	195,100	178,010
Corporate Management	673,860	734,090	693,600
Council Tax Cost of Collection	170,990	168,980	152,600
Business Rates Cost of Collection	-28,870	-29,290	-38,810
Council Tax Benefits	-121,820	-121,580	116,830
Housing Benefits	87,070	83,570	-80,700
ICT Direct Service Costs	803,290	803,060	774,245
Emergency Planning	54,460	54,530	56,040
Total Direct Services	3,324,020	3,376,090	3,375,305
Support Services			
Accountancy	516,520	518,270	526,470
Information & Communication Technology	474,800	468,350	415,420
Debtors	32,230	32,390	23,500
Customer Access	1,184,840	1,207,550	1,098,920
Corporate Health & Safety	18,040	18,050	19,970
Human Resources	364,000	365,640	315,660
Total Support Services	2,590,430	2,610,250	2,399,940
TOTAL RESOURCES AND CUSTOMER SERVICES	**5,914,450**	**5,986,340**	**5,775,245**

HOUSING, ECONOMIC & COMMUNITY DEVELOPMENT			
Service	**2013/14 Current Approved Estimate £**	**2013/14 Projected Outturn £**	**2014/15 Original Estimate £**
Direct Services			
Housing Strategy	125,640	125,640	118,730
Private Sector Renewals	90,350	90,350	85,320
Housing Standards	17,250	18,010	20,510
Care & Repair	63,420	63,420	63,780
CCTV	141,700	141,200	157,650
Safer Fenland	76,840	76,840	82,560
Licensing	-30,670	-30,670	-32,270
Housing Options	208,920	205,460	208,090
Community Development	327,440	327,440	309,310
Community House	33,910	35,190	27,090
Travellers Services	-88,600	-88,600	-97,190
Development Management	47,010	60,460	4,000
Building Control	59,100	58,600	56,920
Conservation	37,120	32,310	33,160
Planning Compliance	126,460	126,460	84,540
Technical Support	269,970	263,520	282,850
Arts Development	59,610	59,610	55,850
Economic Development	173,920	175,720	182,410
Tourism Development	41,080	41,080	45,400
TOTAL HOUSING, ECONOMIC & COMMUNITY DEVELOPMENT	**1,780,470**	**1,782,040**	**1,688,710**

POLICY AND GOVERNANCE			
Service	**2013/14 Current Approved Estimate £**	**2013/14 Projected Outturn £**	**2014/15 Original Estimate £**
Direct Services			
Policy	317,900	317,900	311,250
Land Charges	-86,880	-74,020	-82,980
Elections & Electoral Registration	167,220	167,220	158,440
Democratic Services	576,110	565,670	601,040
Total Direct Services	974,350	976,770	987,750
Support Services			
Post & Reprographics	326,930	326,930	329,670
Internal Audit	94,270	94,070	104,920
Legal Services	317,900	295,550	264,320
Total Support Services	739,100	716,550	698,910
TOTAL POLICY AND GOVERNANCE	**1,713,450**	**1,693,320**	**1,686,660**

APPENDIX B

GENERAL FUND MEDIUM TERM FINANCIAL FORECAST

RESOURCES STATEMENT	Approved Estimate 2013/14 £000	Projected Outturn 2013/14 £000	**Forecast Estimate 2014/15 £000**	Forecast Estimate 2015/16 £000	Subject to CSR Forecast Estimate 2016/17 £000	Forecast Estimate 2017/18 £000
A Resources						
(i) **Central Government**						
Revenue Support grant	4,861	4,861	3,687	2,490	2,111	1,746
Retained Business Rates	3,234	3,234	3,297	3,388	3,473	3,560
	8,095	8,095	6,984	5,878	5,584	5,306
(ii) **Council Tax**						
Council Tax Payers	6,527	6,527	6,634	6,811	6,992	7,179
Collection Fund Deficit(-)	-17	-17	0	0	0	0
Use of Balances						
(iii) General Fund	0	0	50	0	0	0
Total Use of Resources	**14,605**	**14,605**	**13,668**	**12,689**	**12,576**	**12,485**
B Spending Levels						
(i) Budget	15,465	15,465	15,182	15,573	16,002	16,377
New Homes Bonus	-860	-860	-1,216	-1,536	-1,886	-1,946
Council Tax Freeze Grant -*2014/15*			-76	-76	-76	-76
Savings Target 2014/15			1,135			
Savings Achieved to date (included above)			-913			
Savings Identified 2014/15			-222	-222	-222	-222
Savings Identified 2015/16				-75	-75	-75
Budget after efficiency savings	**14,605**	**14,605**	**13,668**	**13,664**	**13,743**	**14,058**
Funding Gap - In Year			**0**	**975**	**192**	**406**
Total Cumulative Funding Gap			**0**	**975**	**1,167**	**1,573**
C Council Tax Increase			***0.0%***	***1.9%***	***1.9%***	***1.9%***
D Forecast Balances						
(i) General Fund	2,787	2,787	2,737	2,737	2,737	2,737

Assumptions

1 Council Tax base increase 2014/15 1.64%, 2015/16 onwards 0.75%

2 Government Grant - 2014/15 - 2015/16 as per Finance Settlement
Further anticipated CSR Reductions 2016/17 onwards of 5% per annum

APPENDIX C

CAPITAL PROGRAMME AND FUNDING 2014/2017

		2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
CURRENT FORECAST EXPENDITURE		**2,401**	**2,650**	**1,083**	**718**
RESOURCES AVAILABLE					
General Fund Resources					
Capital Grants		635	456	393	393
Usable Capital Receipts		550	410	222	100
Use of reserves					
Total Resources		**1,185**	**866**	**615**	**493**
In Year Funding Requirement		1,216	1,784	468	225
Usable Capital Receipts Reserve					
Balance B/fwd 1.4.2013	(3,683)				
Uncommitted Resources/Funding Deficit before potential future Capital Receipts		**(2,467)**	**(683)**	**(215)**	**10**
Potential Future Capital Receipts			(420)	(900)	(1,123)
Funding available/shortfall assuming future potential Capital Receipts received		(2,467)	(1,103)	(1,535)	(2,433)
		Future potential capital projects			*2,005*

CAPITAL PROGRAMME SUMMARY 2014 - 2017 **Current Schemes**

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders
Leisure Centres								
1 New Vision Fitness March improvements	50	400			**450**	450		
2 Essential Buildings Safety Improvements	104				**104**	104		
Regeneration Programmes								
3 Fenland Renaissance and Place Shaping	66	30			**96**	96		
4 Heritage Lottery Fund - Match Funding bid		150			**150**	150		
Car Parks								
5 Woolpack Lane, Whittlesey	30	135			**165**	165		
6 Darthill Road, March	20				**20**	20		
Cemeteries								
7 Eastwood Cemetery, March - Extension	6				**6**	6		
8 Garden of Rest March - Interment of ashes	20				**20**	20		
9 Cemeteries Improvements	54	25			**79**	79		
Parks and Open Spaces								
10 West End Park Footpaths	69				**69**	54	15	Cambs County Council
11 Parks and Open Spaces Improvements	14	35	25		**74**	74		
12 Whittlesey Play Area		20			**20**	20		
Highways								
13 Street Light Improvements	70	135			**205**	205		
14 Safety Lighting	25	53			**78**	47	31	Cambs County Council
15 Street Name Plates/District Facilities Signage	30				**30**	30		
16 Footbridge, High Street March	33				**33**	33		
Job Stimulation								
17 Boleness Road, Wisbech - Phase 6 Remedials	16				**16**	16		
Port								
18 Mooring & Fuelling Facilities, Sutton Bridge	10	220			**230**	230		
19 Yacht Harbour - Replace buoyancy floats to pontoon	42				**42**	42		
20 Replacement of Navigation Buoys/Aids	26				**26**	26		
21 Fenland/Nene Pilot Engines - Replacement	33				**33**	33		
Vehicles and Plant								
22 Vehicles	135	255	165	165	**720**	720		
Office Refurbishments								
23 Fenland Community Hub's	25	25			**50**	50		
24 Premises safety improvements			100		**100**	100		
ICT System Replacement Programme & Upgrades								
25 Replacement & Upgrade Programme	230	105	120	120	**575**	575		

Sub -Total	**1,108**	**1,588**	**410**	**285**				

CAPITAL PROGRAMME SUMMARY 2014 - 2017 **Current Schemes**

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders
B/FWD	**1,108**	**1,588**	**410**	**285**				
Improvement of Assets								
26 Sewage Treatment Works Refurbishment	225	190	140		**555**	555		
27 Mini-Factories Refurbishment	124				**124**	124		
28 Re-Route Alarm Monitoring To CCTV Control	15				**15**	15		
29 Energy Plan - Invest to Save Projects	44	66			**110**	110		
Public Conveniences								
30 Modernisation of 4 facilities	1	39			**40**	40		
Community Fund								
31 March Athletics Club		8			**8**	8		
Rural Community Fund								
32 Eastrea Village Hall Trust - Community Centre	18				**18**	18		
33 Christchurch Parish Council - Sports Pavilion			100		**100**	100		
34 Gorefield Sports and Amenity Centre	20				**20**	20		
35 Doddington Parish Council - Skate Park	15				**15**	15		
36 Newton Parish Council -Playing Field Project	12				**12**	12		
37 Thorney Toll Village Hall Cttee - Village Hall Renovations	12				**12**	12		
38 Parson Drove Emmanuel Church - Refurbishments	21				**21**	21		
39 Doddington Benwick Road Recreation Cttee - MUGA		18			**18**	18		
Community Safety								
40 CCTV Video Wall Replacement	52				**52**	52		
Private Sector Housing Support								
41 Private Sector Renewal Grants	40	51	40	40	**171**	171		
42 Disabled Facilities Grants	400	640	393	393	**1,826**	241	1,585	Govt Grant £1,585k
43 External Solid Wall Insulation	179	50			**229**	0	229	Govt Grant £229k
Community Development								
44 Thomas Clarkson Community College	100				**100**	100		
45 King Edward Centre, Chatteris - floor improvements	15				**15**	15		
Total - Current Approved Programme	**2,401**	**2,650**	**1,083**	**718**	**6,852**	4,992	1,860	

CAPITAL PROGRAMME SUMMARY 2014 - 2017 **Future Potential Capital Projects**

		TOTAL
Leisure Centres		
1	Chatteris Leisure Facilities - contingency	900
Regeneration Programmes		
2	Tourism Initiatives	75
3	Whittlesey Town Centre Regeneration	500
Port		
4	Mooring & Fuelling Facilities, Sutton Bridge - Contingency	200
Rural Community Fund		
5	Contingency	250
Market Towns Fund		
6	Contingency	80
TOTAL - Future Strategic Allocations		**2,005**

APPENDIX D

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2014/15

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 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 2014/15

2.1 The strategy for 2014/15 covers two main areas:

Capital Issues (Sections 3-6)

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

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 2014/15 TO 2016/17

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.

Capital Programme	**2012/13 Actual £000**	**2013/14 Revised Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Forecast Capital Expenditure	**3,414**	**2,401**	**2,650**	**1,083**	**2,723**
Financed by:					
Capital Receipts	616	550	830	690	1,223
Capital Grants	773	635	456	393	393
Capital Reserves	1,759	1,216	1,364	0	1,107
Section 106 Contributions	102	0	0	0	0
Total Financing	**3,250**	**2,401**	**2,650**	**1,083**	**2,723**
Net Financing Need For The Year	**164**	**0**	**0**	**0**	**0**

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 each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). This has the effect of reducing the Council's (CFR) broadly over the assets life.

3.5 The CFR includes any other long term liabilities (finance leases). A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 3 to 7 years). The annual lease payment is made up of a capital and interest repayment.

3.6 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

Capital Financing Requirement	**2012/13 Actual £000**	**2013/14 Revised Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
CFR at 1 April	**531**	**529**	**326**	**186**	**107**
Movement in CFR	**(2)**	**(203)**	**(140)**	**(79)**	**(73)**
Net financing need for the year	164	0	0	0	0
Less MRP	(166)	(203)	(140)	(79)	(73)
Movement in CFR	**(2)**	**(203)**	**(140)**	**(79)**	**(73)**

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. Repayments included in finance leases are applied as MRP.

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

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

Year End Resources	2012/13 Actual £000	2013/14 Revised Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Fund balances / reserves	(5,425)	(5,110)	(4,970)	(4,860)	(4,810)
Capital receipts	(3,683)	(2,467)	(1,103)	(1,535)	(428)
Other	(282)	(22)	0	0	0
Total core funds	(9,390)	(7,599)	(6,073)	(6,395)	(5,238)
Expected investments	(14,850)	(13,500)	(12,000)	(12,000)	(11,000)

6. AFFORDABILITY PRUDENTIAL INDICATORS

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

6.2 **Ratio of financing costs to net revenue stream**

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

Financing Costs to Net Revenue Stream	2012/13 Actual %	2013/14 Revised Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	1.29	2.01	2.53	2.60	2.40

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

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

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

Incremental impact of capital investment decisions on the band D council tax	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Council tax band D	0.00	0.00	0.00

7. TREASURY MANAGEMENT STRATEGY

7.1 The capital expenditure plans set out in paragraph 3 provide a summary of future level of spend. 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 2013, 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).

	2012/13 Actual £000	2013/14 Revised Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Debt at 1 April	7,800	7,800	7,800	7,800	7,800
Expected change in debt	0	0	0	0	0
Other long term liabilities (OLTL)	525	523	320	180	101
Expected change in OLTL	(2)	(203)	(140)	(79)	(73)
Actual debt at 31 March	8,323	8,120	7,980	7,901	7,828
Capital financing requirement (CFR) at 31 March	529	326	186	107	34
Borrowing less CFR – 31 March	7,794	7,794	7,794	7,794	7,794

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 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years and 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 (31/03/14) currently attracting excessive premiums (£2.34m 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 are shown below.

YEARS	INTEREST DUE £
2013/14	504,079
2014/15	497,149
2015/16	489,501
2016/17	485,894

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

Operational Boundary	**2013/14 Revised Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Debt	**10,000**	**10,000**	**10,000**	**10,000**
Other long term liabilities	**2,000**	**2,000**	**2,000**	**2,000**
Total	**12,000**	**12,000**	**12,000**	**12,000**

7.7 The authorised limit is a key prudential indicator, which represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.

7.8 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit.

Authorised limit	**2013/14 Revised Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**
Debt	**15,000**	**15,000**	**15,000**	**15,000**
Other long term liabilities	**2,000**	**2,000**	**2,000**	**2,000**
Total	**17,000**	**17,000**	**17,000**	**17,000**

8. PROSPECTS FOR INTEREST RATES

8.1 The Council has appointed Capita Asset Services 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 Capita Asset Services central view.

Annual Average	Bank Rate %	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2014	0.50	2.60	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.80	4.60	4.60
Mar 2015	0.50	2.90	4.70	4.70
Jun 2015	0.50	2.90	4.70	4.80
Sep 2015	0.50	3.00	4.80	4.90
Dec 2015	0.75	3.10	4.90	5.00
Mar 2016	0.75	3.20	5.00	5.10
Jun 2016	1.00	3.20	5.00	5.10
Sep 2016	1.25	3.30	5.10	5.10
Dec 2016	1.50	3.40	5.10	5.20
Mar 2017	1.75	3.50	5.10	5.20

8.2 The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction.

8.3 One drag on the economy is that wage inflation continues to remain significantly below Consumer Price Index (CPI) inflation, so disposable income and living standards are under pressure, although income tax cuts have improved this to some extent.

8.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy.
- Investment returns are likely to remain relatively low during 2014/15 and beyond.
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down cash balances has served well over the last few years. However, this needs to be kept under close scrutiny to avoid higher borrowing costs should there be a need to borrow to finance new capital expenditure and/or to refinance maturing debt, in the near future.

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 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.

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

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

Interest rate exposures	**2014/15 Upper £000**	**2015/16 Upper £000**	**2016/17 Upper £000**
Limits on fixed interest rates based on net debt	**(2,020)**	**(2,099)**	**(1,172)**
Limits on variable interest rates based on net debt	**(3,700)**	**(3,700)**	**(2,700)**
Limits on fixed interest rates:			
• **Debt only**	**7,980**	**7,901**	**7,828**
• **Investments only**	**(10,000)**	**(10,000)**	**(9,000)**
Limits on variable interest rates:			
• **Debt only**	**3,300**	**3,300**	**3,300**
• **Investments only**	**(7,000)**	**(7,000)**	**(6,000)**

Maturity structure of fixed interest rate borrowing 2014/15	**Lower %**	**Upper %**
Under 12 months	**0**	**20**
12 months to 2 years	**0**	**50**
2 years to 5 years	**0**	**75**
5 years to 10 years	**0**	**75**
10 years and above	**0**	**100**

Maturity structure of variable interest rate borrowing 2014/15	**Lower %**	**Upper %**
Under 12 months	**0**	**100**
12 months to 2 years	**0**	**100**
2 years to 5 years	**0**	**100**
5 years to 10 years	**0**	**100**
10 years and above	**0**	**100**

10. DEBT RESCHEDULING / REPAYMENT

10.1 The Council has sufficient cash balances set aside to pay off its external debt.

10.2 The 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 2014/15.

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 (meeting the minimum 'high' quality criteria where applicable) 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 part nationalised banks and 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 1 year. 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 Local Authorities.
- Callable Deposits with high credit criteria deposit takers (banks and building societies).
- UK Government Gilts, custodial arrangement required prior to purchase.
- 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 2015. Bank Rate forecasts for financial year ends (March) are:

- 2013/2014 0.50%
- 2014/2015 0.50%
- 2015/2016 0.75%
- 2016/2017 1.75%

11.7 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts and the level of unemployment prove to be too optimistic. Forecast average investment interest rates for the next three years are as follows:

- 2014/15 0.80%
- 2015/16 0.80%
- 2016/17 1.30%

11.8 Estimated investment income is shown below.

YEARS	**INTEREST RECEIVED £**
2013/14	210,000
2014/15	150,000
2015/16	160,000
2016/17	180,000

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 investments and are based on the availability of funds after each year end.

	2014/15 £000	2015/16 £000	2016/17 £000
Maximum principal sums invested > 364 days	**5,000**	**5,000**	**5,000**

11.10 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 100 days) 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 Capita Asset Services. 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 100 days
- no colour not to be used

12.3 The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system 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 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Capita Asset Services creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.

12.6 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 Capita Asset Services 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.

12.7 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.

12.8 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.

12.9 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 Capita Asset Services, Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the authority 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.

APPENDIX E

PARISH PRECEPTS 2014/15

TAX BASE (Equated Band D Properties)	PRECEPT 2013/14 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2014/15 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2013/14 %
323	10,609	32.85	**BENWICK**	326	10,609	32.54	-0.9
3,064	109,630	35.78	**CHATTERIS**	3,152	117,000	37.12	3.7
243	6,118	25.18	**CHRISTCHURCH**	243	8,000	32.92	30.8
750	20,000	26.67	**DODDINGTON**	745	27,500	36.91	38.4
1,045	25,545	24.44	**ELM**	1,069	26,287	24.59	0.6
363	8,000	22.04	**GOREFIELD**	362	8,785	24.27	10.1
1,039	27,800	26.76	**LEVERINGTON**	1,051	31,000	29.50	10.2
640	23,121	36.13	**MANEA**	648	27,549	42.51	17.7
6,008	154,000	25.63	**MARCH**	6,088	181,000	29.73	16.0
205	4,799	23.41	**NEWTON**	209	5,921	28.33	21.0
388	14,181	36.55	**PARSON DROVE**	396	15,000	37.88	3.6
351	7,860	22.39	**TYDD ST GILES**	355	9,000	25.35	13.2
4,728	110,000	23.27	**WHITTLESEY**	4,802	133,357	27.77	19.4
729	15,310	21.00	**WIMBLINGTON**	729	31,347	43.00	104.8
5,703	203,133	35.62	**WISBECH**	5,824	203,133	34.88	-2.1
997	36,222	36.33	**WISBECH ST MARY**	1,012	36,984	36.55	0.6
26,576	**776,328**	**29.21**	**GRAND TOTAL**	**27,011**	**872,472**	**32.30**	**10.6**

APPENDIX F

EARMARKED RESERVES - Projected 2013/2014 and Estimated 2014/15

Reserve Name	**Balance 01.04.13 £**	Contributions to/(from) 2013/14 £	**Projected Balance 31.03.14 £**	Contributions to/(from) 2014/15 £	**Estimated Balance 31.03.15 £**	*Comments / Conditions of Use*
Travellers Sites	**201,642**	65,760	**267,402**	80,480	**347,882**	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey	**19,808**	2,700	**22,508**	2,800	**25,308**	Required for future road maintenance.
CCTV - Plant & Equipment	**58,780**	10,000	**68,780**	10,000	**78,780**	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	**120,521**		**120,521**		**120,521**	To provide resources for schemes which will deliver future efficiences. £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.
Management of Change	**981,922**	(192,104)	**789,818**	(178,010)	**611,808**	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Community Projects Reserve	**18,269**	(2,080)	**16,189**		**16,189**	Available for small-scale community projects. Previously used to assist Parish/Town Councils to fund Diamond Jubilee Celebrations.
Neighbourhood Planning Reserve	**252,893**	(145,000)	**107,893**	(0)	**107,893**	Available to assist the Council with delivering the 'Neighbourhood Planning' objective and delivery of the Core Strategy.
Local Government Resources Review Reserve	**500,000**		**500,000**		**500,000**	Available to assist the Council in delivering the local council tax support scheme and business rates retention system from 2013/14.
Capital Contribution Reserve	**100,000**		**100,000**		**100,000**	Available to fund specific spending commitments in future years.
Specific Government Grants (received in previous years)	**329,746**	(57,056)	**272,690**	(6,000)	**266,690**	Available to fund specific spending commitments in future years.
TOTAL	**2,637,703**	(317,780)	**2,319,923**	(90,730)	**2,229,193**	

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.

APPENDIX G

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 2013/14. A savings target of £0.231m had originally been set as part of the budget setting process for 2013/14. 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 2014/15 and 2015/16.

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

Budget assumption	**Financial standing and management**
1 The treatment of the current economic climate	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 2013/14. 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. 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; 0% proposed for 2014/15; indicative 1.9% thereafter in the MTF, below the Government's anticipated referendum levels). The actions above will also ensure that the Council is well placed to bounce back quickly when the economy improves.
2 The treatment of inflation and interest rates	No allowance for general inflation has been provided for in the 2014/15 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. 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 2014/15 budget and over the Medium Term is 0%. This reflects the small amount of staff turnover currently happening. Average interest rates for 2014/15 have been assumed at 0.8% for investments and 4.50% for new borrowing. The effect of each 1% change in interest rates (on investment income) is approximately ± £120,000.

Budget assumption	Financial standing and management
3 The impact of Government Grants and achievement of savings target	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 £1.111m in 2014/15 (-13.7%) and a further £1.106m in 2015/16 (-15.8%). This is a cumulative reduction of £2.217m (-27.4%) over the next two years. The impact on the Council's Net Revenue Expenditure (excluding use of balances) is a reduction from £14.605m in 2013/14 to £12.689m in 2015/16, a cumulative reduction of £1.916m (13.1%) over two years, at the same time as the Council faces considerable cost and income pressures. The Corporate Management Team with guidance and direction from Cabinet, have produced an action plan to achieve the required savings in 2014/15 (£1.135m of which £913k has been achieved to date) and are continuing this process for the following years. These proposals involve changes to current structures, service transformation, 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. However, the achievement of ongoing significant savings during 2013/14 without significant impact on front-line services has been a considerable achievement by the Corporate Management Team and Senior Managers. 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. Taking all these issues into account, the proposed savings plan for 2014/15 is considered realistic and deliverable.
Business Rates Retention System	Business Rates income is now one of the major financial risks to the Council following the introduction of the Business Rates Retention System from April 2014. The Council now shares the risk associated with appeals and growth with the government. As well as producing potential benefits to the Council over the medium term the risks associated with appeals will potentially limit this benefit and could cause volatility in Business Rates income over the medium term. CMT will continue, over the coming months, to carefully monitor the Business Rates Retention system, to ensure that any volatility in this area is identified in a timely manner and plans put in place to ensure the Council's Medium Term Forecasts are robust and sustainable. In addition, the Council has established the Local Government Resource Review Reserve (current balance £500k) to mitigate the impact of any in-year variations in income.

Budget assumption	Financial standing and management
4 Estimates of the level and timing of capital receipts.	The capital programme for 2014/15 is reliant on £410k 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. 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.
5 The treatment of demand led pressures	All members of Corporate Management Team have reviewed their base budgets to reflect the Council's revised priorities set out in the Corporate Plan 2014/15 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.
6 The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments	Approval of new capital spending is dependent on the identification of the appropriate levels of revenue and capital funding, demonstrating their affordability. 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.
7 The availability of other funds to deal with major contingencies	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.

<table>
<tr><th>Budget assumption</th><th>Financial standing and management</th></tr>
<tr><td>8

The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates etc)</td><td>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 2014/15.

The assumed Council Tax collection rate for 2014/15 onwards is high, at 98.5%. This 0.5% lower than previous forecasts and reflects the anticipated collection rates as a consequence of the new Local Council Tax Support Scheme.

Both the Council Tax and Business Rates collection funds are forecast to break-even at the end of 2013/14 and therefore no (surplus) or deficit is included within the final budget proposals for 2014/15.</td></tr>
<tr><td>9

The authority's track record in budget and financial management.</td><td>The Council's recent track record in budget and financial management shows under-spends of -0.1% to -1.2% of the net budget :

<table>
<tr><th></th><th>Amount £000</th><th>% of budget</th></tr>
<tr><td>• 2003/04 - under spent by</td><td>-£10</td><td>-0.1</td></tr>
<tr><td>• 2004/05 - under spent by</td><td>-£148</td><td>-1.2</td></tr>
<tr><td>• 2005/06 - under spent by</td><td>-£174</td><td>-1.4</td></tr>
<tr><td>• 2006/07 - under spent by</td><td>-£62</td><td>-0.4</td></tr>
<tr><td>• 2007/08 - under spent by</td><td>-£149</td><td>-0.9</td></tr>
<tr><td>• 2008/09 - under spent by</td><td>-£47</td><td>-0.3</td></tr>
<tr><td>• 2009/10 - under spent by</td><td>-£60</td><td>-0.3</td></tr>
<tr><td>• 2010/11 - under spent by</td><td>-£101</td><td>-0.6</td></tr>
<tr><td>• 2011/12 – under spent by</td><td>-£102</td><td>-0.6</td></tr>
<tr><td>• 2012/13 – under spent by</td><td>-£25</td><td>-0.2</td></tr>
</table>

However this has been achieved by considerable management and policy actions to ensure spending is in line with the budget each year.

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.</td></tr>
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Budget assumption	Financial standing and management
10 The authority's capacity to manage in-year budget pressures	The ongoing improvements to the performance management framework during 2013/14, 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. The impact of the current economic climate and government grant announcements following CSR 2013 was anticipated early in 2013/14 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 £231k of financial savings in 2013/14 together with the identification of £913k of savings towards the target of £1.135m for 2014/15.
11 The authority's virement and end of year procedures in relation to budget under/overspends at authority and Service level.	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.
12 The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	The Council's insurance arrangements are a balance between external insurance premiums and internal risk in some areas. Premiums and internal risks are reactive to external perceptions of the risks faced by the Council which includes both risks that are generic to all organisations eg Sept 11th and those specific to the Council / Local Government eg "no win - no fee" companies. 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.

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 2013/14

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 2016/17.

- 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 £2.787 million at 31 March 2014 and £2.737m at 31 March 2015. 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 2014/15 are robust and the proposed level of reserves is adequate.